U.S. Department of Labor

Office of Inspector General—Office of Audit

OFFICE OF JOB CORPS

AUDIT OF EDUCATION AND TRAINING RESOURCES, JOB CORPS CENTER OPERATOR

Date Issued: March 18, 2010
Report Number: 26-10-003-01-370

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

BRIEFLY…

Highlights of Report Number 26-10-003-01-370, to the National Director, Office of Job Corps.

WHY READ THE REPORT

This report discusses Education and Training Resources (ETR) control weaknesses related to managing and reporting financial activity, managing safety and health programs, and reporting performance. ETR is under contract with the Office of Job Corps to operate four Job Corps centers for the U.S. Department of Labor,

WHY OIG CONDUCTED THE AUDIT

Our audit objectives were to answer the following questions:

1. Did ETR ensure compliance with Job Corps requirements for managing and reporting financial activity?

2. Did ETR ensure compliance with Job Corps requirements for managing center safety programs?

3. Did ETR ensure compliance with Job Corps requirements for reporting performance?

4. Did the hotline complaints alleging improper practices pertaining to financial reporting, student accountability, student and staff conduct, and safety programs at the Iroquois Job Corps Center have merit?

Our audit work was conducted at ETR headquarters in Bowling Green, Kentucky; and the Iroquois Job Corps Center (Iroquois) in Medina, New York.

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/2010/26-10-003-01-370.pdf

March 2010

PERFORMANCE AUDIT FOR EDUCATION AND TRAINING RESOURCES, JOB CORPS CENTER OPERATOR

WHAT OIG FOUND

ETR did not always ensure compliance with Job Corps requirements for managing and reporting financial activity in one of three areas reviewed — non-personnel expenses. Iroquois bypassed procurement and accounting controls through improper use of the center's imprest fund and did not always maintain required documentation to support reported expenses. As a result, goods and services were not purchased in accordance with Federal Acquisition Regulations (FAR) and payments were made without adequate assurance that the disbursed amounts were appropriate.

ETR can improve its oversight to ensure center compliance in each of the three safety and health program areas reviewed — safety inspections, safety committee meetings, and student misconduct. At Iroquois, weekly inspections were not documented; monthly inspections were limited in scope; and safety committee meetings were not held consistently. For student misconduct, Iroquois did not always report significant incidents, such as physical assault and narcotics possession to Job Corps as required.

ETR also had control weaknesses in one of three areas relating to compliance with Job Corps requirements for reporting performance — Student Attendance/Accountability. Iroquois reported at least two students as enrolled for extended periods when the students never actually arrived at the center and did not obtain required Job Corps approval for extending enrollment past the two-year limit established by Job Corps.

Two hotline complaint allegations pertaining to financial management and student attendance had merit.

WHAT OIG RECOMMENDED

We made nine recommendations to the National Director, Office of Job Corps. In summary, we recommended Job Corps direct ETR to improve controls over financial management and reporting, safety and health programs, and performance reporting; and pay to DOL questioned costs relating to unsupported imprest fund transactions and excessive holiday party costs, and liquidated damages for any performance overstatements, as appropriate.

The National Director, Office of Job Corps, will require ETR to improve its controls and will determine the extent of any reimbursements owed to DOL.

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Iroquois Job Corps Center
Medina, New York

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U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210

March 18, 2010

Assistant Inspector General's Report

Edna Primrose
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The Office of Inspector General (OIG) conducted a performance audit of Education and Training Resources (ETR). ETR is under contract with the Office of Job Corps (Job Corps) to operate four Job Corps centers for the U.S. Department of Labor (DOL). Job Corps requires its center operators to establish procedures and conduct periodic center audits to ensure integrity, accountability, and prevention of fraud and program abuse. We had initially planned to pursue three audit objectives during our audit. However, in response to two hotline complaints, we added a fourth objective to determine whether allegations that ETR officials engaged in improper practices at the Iroquois Job Corps Center had merit.

The audit objectives were to answer the following questions:

1. Did ETR ensure compliance with Job Corps requirements for managing and reporting financial activity?

2. Did ETR ensure compliance with Job Corps requirements for managing center safety programs?

3. Did ETR ensure compliance with Job Corps requirements for reporting performance?

4. Did the hotline complaints alleging improper practices pertaining to financial reporting, student accountability, student and staff conduct, and safety programs at the Iroquois Job Corps Center have merit?

This report covers our audit work conducted at ETR headquarters in Bowling Green, Kentucky, and the Iroquois Job Corps Center (Iroquois) in Medina, New York. Additional background information is contained in Appendix A.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit scope, methodology, and criteria are detailed in Appendix B.

RESULTS IN BRIEF

ETR did not always ensure compliance with Job Corps requirements for managing and reporting financial activity in one of three areas reviewed — non-personnel expenses. Specifically, Iroquois bypassed procurement and accounting controls through improper use of the center's imprest fund and did not always maintain required documentation to support reported expenses. As a result, goods and services, such as employee moving expenses and advertising, were not purchased in accordance with Federal Acquisition Regulations (FAR), and ETR's procurement policies and payments were made without adequate assurance that the disbursed amounts were appropriate. Iroquois controls over petty cash were also not effective as withdrawals were generally not authorized as required.

While we did not observe any unsafe conditions at Iroquois, ETR can improve its oversight to ensure center compliance in each of the three safety and health program areas reviewed — safety inspections, safety committee meetings, and student misconduct. Iroquois could not provide adequate assurance that required safety and health inspections and committee meetings were conducted during contract year (CY) 2008. Weekly inspections of food preparation and recreation areas were not documented as required; monthly inspections of dormitories, health service areas, administrative offices, and other occupied buildings were limited in scope; and monthly safety committee meetings were not held consistently. As such, there was an increased risk that safety and health hazards could have developed at the center that were not identified and corrected at the earliest opportunity. For student misconduct, Iroquois took appropriate disciplinary action but did not always report significant incidents, such as physical assault and narcotics possession to Job Corps as required. Consequently, this hindered Job Corps' ability to ensure significant student misconduct was handled appropriately to monitor center safety and to respond to negative press regarding such incidents.

ETR also had control weaknesses in one of three areas relating to compliance with Job Corps requirements for reporting performance — Student Attendance/Accountability. Iroquois reported at least two students as enrolled for extended periods when the students never actually arrived at the center and did not obtain required Job Corps approval for extending enrollment past the two-year limit established by Job Corps. These actions resulted in an overstatement of Iroquois' On-Board Strength (OBS), a measure of a center's ability to operate at full capacity. Additionally, liquidated damages may be assessed for not separating the students as required.

Two hotline complaint allegations pertaining to financial management and student attendance had merit. The complainant alleged that Iroquois improperly spent $10,000 of Job Corps funds for a staff holiday party in Contract Year (CY) 2008. ETR improperly charged Job Corps $7,957 for a CY 2008 staff holiday party. The complainant also alleged that student attendance and OBS were overstated because a student never arrived at the center yet was reported as enrolled for more than a year. As previously noted, Iroquois reported two (2) students as enrolled when the students never actually arrived at the center.

Several other allegations pertaining to financial reporting, student accountability, student and staff conduct, and safety programs did not have merit.

The conditions we identified under our four objectives occurred because ETR's controls over center safety programs, performance reporting, and financial management need improvement. We attributed weaknesses to inadequate center procedures, staff not following established center procedures, and lack of training and supervision. Also, ETR's corporate center assessment at Iroquois did not consistently identify or address the deficient areas discussed in this report. These control weaknesses inhibit program accountability in these areas and could impact operational decisions made by ETR and Job Corps.

In response to our draft report, the Interim National Director, Office of Job Corps, stated that Job Corps will require ETR to improve corporate and center level controls over financial management and reporting, safety and health programs, and performance reporting. Additionally, Job Corps will determine the extent of any reimbursements owed by ETR for the unallowable costs and performance reporting deficiencies we identified.

ETR acknowledged in its response to our draft report that deficiencies did occur in each of the areas we reviewed and agreed to improve controls over each of these areas. However, ETR disagreed with some of the specific deficiencies we identified. Nothing ETR provided us caused us to change our conclusions.

Recommendations

We made nine recommendations in this report. In summary, we recommend the National Director, Office of Job Corps, direct ETR to (1) improve corporate and center level controls to identify and correct any non-compliance with Job Corps and ETR financial management and reporting, safety and health program, and performance reporting requirements, and (2) pay to DOL questioned costs relating to unsupported imprest fund transactions and excessive holiday party costs, and liquidated damages for any OBS overstatements, as appropriate.

RESULTS AND FINDINGS

Objective 1 — Did ETR ensure compliance with Job Corps requirements for managing and reporting financial activity?

Finding 1 — ETR did not always ensure compliance with Job Corps requirements for managing and reporting financial activity for one of the three areas reviewed — non-personnel expenses.

Based on our audit testing, as described in the scope and methodology in Appendix B, we found ETR ensured compliance with Job Corps requirements for managing and reporting financial activity for two of the three areas we reviewed — reporting reimbursable expenses to Job Corps and personnel expenses.[1] However, ETR did not always ensure compliance with Job Corps requirements for managing and reporting financial activity for non-personnel expenses.

ETR did not ensure reported costs complied with Job Corps requirements for 9 of 40 judgmentally selected non-personnel transactions tested. Each of the nine exceptions related to imprest fund disbursements. During CY 2008, Iroquois reported $1,800,640 in total non-personnel expenses. Of that total the center disbursed $296,926 (16.5 percent) for Form 2110 related non-personnel expenses out of an imprest fund established for emergency cash needs. We found that Iroquois bypassed procurement and accounting controls by improperly using the imprest fund and did not always maintain required documentation to support the reported expenses. As a result, goods and services, such as employee moving expenses and advertising, were not purchased in accordance with the Federal Acquisition Regulations (FAR), and ETR's procurement policies and payments were made without adequate assurance the amounts were appropriate. Iroquois controls over petty cash for May 2009 were also not effective as withdrawals were generally not authorized as required.

Improper Use of Imprest Fund

Iroquois purchased goods and services through its imprest fund, but did not always comply with Job Corps requirements, the FAR, and ETR policy.[2] The center bypassed procurement and accounting controls through improper use of the center's imprest fund and did not always maintain required documentation to support reported expenses. Job Corps' PRH (Chapter 5, Section 5.6) requires all centers to develop written procurement procedures to comply with FAR procurement requirements. As such, ETR developed policies as follows:

[1] Our conclusion on whether ETR ensured compliance for personnel expenses is limited to the results of our analytical reviews and testing of internal controls for five highly paid employees. We do not conclude on the reliability of total center personnel expenses reported to Job Corps.

[2] Iroquois' imprest fund was not established by an advance of funds from DOL and does not meet the definition of "imprest funds" per 20 CFR 638.200. As such, these funds are not subject to the CFR restriction prohibiting contractor operated centers from establishing imprest funds.

- ETR corporate policy (ETR-2030.1) states that center imprest bank accounts are setup to establish on-site checkwriting ability for *emergency cash needs,* which cannot be anticipated in advance. In most instances, payments for goods and services are to be made through the accounts payable system. Iroquois center policy (COP-571) defines an emergency as a condition that poses an immediate threat to the health, safety or security of Center students/staff, or which could impede continuous operation.

  ETR-2030.1 authorizes ETR centers to use imprest funds for four specific types of disbursement when the cash needs cannot be anticipated in advance: (1) employee travel advances, (2) student recreation trip advances, (3) vendor advance payments (first time only), and (4) student clothing allowances.

- ETR center policy (COP-571) require centers to obtain and document at least three quotes for purchases of $3,000 or more. If three quotes cannot be obtained, adequate documentation is to be maintained to justify the lack of quotes.

  Additionally the ETR policy and FAR (32.905) require centers to authorize payments based on adequate support for the amount to be disbursed.

We found that Iroquois bypassed ETR's Accounts Payable system by using its imprest fund for center purchases that were not in compliance with ETR policy for imprest fund use. Specifically, 559, or 74.6 percent, of the 749 Form 2110 related total imprest fund disbursements for goods and services during CY 2008 were not one of the four specific types of disbursements authorized by ETR's imprest fund policy. Table 1 shows, by disbursement type, the amount and number of disbursements in and out of compliance with ETR policy during CY 2008.

Table 1: Imprest Fund Amounts and Disbursements – CY 2008		
Authorized Disbursement Types	**Amount**	**Number of Disbursements**
Employee Travel	$54,646	121
Student Recreation	50,338	65
Vendor Advance (1st time only)	7,000	1
Student Clothing Allowance	510	3
Subtotals	112,494	190
Unauthorized Disbursement Types		
Vendor Payments*	87,080	328
Employee Advances	84,664	194
Student Advances	12,688	37
Subtotals	184,432	559
Totals	**$296,926**	**749**

Source: OIG analysis based on financial data provided by Iroquois.

*The Vendor Payments disbursement type consisted of disbursements coded by Iroquois as NA (Not Applicable), Student Testing Fees, SGA (Student Government Association), and Payline Security. All other disbursement types were coded as noted.

According to ETR policy, the unauthorized disbursement types should have been processed through ETR's accounts payable system. As such, Iroquois bypassed ETR accounting controls including segregation of duties and corporate review and approval. Bypassing the accounts payable process increased the risk of improper or unsupported payments to vendors, employees, and students. See Exhibit 1 for a comparison of the Iroquois imprest fund and ETR accounts payable processes.

We judgmentally selected and reviewed 26 of the 280 Iroquois imprest fund disbursements that exceeded $500 during CY 2008. The 26 transactions totaled $58,213, or 19.6 percent, of the $296,926 in total imprest fund disbursements for goods and services during the year. Our testing determined whether (1) claimed costs were supported by required documentation, (2) bids were solicited as required for purchases of $3,000 or more, and (3) imprest fund use was based on emergency need as defined by ETR policy.

We found that Iroquois was not consistently in compliance with ETR policy, PRH, and the FAR. The documentation for 9 of the 26 disbursements tested did not support the costs claimed either in their entirety or partially. For example, an employee advance of $1,100 disbursed to cover expenses for a student holiday business meeting was not supported in its entirety with an invoice, receipt, or other documentation identifying the services or goods received. Another employee advance of $2,500 disbursed to cover the purchase of student incentives such as gift cards and phones was only partially supported with receipts totaling $2,048. We questioned the unsupported amount of $452 ($2,500-$2,048). The questioned costs for the nine disbursements totaled $11,228, or 19.3 percent, of the $58,213 tested. Table 2 summarizes our sampling and test results by disbursement type.

Table 2: Imprest Fund Sample and Test Results – CY 2008

Authorized Disbursement Types	**Total Disbursements**	**Sample Size $ Amount / # Tested**	**Questioned Costs / # Disbursements**
Employee Travel	$54,646	$12,744 / 7 disbursements	$369 / 2 disbursements
Student Recreation	$50,338	$7,400 / 4 disbursements	$100 / 1 disbursements
Vendor Advance	$7,000	$7,000 / 1 disbursement	$0 / 0 disbursements
Student Clothing	$510	$0 / 0 disbursements	$0 / 0 disbursements
Sub-totals	**$112,494**	**$27,144 / 12 disbursements**	**$469 / 3 disbursements**
Unauthorized Disbursement Types			
Vendor Payments	$87,080	$10,819 / 5 disbursements	$5,877 / 1 disbursement
Employee Advances	$84,664	$15,900 / 8 disbursements	$4,882 / 5 disbursements
Student Advances	$12,688	$4,350 / 1 disbursement	$0 / 0 disbursements
Sub-totals	**$184,432**	**$31,069 / 14 disbursements**	**$10,759 / 6 disbursements**
Totals	**$296,926**	**$58,213 / 26 disbursements**	**$11,228 / 9 disbursements**

Source: OIG analysis based on financial data provided by Iroquois.

We also found that each of the 26 disbursements tested were not for emergency cash needs as defined by ETR. For example, Iroquois used the imprest fund to pay $7,000 for employee moving expenses. With proper planning, the center could have used the established accounts payable system to process the payment. The center also did not solicit bids or document sole source justification as required by ETR policy for three purchases that were $3,000 or more and FAR requirements for purchases over $3,000. As such, the center could not provide adequate assurance best value was received for the purchases. The three purchases totaled $15,877 and included the $7,000 disbursed for employee moving expenses, $3,000 for advertising, and $5,877 for the banquet hall and food for a holiday party (see Finding 4 for audit results on a hotline complaint related to the holiday party).

These conditions occurred because Iroquois and corporate management did not emphasize compliance with ETR policy and the FAR during reviews of the center's imprest fund operations. ETR's November 2007 corporate assessment of Iroquois primarily focused on ensuring the imprest fund accounting records reconciled with the monthly bank account statements. Imprest fund reviews to determine compliance with ETR policy and the FAR were not included in the assessment. ETR's September 2008 corporate assessment at Iroquois did determine that employees were receiving a large amount of imprest fund advances for multiple purposes and recommended that imprest check usage be minimized. However, non-compliance with the FAR and ETR policy was not identified and the center's response to the assessment report did not address the recommendation to minimize use of imprest checks. Hence, corrective action was not taken.

In response to our draft report, Job Corps will require ETR to improve its corporate and center level controls over imprest fund disbursements and will coordinate with the Regional Contracting Officer to determine the extent of any reimbursements resulting from the unallowable costs we identified. Additionally, Job Corps will review the current PRH to determine if revisions will be needed regarding the use of imprest funds.

ETR agreed that eight imprest fund disbursements we questioned (totaling $5,351) were not adequately supported and said it will improve its corporate and center level controls. For our 9th exception, ETR disagreed that the $5,877 claimed for a holiday party was unallowable because a party was authorized by the Iroquois staff incentive plan. We continue to question the holiday party costs because the FAR specifically states that the costs of employee social activities (including entertainment, food, and rentals) are unallowable. Additionally, the Job Corps national office told us the amount spent for the party was excessive, and the cost should not have exceeded a few hundred dollars.

Iroquois Petty Cash Purchases Were Not Always Properly Authorized

We reviewed Iroquois management's use of its petty cash fund to determine whether its use was limited to small purchases, generally under $50, as required by the FAR. Our review of 30 of the 32 total petty cash transactions for May 2009 showed that the center did limit its petty cash fund use to small purchases under $50. However, the center did not consistently obtain management approval for the cash disbursements as required by center policy.

Iroquois' Center Operating Procedures (COP 579) required signed approval by the departmental manager and the Administrative Services Director (ASD) for all petty cash requests. We found 30 did not have the required ASD signature. The remaining 2 did not require an ASD signature because they originated from the Administrative Services department and received Center Director Approval. This occurred because ETR and Iroquois did not place adequate emphasis on adherence to its own COP. Additionally, Iroquois' COP was not consistent with ETR's corporate policy (ETR 2030), which required only the departmental manager's approval signature.

In response to our draft report, both Job Corps and ETR agreed with this finding. ETR said the Iroquois petty cash policy was revised to ensure its corporate and center policies were consistent.

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Objective 2 — Did ETR ensure compliance with Job Corps requirements for managing safety programs?

Finding 2 — ETR did not always ensure compliance with Job Corps requirements at the Iroquois Center for safety in three areas — safety inspections, safety committee meetings, and student misconduct.

While we did not observe any unsafe conditions at Iroquois, ETR can improve its oversight to ensure center compliance in each of the three safety and health program areas reviewed — safety inspections, safety committee meetings, and student misconduct.

Iroquois could not provide adequate assurance that all required safety and health inspections and committee meetings were conducted during CY 2008. Weekly inspections of food preparation and recreation areas were not documented as required; monthly inspections of dormitories, health service areas, administrative offices, and other occupied buildings were limited in scope; and monthly safety committee meetings were not held consistently. As such, there was an increased risk that safety and health hazards could have developed at the center that were not identified and corrected at the earliest opportunity. For student misconduct, Iroquois did not always report significant incidents, such as physical assault and narcotics possession to Job Corps as required. Consequently, this hindered Job Corps' ability to ensure significant student misconduct was handled appropriately, monitor center safety, and respond to negative press regarding such incidents.

These conditions occurred because ETR's controls over these areas need improvement. The control weaknesses included inadequate center procedures and supervision. Additionally, ETR's corporate oversight at Iroquois did not effectively address the deficiencies we identified in these areas.

<u>Iroquois Was Not In Compliance with Safety Inspection Requirements</u>

Iroquois could not provide adequate assurance that required safety and health inspections were conducted during CY 2008. Job Corps' PRH requires center safety officers to perform the following:

- Conduct weekly safety and occupational health inspections of food handling and recreation areas;
- Conduct monthly safety and occupational health inspections of dormitories, child development centers, health service areas, administrative offices, and other occupied buildings;
- Correct identified deficiencies promptly; and

- Document and maintain records of inspections and actions taken to correct deficiencies.

Iroquois could not provide the required documentation to support that any weekly safety and health inspections were performed during CY 2008. Additionally, the center's monthly safety and health inspections were limited in scope and did not assess the overall condition of the areas inspected. Specifically, the center's monthly safety inspection checklist focused only on fire-related items including whether fire exit signs were visible and fire extinguishers were present, fully charged, and had a current inspection tag. It did not include inspection to identify unsafe and unhealthy conditions such as tripping and electrical hazards, structural damage or weaknesses, and trash accumulation. These inspection weaknesses increased the likelihood that safety and health hazards could have existed in the training, living, and working environment that were not identified and corrected at the earliest opportunity.

These conditions occurred, in part, because ETR center and corporate management did not provide adequate monitoring and supervision to ensure inspections were performed and documented as required. Iroquois had not established COP for conducting safety inspections and center management did not provide the supervision to ensure compliance. Additionally, ETR's November 2007 corporate center assessment at Iroquois did not identify the inspection weaknesses. ETR said they became aware that inspections were not documented at Iroquois as required from a independent contractor's January 2009 Annual Safety and Health Review. However, ETR told us that all the required weekly inspections had been performed at the center during CY 2008. Also, we verified the weekly inspections were documented for February through April 2009. They said the lack of documentation occurred because the center staff performing the inspections was new to the position and not fully trained.

ETR agreed with the importance for Iroquois to have effective controls in place to ensure all required inspections were performed and documented. As such, the center took some corrective action by developing COP for center safety inspections, including a new checklist for performing weekly inspections and more comprehensive monthly safety inspections. ETR also told us that a corporate safety officer position will be created to provide training and corporate oversight.

<u>Monthly Safety Committee Meetings Not Held Consistently</u>

Iroquois could not provide adequate assurance that required safety and health committee meetings were conducted. PRH Chapter 5, Appendix 505, IV.A.1-3 & D, requires centers to establish a Safety and Health Committee to:

- Review reported accidents, injuries, and illnesses;
- Consider the adequacy of actions to prevent recurrence of such accidents, injuries, or illnesses;
- Plan, promote, and implement DOL and Job Corps safety and occupational health programs; and

- Meet monthly and maintain records of the minutes for at least three years.

Iroquois did not conduct monthly safety committee meetings for 3 of the 12 months in CY 2008. The lack of consistent monthly safety committee meetings further limited the center's ability to correct potential safety concerns in a timely manner. This occurred because ETR corporate and center management did not provide adequate monitoring to ensure the committee meetings were held and documented as required. Similar to the control weaknesses related to safety inspections, Iroquois had not established COP for conducting safety committee meetings, and center and corporate management did not provide the supervision and oversight to ensure compliance. ETR agreed and is developing new COP for conducting and documenting safety committee meetings.

Regular Safety and Health Committee meetings, along with consistent inspections, will increase the center's ability to identify and correct safety and health concerns at the earliest opportunity. In the absence of regular safety committee meetings, ETR cannot provide adequate assurance that its centers' safety and health programs are working effectively to protect its staff and Job Corps students.

<u>Significant Incidents of Student Misconduct Were Not Reported to Job Corps</u>

Iroquois did not take appropriate actions to ensure all significant incidents of student misconduct were reported to Job Corps. The PRH requires centers to report all significant incidents to Job Corps, including:

- Physical assault;
- Indication that a student is a danger to himself/herself or others;
- Theft or damage to center, staff, or student property;
- Incident requiring police involvement;
- Incident involving illegal activity; and
- Incident attracting potentially negative media attention.

We reviewed 38 Level I disciplinary infractions recorded by Iroquois during CY 2008. Of the 38 Level I disciplinary infractions, we identified 18 significant incidents that were reportable to Job Corps (reporting positive drug tests is not required). Of these 18 significant incidents, we found that five were not reported to Job Corps as required. The five significant incidents included one physical assault that caused bodily harm, one physical assault with intent to cause bodily harm and damage to center property, and three possession of drugs with intent to sell (illegal activities).

Iroquois took appropriate disciplinary action by separating each of the five students. However, underreporting of significant incidents impacts Job Corps' ability to:

- adequately provide data for analysis of trends to inform management and policy decisions;
- allow the National and Regional Offices to monitor compliance with policy and regulations regarding serious incidents;

- respond to the press regarding serious incidents; and
- ensure the centers take appropriate action regarding the incidents being reported.

Iroquois' underreporting of significant incidents occurred because center management did not provide the oversight needed to ensure compliance with Job Corps' reporting requirements. Although Iroquois had adequate COP for reporting significant incidents to Job Corps, center management reviews of this area did not identify the deficiencies. Furthermore, the deficiencies occurred despite the fact that ETR's November 2007 center assessment at Iroquois noted significant incident reporting as a problem area. In response to the center assessment, Iroquois committed to reporting all significant incidents within 24 hours of the incident. Our testing showed that this did not occur.

In addition, we reviewed 24 students to determine if the center met the PRH requirements of providing basic health evaluation — to include drug screening upon enrolling students. Our review of drug screening disclosed no exceptions or control weaknesses.

In response to our draft report, Job Corps will require ETR to improve its controls over its center safety programs; including safety inspections and safety committee meetings.

ETR agreed with our audit results in this area. According to ETR management, a corporate manager has been assigned responsibility for providing oversight and ensuring compliance with Job Corps requirements.

Objective 3 — Did ETR ensure compliance with Job Corps requirements for reporting performance?

Finding 3 — ETR had control weaknesses in one of three areas relating to compliance with Job Corps requirements for reporting performance — Student Attendance/Accountability.

Based on our audit testing, as described in the scope and methodology in Appendix B, we found ETR ensured compliance with Job Corps requirements for reporting performance activity for two of the three areas we reviewed — career technical training (CTT) completions and General Educational Development certificate/high school diploma (GED/HSD) attainment. However, ETR did not always ensure compliance with Job Corps requirements for student attendance/accountability. Iroquois reported two students as enrolled for extended periods when the students never actually arrived at the center; and did not obtain required Job Corps approval for extending enrollment for two students who exceeded the two-year limit established by Job Corps. These actions overstated Iroquois' OBS, a measure of a center's ability to operate at full capacity. Additionally, liquidated damages may be assessed for not separating the students as required.

These conditions occurred because Iroquois controls over student arrivals and enrollment extensions needed improvement. The control weaknesses included inadequate center procedures, staff not following established center procedures, and lack of supervision. Additionally, ETR's corporate oversight at Iroquois did not address the deficiencies we identified in this area.

<u>Students Were Not Separated For Attendance Violations</u>

ETR did not ensure consistent compliance with Job Corps PRH requirements to separate students for attendance violations in two areas:

- Improper enrollment; and
- Exceeding two years of enrollment without Job Corps approval for an extension.

Students Improperly Enrolled

Job Corps' PRH (Chapter 6.4, Section R1) requires centers to accept for enrollment students who report to the center. Students who do not reach the center are not considered arrivals. Additionally, Job Corps Information Notice Number 04-13 (Attachment Section C.1.) requires Job Corps Regional Director approval for data corrections relating to enrollment in error for students who never arrived on center.

Iroquois enrolled two students who never arrived on center. Iroquois reported the two students in Job Corps' Center Information System (CIS) as enrolled for 428 days and 153 days, respectively. We identified one student based on information provided by a hotline complainant (see Finding 4) and the other student based on information provided by a center official. The untimely separations resulted in 581 days (428 + 153) of overstated student enrollment. Since the CIS calculates OBS based on enrollment days, Iroquois' OBS was also overstated.

Iroquois management agreed that enrollment data was improperly reported. They said the improper reporting occurred because the center enrolled students based on their expected arrival rather than their actual arrival. We agreed that Iroquois' arrival practices were inadequate and determined that COP had not been developed to provide center staff with appropriate guidance for processing arriving students. During our audit, Iroquois developed and implemented COP for student arrivals to ensure enrollment was based on verification that each expected student actually arrived at the center.

Approvals for Extending Enrollment Not Consistently Obtained

Job Corps' PRH (Chapter 6.4, Section R3b) limits student enrollment to two years, unless the center obtains regional office approval to extend the student up to six months so the student can qualify for graduation.

We reviewed the enrollment records for the eight students at Iroquois whose enrollment exceeded two years during CY 2008. We found that Iroquois did not obtain the required extension approval for two students, or 25 percent. As such, the two students should have been separated when they reached the two year limit. The two students exceeded their authorized enrollment by a total of 50 days. Again, since the CIS calculates OBS based on enrollment days, Iroquois' OBS was overstated.

Iroquois management said the center requested approval from Job Corps to extend the enrollment for both students while they completed their educational training. However, the center could not provide documentation that the requests were made and approved by the regional office, and the regional office told us they had not received the requests.

This occurred because center staff did not follow PRH requirements, and center data integrity reviews and ETR's November 2007 center assessment did not cover this area.

Liquidated Damages May Be Assessed

Inaccurate reporting of center enrollment and OBS impacts Job Corps and ETR decision making. Job Corps' PRH (Chapter 5.1, Section R2) stipulates the assessment of liquidated damages for instances of misreporting data. For artificially extending enrollment, the amount of liquidated damages for each day exceeding the appropriate separation date is calculated using 15 percent of the refundable cost per student per day, which was $10.24 per day for Iroquois. The PRH allows Job Corps discretion when assessing liquidated damages. As such, ETR may owe DOL $5,193 for the four students not separated as required. The PRH violations and our liquidated damages calculation for the four students with separation violations are summarized in Table 3 below.

Table 3: Four Students Were Not Separated as Required

PRH Violation	**Number of Students (Days in Violation)**	**Liquidated Damages (Number of Days x $10.24)**
Improper enrollment for students that never arrived on center.	2 (457 days*)	$4,680
Approval not obtained for students exceeding 2 years enrollment.	2 (50 days)	$513
Totals	**4 (507 days)**	**$5,193.00**

*The two students were improperly enrolled a total of 581 days (428 + 153 days). However, we did not include 124 days in our calculation because Iroquois immediately contacted Job Corps to resolve the issue for the student improperly enrolled for 428 days, but did not act on a Job Corps data center request to obtain Regional Director approval to remove the student from the CIS on the 124th day of improper enrollment. As such, we only included 304 days for this student in our calculation of liquidated damages (304 + 153 = 457 days).

In response to our draft report, Job Corps will require ETR to improve its controls over separating students due to improper enrollment and exceeding the 2-year enrollment limit. Additionally, Job Corps will determine the extent of any overstated OBS at all ETR centers (including Iroquois) and assess liquidated damages as needed.

ETR agreed with the deficiencies we identified in this area. However, ETR believes liquidated damages are not warranted because OBS was not significantly overstated.

Objective 4 — Did the hotline complaints alleging improper practices pertaining to financial reporting, student accountability, student and staff conduct, and safety programs at the Iroquois Job Corps Center have merit?

Finding 4 — Two of 18 hotline complaint allegations had merit.

The allegations that Iroquois improperly spent $10,000 of Job Corps funds for a holiday staff party, and overstated student attendance and OBS by reporting a student who never arrived at the center as enrolled for more than a year had merit. We did not substantiate the remaining 16 allegations.

Iroquois Improperly Spent Job Corps Funds for a Holiday Staff Party

The allegation that $10,000 of Job Corps funds was improperly spent on a 2008 Holiday staff party had merit. The FAR and ETR policy prohibited the center from using DOL funds as follows:

- Federal Acquisition Regulation 31.205-14 states "Costs of amusement, diversions, social activities, and any directly associated costs such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities are unallowable. Costs made specifically unallowable under this cost principle are not allowable under any other cost principle.

- ETR Cost Policy states that ETR recognizes the cost of entertainment and other costs that may be prohibited by 48 CFR Part 31 Contract Cost Principles and Procedures, or other applicable regulations are unallowable charges. ETR has internal controls in place to insure that such costs are not charged directly or allocated.

Iroquois did not comply with the Federal regulations and its own policy. Specifically, the center improperly charged Job Corps $7,957 for its 2008 staff holiday party. The improper charges included $5,877 for a banquet hall and food; $1,367 for party items and gift sets; $375 for a disc jockey; and $338 for holiday envelopes, frames, and personalized holders. Charging these items to Job Corps was unallowable because the party was a social activity and included specifically prohibited costs (banquet hall rental, meals, and entertainment). Iroquois also improperly charged Job Corps for holiday parties in CY 2005 ($4,992) and CY 2006 ($4,458). The improper charges for the three years totaled $17,407. The center did not have a holiday party in CY 2007.

ETR acknowledged that the food portion of the claimed costs for the holiday parties was not allowable and that the food was claimed by mistake. They told us that they believed that the remaining costs for the parties were allowable because Job Corps approved the center's staff incentive plan, which stated that a holiday party was allowed as a staff incentive. We disagree that the costs were allowable as an incentive for the following reasons:

- The FAR (31.205-6(f)(1)(ii)) states that incentive compensation to employees is allowable provided the basis for the award is supported. The Iroquois incentive plan simply stated that a holiday party was allowed to encourage high staff moral. Moreover, the incentive plan did not specify the amount to be spent based on any level of performance. We believe ETR should have obtained approval for the parties' planned costs from Job Corps.

- The Job Corps national office told us the amount spent for the party was excessive, and the cost should not have exceeded a few hundred dollars. The national office said that it is unusual to have holiday parties authorized through an incentive plan; and contractors that have parties usually pay for them out of their contract fee.

The OIG acknowledges that the approved incentive plan was a contributing factor in ETR's decisions to have the holiday parties and charge them to Job Corps. However, Iroquois unilaterally determined the amount to be spent on the holiday parties and charged those amounts to Job Corps. As such, we believe Job Corps should determine the appropriate portion of the $17,407 spent during CYs 2005, 2006, and 2008 and require ETR to reimburse any excessive amounts.[3] To avoid similar situations in the future, Job Corps needs to clarify its policy regarding the inclusion of holiday parties in contractor incentive plans.

<u>A Student Never Arrived at the Center Was Reported as Enrolled for More Than a Year</u>

The allegation that Iroquois overstated student attendance and OBS by reporting a student who never arrived at the center as enrolled for more than a year had merit. The complainant provided us with the name of the student, and we verified that the student was reported as enrolled at the center from November 30, 2006 to February 15, 2008, or approximately one year and three months. As such, Iroquois did not comply with Job Corps' PRH (Chapter 6.4, Section R1), which states that students who do not reach the center are not considered arrivals.

Iroquois became aware of the improper enrollment in November 2006 and contacted Job Corps to resolve the issue. However, the center did not act on a Job Corps data center request to obtain the Regional Director's approval to remove the student from the CIS on the 124th day of improper enrollment. The student continued to be improperly enrolled for an additional 304 days. The untimely separation resulted in 428 days of

[3] We identified $5,877 of the $17,407 as questioned costs in our Finding 1 discussion of unsupported imprest fund disbursements.

overstated student enrollment. Since the CIS calculates OBS based on enrollment days, Iroquois' OBS was also overstated. See Finding 3, which calculates liquidated damages associated with this improper enrollment separation.

Sixteen Allegations Did Not Have Merit

We performed audit work to determine the merit of 16 other allegations. We found no evidence that Iroquois or ETR engaged in the 16 alleged improper practices. The 16 allegations are detailed in Exhibit 3. Our methodology for validating the merit of the complaint allegations is summarized in Appendix B.

In response to our draft report, Job Corps will determine the extent of any reimbursements due to improper or excessive holiday party costs or overstated OBS. Job Corps will also revise its policy as needed to ensure claimed holiday party costs are appropriate. As noted, ETR believes the holiday party costs were allowable because of the Iroquois staff incentive plan. ETR acknowledged that two students were improperly enrolled and developed procedures to ensure enrollments are based on actual student arrivals.

RECOMMENDATIONS

We recommend that the National Director, Office of Job Corps require ETR to:

1. Implement corporate and center controls to identify and correct non-compliance with ETR policy and the FAR for imprest fund disbursements.

2. Pay DOL the $11,228 in questioned costs identified during testing of Iroquois imprest fund disbursements.

3. Implement corporate and center controls to identify and correct non-compliance with ETR policy for petty cash disbursements.

4. Implement corporate and center controls to identify and correct non-compliance with Job Corps safety and health program requirements, including safety inspections, safety committee meetings, and significant incident reporting.

5. Implement corporate and center controls to identify and correct non-compliance with Job Corps requirements for separating students due to ineligible enrollment and exceeding the 2-year enrollment limit without Job Corps approval.

Also, we recommend that the National Director:

6. Implement policy and procedures to ensure imprest funds are used appropriately at all Job Corps centers.

7. Determine whether ETR incurred holiday party costs at each of its centers and require ETR to pay DOL for any improper or excessive costs charged to Job Corps. This includes the excessive portion of the holiday party costs incurred at Iroquois during CYs 2005, 2006, and 2008, which we consider to be questioned costs. These questioned costs totaled $11,530 (plus an additional $5,877 already included in Recommendation 2).

8. Determine whether non-compliance with Job Corps requirements for separating students due to improper enrollment and exceeding the 2-year enrollment limit is occurring at other ETR centers and recover liquidated damages as appropriate. This includes the $5,193 in liquidated damages for not separating students as required at Iroquois.

9. Develop policy and procedures to clarify or eliminate the inclusion of holiday parties in contractor incentive plans.

We appreciate the cooperation and courtesies that Job Corps and ETR personnel extended to the Office of Inspector General during the audit. OIG personnel who made major contributions to this report are listed in Appendix E.

Elliot P. Lewis

Elliot P. Lewis
Assistant Inspector General
for Audit

Exhibits

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Exhibit 1

Iroquois Center Procurement Procedures Comparison
COP 571 Accounts Payable (A/P) Process and SOP 2030.1 Imprest Fund Process

Procurement Standard/Procedure	**A/P Process COP 571**	**Imprest Fund Process ETR 2030.1**
Purchase Request Required	Yes	No
Purchase Order Required	Yes	No
Procurement Source Priority Rules	Yes	No
Price Quotations/Bid Procedures	Yes	No
Special Purchases/Conditions Provisions	Yes	No
Sole Source Provisioning Rules	Yes	No
Emergency Purchase Provisions for Expedited Transactions	Yes	Yes
Approved Purchasing Methods	Yes	No
Purchase Order Procedures	Yes	No
Blanket Purchase Agreements	Yes	No
Invoice Processing	Yes	No
Change Order Procedures	Yes	No
Receiving Procedures	Yes	No
Documentation/Filing Description	Yes	No
Vendor Compliance	Yes	No

Key Personnel Involvement	**Center COP 571**	**Corporate ETR 2030.1**
Purchase Initiator/Requestor	Yes	Yes
Supervisor Approval of transaction	Yes	Yes
Purchasing Agent approves transaction and determines appropriate means for procurement	Yes	No
Accounts Payable Manager processes payment on invoice	Yes	No
Receiving Manager verifies and logs in receipt of goods	Yes	No
Director of Administrative Services approves transaction	Yes	Yes
Center Director (where applicable) approves transaction	Yes	Yes
ETR Corporate approves each transaction	Yes	No

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Exhibit 2

Summary of Allegations that Were Not Substantiated

The 16 hotline complaint allegations that were not substantiated during the audit were as follows:

1. "Questionable" drug screening results.
2. Center Log for dispensing over-the-counter medications is not in compliance.
3. Students not sent home/arrested for drug possession.
4. Sewer System concern: effluent backs up in Academic Department's student restroom on "continual basis" with sewage flowing into academic hallway.
5. Sewer System concern: constant odor of sewage adjacent to cafeteria building entrance.
6. ETR continued to operate classes in a building that was cited as unsafe by the Health Dept.
7. Vermin (mice) infestation in dorm.
8. The academic classrooms are "infested" with mildew due to poor drainage adjacent to the building, which resulted in flooding in classrooms.
9. Time card altered.
10. Time card was forged.
11. Overtime (earned) was not paid. "All staff" meetings, Dorm meetings, and safety department working through lunch were not allowed overtime, but were added responsibilities that required working overtime.
12. Student completions and separations were manipulated to "manage" monthly performance statistics. Completions (were recorded) before all services have been provided, completions (were recorded) months after completion of all services, and holding students in a leave status when separated due to disciplinary action.
13. OBS on the morning report and number of active students on the Active Student Roster do not match.
14. Students from Rochester allegedly were enrolled and only came on center to take the TABE test. Students were not participating in academic or trade courses on center. Students enrolled, but not present on center.
15. HS equivalency diploma and GED data results were entered into CIS before hard copy transcript actually arrived on center violating PRH rules.
16. Instructors were charged monetary damages for incomplete or incorrect TARs.

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Appendices

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Appendix A

Background

Job Corps is authorized by Title I-C of the Workforce Investment Act (WIA) of 1998 and is administered by the Department of Labor, Office of the Secretary, Office of Job Corps, under the leadership of the National Director, supported by a National Office staff and a field network of Regional Offices of Job Corps.

The purpose of Job Corps is to assist people ages 16 through 24 who need and can benefit from a comprehensive program, operated primarily in the residential setting of a Job Corps Center (JCC), to become more responsible, employable, and productive citizens.

As a national, primarily residential, training program, Job Corps' mission is to attract eligible young adults, teach them the skills they need to become employable and independent, and place them in meaningful jobs or further education.

Education, training, and support services are provided to students at Job Corps center campuses located throughout the United States and Puerto Rico. Job Corps Centers are operated for the U.S. Department of Labor by private companies through competitive contracting processes, and by other Federal Agencies through inter-agency agreements.

The WIA legislation authorizing Job Corps requires the Secretary of Labor to provide a level of review of contractors and service providers over a 3-year period. The Code of Federal Regulations states all Job Corps centers are to be reviewed over the 3-year period.

ETR headquarters is located in Bowling Green, Kentucky. ETR operates 4 Job Corps centers under contract with DOL (Iroquois in Medina, New York; Turner in Albany, Georgia; Hartford, in Hartford, Connecticut[4]; and Oneonta in Oneonta, New York).

[4]During the audit period, January 2008 through December 2008, ETR operated 3 centers. However, on January 12, 2010, ETR officials explained they were awarded a contract for the Hartford center.

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Appendix B

Objectives, Scope, Methodology, and Criteria

Objectives

Our audit objectives were to answer the following questions:

1. Did ETR ensure compliance with Job Corps requirements for managing and reporting financial activity?

2. Did ETR ensure compliance with Job Corps requirements for managing center safety programs?

3. Did ETR ensure compliance with Job Corps requirements for reporting performance?

4. Did the hotline complaint alleging improper practices pertaining to financial reporting, student accountability, student and staff conduct, and safety programs at the Iroquois Job Corps Center have merit?

Scope

This report reflects the audit work conducted at ETR headquarters in Bowling Green, Kentucky and the ETR-operated Iroquois Job Corps center in Medina, New York — except where noted. We reviewed center financial, safety, and performance data for students who separated during Contract Year (CY) 2008. We also reviewed center financial, safety, and performance data outside this timeframe. Specifically, we reviewed the CY 2007 Employment and Training Administration Form 2110, Job Corps Contract Center Financial Report's operating expenses; ETR's November 2007 corporate assessment; 2005 & 2006 holiday party expenses; May 2009 petty cash expenses; January 2009 Annual Safety and Health review; and February through April 2009 weekly safety inspections. The evidence reviewed were hard copy files, and electronic files maintained at ETR headquarters and the Iroquois center.

The relationship between the population and the items tested and the kinds and sources of evidence are fully described in the Methodology section below.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Methodology

To accomplish our audit objectives, we obtained an understanding of applicable laws, regulations and Job Corps policies and procedures. We also obtained an understanding of ETR's processes, policies, and procedures for managing center safety and reporting financial and performance information to Job Corps. We interviewed ETR's corporate officials at ETR's headquarters in Bowling Green, Kentucky, and conducted interviews with various officials at the Iroquois Job Corps center field site.

At the headquarters, we performed walkthroughs of ETR's corporate processes and identified and evaluated ETR's internal controls over center safety and performance and financial reporting. We assessed risks related to financial and performance misstatement and evaluated ETR's overall control environment.

We selected the Iroquois center location for detailed testing of center safety and financial and performance data based on a risk assessment. We considered a number of variables, including size of operations, prior audit findings, and OIG and Job Corps management concerns on a hotline complaint we received in January 2009. We assessed the reliability of related data for the applicable audit period and determined that the data was sufficiently reliable to accomplish our audit objectives. We used a combination of statistical and judgmental sampling to select the items tested at this center. Judgmentally selected items, which cannot be projected to the intended population(s) were chosen based on a number of factors, including known deficiencies (i.e., related audit concerns identified in prior OIG, DOL, ETR, and consultant reports), inquiries of and information provided by Job Corps, ETR and center personnel; and the nature of certain transactions (e.g., high dollar value, susceptibility to theft or manipulation). Our methodology for the center is described as follows:

Financial Reporting

We interviewed key ETR and center officials and staff, reviewed applicable policies and procedures, analyzed prior audit and consultant reports, reviewed corrective actions taken by ETR on regional assessment reports, and performed a walkthrough of selected transactions to gain a better understanding of the center's system for financial reporting.

For non-personnel expenses, we reviewed a judgmental sample of 17 transactions chosen from the Iroquois CY 2008 check register. The sample included 14 expenses processed using ETR's accounts payable system and 3 expenses paid using the center's imprest fund. The sample population was chosen based on the following criteria: payments that exceeded $1,700, payments that appeared to be paid to unusual vendors, payments for items that appeared to be attractive, payments that appeared to be for unallowable expenses, and payments that appeared to be unusual in nature. We determined if the expenses reported were allowable, reasonable, allocable, supported, properly bid, and had proper approval documentation. This review included tracing the expenses to the general ledger. Based on the results of this initial testing, we expanded our testing to include a judgmental sample of 26 of the 280 imprest fund transactions that exceeded $500 during CY 2008. Our testing included 40 (14 accounts payable plus 26 imprest fund) non-personnel expense transactions totaling $122,325 (6.8%) out of the $1,800,640 non-personnel expenses disbursed. The results of our test relate only to the tested transactions and cannot be used to conclude on overall non-personnel expenses.

For personnel expenses, we performed analytical reviews of payroll expenditures and judgmentally selected and reviewed payroll records for 5 of 119 center employees. The sample of 5 employees was selected based on a high-risk assessment for overtime pay, the highest-paid center officials, and employees not listed on the given employee roster. The review was to determine if expenditures were for actual and allowable work done by valid employees at their authorized rates. This included tracing the selected expenditures to authorized timesheets, leave, and pay rates. The results of our test relate only to the tested transactions and cannot be used to conclude on overall personnel expenses.

To determine compliance with PRH requirements for reporting reimbursable expenses we examined the monthly Form 2110 reporting reimbursable expenses and the bi-weekly Form 1034 vouchers requesting reimbursement for center expenses for Contract Year (CY) 2008. We then used a Job Corps-provided reconciliation spreadsheet (required by Job Corps for all centers to use) to verify reported expenses reconciled to the vouchers. Furthermore, we compared CY 2007 to CY 2008 2110 monthly operating expenses to identify variances, and reviewed significant variances to determine whether the variances were reasonable. In addition, we compared a judgmental sample of CY 2008 monthly operating expenses to the amounts reported in the general ledger to ensure expenses were accurate.

Safety and Health

To gain a better understanding of the center's safety and health program, we interviewed key ETR and center officials and staff, reviewed applicable policies and procedures, performed walkthroughs, and conducted a physical review of the center's facilities. We also evaluated the results of corporate and DOL regional office assessments of center safety and health processes, Safety and Occupational Health Committee meeting minutes, inspection reports, and center buildings to determine whether the center effectively identified and corrected safety and health deficiencies. We also performed physical inspections to ensure there were no apparent facility safety and health issues, and to ensure that problems identified by center, corporate, and DOL reviews were corrected.

For our center inspection report review, we selected a judgmental sample of 37 monthly inspections from a population of 372 monthly inspections. (i.e., 31 buildings x 12 per CY = 372). The judgmental sample of 37 was selected using the first monthly inspection in the CY 2008 inspection binder and then every 10th inspection after that.

In addition, we reviewed the 12 months of CY 2008 safety committee meeting minutes to determine whether the center conducted monthly safety committee meetings.

We also non-statistically selected students from the separation analysis report and reviewed student files for students who separated from the center because of disciplinary infractions during CY 2008 (i.e., 20 of 96 or 38 Level I and 58 Level II disciplinary separations at Iroquois). The review was to determine if the center met the PRH requirements for convening fact finding boards or behavior review panels and reporting for significant incidents. To accomplish this, we reviewed the student files and disciplinary files to identify infractions committed by the students and compared the actions the center took regarding the infractions to the requirements for convening boards and panels (i.e., 20 students or 5 Level I and 15 Level II judgmentally selected from 96 disciplinary separations.) We also compared the Level I disciplinary separations to the students reported on the Significant Incident Report (SIR) to determine if they met PRH requirements. Specifically, we reviewed 18 of 38 Level I disciplinary separations requiring an SIR, for which we checked to see if an SIR had been written and forwarded to Job Corps; 20 did not since they were for drug testing positive a second time.

In addition, we used non-statistical sampling to review files for students who enrolled at the center during CY 2008 to determine if the center met the PRH requirements of providing basic health evaluation — to include drug screening upon enrolling students, making sure students receive physicals within 14 days of being on center. To accomplish this, we reviewed appropriate medical forms in each selected student's medical file (24 students judgmentally selected from a population of 421 students at Iroquois) and compared the forms to the applicable PRH requirements. Specifically, of the 24, 18 (1st sample) were selected as follows: judgmental sample of 15 was selected by taking every 18th arrived at by dividing the population of 421 by 15. The other 3 students were selected judgmentally as they were named on a complainant statement and were added to the 15 to get 18. The remaining 6 (2nd sample) selected represented all students who tested positive upon arrival and were required to be tested by the center and disciplinary separated had they tested positive a second time in accordance with JC requirements.

Performance Reporting

We interviewed key ETR and center officials and staff, reviewed applicable policies and procedures, reviewed prior audit and consultant reports, and performed walkthroughs to gain a better understanding of the center's system for collecting, recording, processing, and reporting performance data. We reviewed corrective actions taken by ETR for instances noted on regional assessment reports. We used a combination of statistical and non-statistical sampling to examine performance reporting.

To determine if reported Career Technical Training (CTT) completers had supporting Training Achievement Record (TAR) documentation in compliance with PRH requirements, we reviewed a statistical sample of 30 out of the 224 students reported by

Iroquois as CTT completers. Also, we reviewed a judgmental sample of 15 students who were reported on the Data Integrity Group Report as being high-risk completers. In total, these 45 out of the 224 students ETR had reported as CTT completers at Iroquois were reviewed.

We reviewed each student TAR for a number of attributes, including tasks not documented as having been completed (that is, lacked required instructor/student sign-offs, completion dates, proficient performance ratings); task completion dates that coincide with holidays, weekends, student leave dates, and dates not in trade; tasks excluded without proper approval; and the reasonableness of time noted to complete tasks.

To determine if controls over student leave and attendance were in place, we reviewed 25 student records from a population of 421 students enrolled in CY 2008 who had 7 or more leave days prior to their separation. We identified students on leave as reported on the student profile — Center Information System (CIS) Form 640. We calculated leave days taken over the designated limit identified for each status listed in the PRH (Exhibit 6-1) and assessed whether there were patterns of leave taken, such as unpaid leave followed by paid leave followed by AWOL status, before separation from the center. We reviewed student records to identify (1) whether a student placed on leave had a leave request form completed, and (2) whether student leave request forms located in student records had proper signature approvals or authorizations consistent with the leave status type as required by the PRH (Exhibit 6-1). We also used this sample to determine if attempts were made to contact AWOL students. We did this by reviewing student records to determine whether counselor case note documentation was present for each incident an AWOL was reported on the CIS Form 640.

To determine if students reported as GED/HSD completers were accurately reported, we statistically sampled students claimed as earning GED certificates and High School Diplomas during CY 2008. To verify GED/HSD attainment, we reviewed each student file for copies of certificates/diplomas and score reports/transcripts.

Hotline Complaints

We received 18 hotline complaint allegations alleging improper practices relating to ETR student/staff misconduct, center safety and health, managing and reporting financial activity, student attendance/accountability, CTT completions, high school diploma and GED attainment, improper staff separation, and center manager misconduct. We performed the following to determine whether the allegations were valid:

*Student/staff Misconduct – w*e conducted interviews with the complainants and requested evidence to corroborate allegations. We interviewed Iroquois officials to gain an understanding of the Center's practices regarding drug screening and possession. We reviewed Iroquois' COP for consistency with the PRH. We observed the Iroquois drug testing process and completed testing procedures to determine if drug screening was in compliance with PRH and COP requirements, and reviewed police reports to confirm students were cited for drug possession.

Center Safety and Health – Center management officials explained how over-the-counter (OTC) medications are dispensed, and verified medical kits are located at various center designated areas and that logs do not exist for dispensing OTC medications. Also, sewer system work orders were reviewed; auditors toured the Iroquois grounds; and all Iroquois buildings including dorms, classrooms and bathrooms were physically inspected; and all significant incident reports were reviewed. We reviewed County Health Department reports to determine whether the center operated classes in an unsafe building. In addition, we performed walkthroughs of all Center buildings including dorms and academic classrooms to determine whether vermin (mice) or mildew infestation existed.

Center Managing and Reporting of Financial Activity – we interviewed ETR and Iroquois financial management officials to gain an understanding of procurement practices. We reviewed costs charged to Job Corps for holiday parties held in CY 2005, 2006, and 2008 to determine compliance with the FAR and ETR policy.

We interviewed Iroquois payroll officials to gain an understanding of the payroll process and requested verification regarding potential for timecard altering, forgery, and potential non-payment of overtime worked. We reviewed the COP to gain an understanding of payroll requirements. We judgmentally selected time cards of non-exempt employees where overtime pay was indicated per center records, and found the time cards were completed with the required overtime indicated and that actual payroll payments consistently reflected the overtime hours.

Student Attendance/Accountability – we interviewed Iroquois officials to gain an understanding of the enrollment process and cause for a student who enrolled but never arrived on center. We reviewed the PRH and COP to gain an understanding of procedures required to separate students who never arrive on center, which resulted in Iroquois over-stating the Iroquois on-board strength (OBS). We witnessed the Iroquois process used to enroll newly arrived students. Also, we matched the OBS on the morning report with total active students reported on the Active Student Roster in compliance with PRH requirements. Also, we obtained a list of co-enrolled students and a memorandum of understanding between the Center and Rochester school district verifying student co-enrollment eligibility.

High School Equivalency Diploma and GED Program – we conducted interviews with Iroquois officials to gain an understanding of the practices used in reporting GED and high school diploma (GED/HSD) completions. We reviewed the PRH and COP to gain an understanding of the requirements for GED/HSD reporting. We reviewed a statistical sample of 30 students from a population of 130 claimed as earning GED certificates and High School Diplomas during CY 2008 to determine if results were entered into CIS before hard copy transcripts arrived on center.

Career Technical Training Program – we conducted interviews with Iroquois officials to gain an understanding of the practices used in the reporting of career technical training (CTT) completions. We reviewed the PRH and COP to gain an understanding of the requirements for CTT reporting. We reviewed a judgmental sample of 15 and a statistical sample of 30 CTT completions from a population of 224 CTT completions for CY 2008 to determine whether Iroquois was manipulating completions.

Criteria

We used the following criteria to perform this audit:

- Code of Federal Regulations
- Federal Acquisition Regulation
- Job Corps Policy and Requirements Handbook
- Standards for Internal Control in the Federal Government (U.S. Government Accountability Office, November 1999)
- Iroquois Center Operating Contract
- ETR Standard Operating Procedures
- Iroquois Center Operating Procedures
- GAO Government Auditing Standards
- GAO Standards for Internal Control in the Federal Government

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Appendix C

Acronyms and Abbreviations

CFR	Code of Federal Regulations
CIS	Center Information System
COP	Center Operating Procedures
CTT	Career Technical Training
CY	Contract Year
DOL	Department of Labor
ETA	Employment and Training Administration
ETR	Education and Training Resources
FAR	Federal Acquisition Regulation
GAO	General Accountability Office
GED	General Educational Development
HSD	High School Diploma
Iroquois	Iroquois Job Corps Center
OBS	On-Board Strength
PRH	Policy and Requirements Handbook
PY	Program Year
SIR	Significant Incident Report
SOP	Standard Operating Procedures
TAR	Training Achievement Record
WIA	Workforce Investment Act

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Appendix D

Job Corps Response to Draft Report

U.S. Department of Labor

Office of Job Corps
Washington, D.C. 20210

FEB 2 2 2010

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

FROM: LYNN A. INTREPIDI
Interim National Director

SUBJECT: Response to the Office of Inspector General's (OIG's) Draft Report, Performance Audit of Education and Training Resources (ETR) Job Corps Centers, Report Number 26-10-003-01-370

Thank you for the opportunity to review the OIG's draft report number 26-10-003-01-370 on the *ETR Job Corps Centers dated January 29, 2010*. As indicated in the aforementioned draft report, OIG concluded that Job Corps needs to provide documentation showing the corrective action taken to address the nine open and unresolved recommendations. Listed below are the OIG's recommendations including the response by the Office of Job Corps (OJC):

> **OIG Recommendation 1** – *"Implement corporate and center controls to identify and correct non-compliance with ETR policy and the FAR for imprest fund disbursements."*

OJC Response – Concurs. The Interim National Director will forward a memorandum addressed to the Boston Regional Office to instruct the center operator to implement corporate and center controls to identify and correct non-compliance with Job Corps' Policy and Requirements Handbook (PRH) and the Federal Acquisition Regulations (FAR) for imprest fund disbursement at the Iroquois Job Corps Center. Furthermore, the Regional Director for Boston will be advised to inform the center operator to revise their current Center Operator Procedure's (COPs) to ensure that ETR's Accounts Payable system is in compliance with the use of its imprest funds or center purchases.

In the event non-compliance issues are identified based on the PRH through data integrity audits, a corrective action plan will be required from the center operator to address these issues. If any deficiencies are identified, the center operator will be required to submit a corrective action plan to the Regional Office within 30 days after the assessment is completed.

<u>OIG Recommendation 2</u> – *"Pay DOL the $11,228 in questioned costs identified during testing of Iroquois imprest fund disbursements."*

<u>OJC Response</u> – Concurs-In-Part. The Boston Regional Office, in coordination with the Office of the Solicitor and the Regional Contracting Officer, will determine the extent of any liquidated damages resulting in questionable imprest fund disbursements. If it has been determined that disbursements were unauthorized, the center operator will be assessed liquidated damages. The initial determination letter will be forwarded to the OIG.

<u>OIG Recommendation 3</u> – *"Implement corporate and center controls to identify and correct non-compliance with ETR policy for petty cash disbursements."*

<u>OJC Response</u> – Concurs. The Interim National Director will forward a memorandum addressed to the Boston Regional Office to instruct the center operator to implement corporate and center controls at the Iroquois Job Corps Center. The Regional Director for Boston will be required to ensure that the center operator identifies and corrects non-compliance issues pertaining to ETR policies and petty cash disbursements. Furthermore, the Regional Director for Boston will be advised to inform the center operator to revise their current COPs to ensure that corporate and center level controls are in place to reflect appropriate authorizations.

In the event non-compliance issues are identified based on the PRH through data integrity audits, a corrective action plan will be required from the center operator to address these issues. If any areas of deficiencies are identified, the center operator will be required to submit a corrective action plan to the Regional Office within 30 days after the assessment is completed.

<u>OIG Recommendation 4</u> – *"Implement corporate and center controls to identify and correct non-compliance with Job Corps safety and health program requirements, including safety inspections, safety committee meetings, and significant incident reporting."*

<u>OJC Response</u> – Concurs. The Interim National Director will forward a memorandum addressed to the Boston Regional Office instructing the center operator for the Iroquois Job Corps Center to improve their controls. The memorandum will include identifying and correcting non-compliance issues with Job Corps safety and health program requirements.

Job Corps centers prepare Standard Operating Procedures (SOPs) to ensure compliance with safety program requirements. On December 3, 2009, a directive was forwarded to the Job Corps community reminding them that center safety committees must meet in accordance with PRH Chapter 5, Section 5.14, R2.g. The directive also mentioned that meeting minutes and agendas must be maintained on file for 3 years. (Attachment 1, Directive: Job Corps Program Instruction No. 09-28, dated December 3, 2009).

OIG Recommendation 5 – *"Implement corporate and center controls to identify and correct non-compliance with Job Corps requirements for separating students due to ineligible enrollment and exceeding the 2-year enrollment limit without Job Corps approval."*

OJC Response – Concurs. The Interim National Director will forward a memorandum addressed to the Boston Regional Office instructing the center operator for the Iroquois Job Corps Center to improve their controls. The memorandum will include the center operator's revised COP to identify and correct non-compliance issues with Job Corps requirements for separating students due to ineligible enrollment and exceeding the 2-year enrollment period. If any areas of deficiencies are identified, the center operator will be required to submit a corrective action plan to the Regional Office within 30 days after the assessment is completed.

OIG Recommendation 6 – *"Implement policy and procedures to ensure imprest funds are used appropriately at all Job Corps centers."*

OJC Response – Concurs-In-Part. The OJC will review our current policy referencing PRH, Chapter 5, Section 5.6 to determine if revisions will be necessary based on the OIG's finding. In the event that the current policy will need to be revised, the Interim National Director, Office of Job Corps, will communicate to the Job Corps Regional Directors that center COPs will have to be updated to reflect this change.

OIG Recommendation 7 – *"Determine whether ETR incurred holiday party costs at each of its centers and require ETR to pay DOL for any improper or excessive costs charged to Job Corps. This includes the excessive portion of the holiday party costs incurred at Iroquois during CYs 2005, 2006, and 2008, which we consider to be questioned costs. These questioned costs totaled $11,530 (plus an additional $5,877 already included in Recommendation 2)."*

OJC Response – Concurs-In-Part. The OJC, Boston and Atlanta Regional Office will determine the extent of any improper or excessive costs charged to OJC. This will include determining excessive portion of the $11,530 (plus an additional $5,977 already included in Recommendation 2) in holiday party costs incurred at the Iroquois Job Corps Center. If liquidated damages are determined, the initial determination letter(s) will be forwarded to the OIG.

OIG Recommendation 8 – *"Determine whether non-compliance with Job Corps requirements for separating students due to improper enrollment and exceeding the 2-year enrollment limit is occurring at other ETR centers and recover liquidated damages as appropriate. This includes the $5,193 in liquidated damages for the overstated OBS identified for Iroquois."*

OJC Response – Concurs-In-Part. The Interim National Director will forward a memorandum addressed to the Regional Directors who oversee ETR operated centers and instruct them to determine whether non-compliance with Job Corps requirements for separating students is occurring due to ineligible enrollment and exceeding the 2-year enrollment exist and recover liquidated damages, if necessary. In the event that non-compliance issues exists, the center operator must revise their SOPs to identify and correct non-compliance issues with Job Corps requirements for separating students due to ineligible enrollment and exceeding the 2-year enrollment period.

The OJC, Boston Regional Office will determine the extent of any overstated On-Board Strength at the Iroquois Job Corps Center. If liquidated damages are determined, the initial determination letter will be forwarded to the OIG.

> **OIG Recommendation 9** – *"Develop policy and procedures to clarify or eliminate the inclusion of holiday parties in contractor incentive plans."*

OJC Response – Concurs-In-Part. If revisions to Job Corps policy concerning the contractor incentive plans are necessary, the Interim National Director will communicate to the Regional Directors that center SOPs will need to be updated to reflect this policy change.

Appendix E

ETR Response to Draft Report

EDUCATION & TRAINING RESOURCES

February 11, 2010

Mr. Elliot P. Lewis
Assistant Inspector General for Audit
U.S. Department of Labor
Office of Inspector General
200 Constitution Avenue, N.W., Suite S-5512
Washington, DC 20210

RE: Response to Draft Report (Appendix E)
Draft Report No. 26-10-003-01-370
Performance Audit of Education and Training Resources
Job Corps Centers

Dear Mr. Lewis:

On behalf of Education and Training Resources (ETR), I would like to express our appreciation to each of the OIG auditors and representatives that were involved in performing this comprehensive performance audit of ETR and the Iroquois Job Corps Center. The support and technical assistance, as well as the 100% compliance accountability, that your audit team provided and measured was very thorough and will benefit the Iroquois Job Corps Center. The interaction with your audit team will also benefit ETR as we continuously strive to ensure compliance with Job Corps requirements for managing and reporting financial activity, center safety programs, and for reporting performance.

After reviewing this draft report, ETR also appreciates the opportunity to provide our responses to each of the findings, concerns and recommendations contained in the report. Overall, given the scope and depth of this performance audit, ETR is very proud of the limited level of findings. Although we recognize the need for continuous improvements in our management oversight and controls, ETR is most proud of the audit teams' finding in the draft report which states, "…we did not observe any unsafe conditions at Iroquois."

The following pages contain ETR's responses to each of the findings in the draft report. Again, we appreciate the professionalism and competence exhibited by your audit team as they executed their scope of work with both ETR corporate office staff and our Iroquois Center staff and students.

Respectfully,

Brian S Fox

Brian Fox
President/CEO

Enclosure: Appendix E

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ETR Responses to Draft Report – Appendix E

Objective 1 – Did ETR ensure compliance with Job Corps requirements for managing and reporting financial activity?

Finding 1 – For two of three areas reviewed, nothing came to our attention indicating ETR did not ensure compliance with Job Corps requirements for managing and reporting financial activity. However, ETR did not always ensure compliance with Job Corps requirements for managing and reporting non-personnel expenses.

Improper Use of Imprest Fund

ETR concurs-in-part with this finding. As stated in footnote #1 on Page 4 of the draft report, ETR's "Imprest Account" for the Iroquois Center does not meet the definition of an Imprest Account in 20 CFR 638.200. ETR's Imprest Account for Iroquois is not "established by an advance of funds, without charge to an appropriation, from an agency finance or disbursing officer to a duly appointed cashier…" Specifically, the Iroquois Imprest Fund, as well as its Petty Cash fund, is established only with ETR funds. ETR selected the term, Imprest Account, to name/title its local checking account because, outside of agency contracting as referenced in 20 CFR 638.200, the term "Imprest" is also an accounting term, which designates a fund, as of petty cash, that is replenished in exactly the same amount expended from it. To avoid any future confusion presented by the definitions contained in 20 CFR 638.200, ETR has moved to rename all of its local "Imprest" Accounts.

At many Job Corps centers, including the Iroquois Center, there is a day-to-day functional and operational reality to the need for using an active "imprest type" checking account. The Iroquois Center is remotely located on a federal wetland preserve in the small community of Medina, New York. The vast majority of local vendors and suppliers of goods, services, activities, etc. are small proprietors, who do not conduct their business on credit or Net 10, 15, or 30 buying terms and many require Cash on Delivery (COD) for services or products. As such, maintaining an active "imprest type" checking account is an operational necessity for a significant number and type of reasonable and allowable purchases under $3,000. On the surface, ETR understands that the level of transactions give an appearance of the use of petty cash and imprest account funds to pay for purchases outside of established procurement systems. However, these accounts are governed with Corporate Standard Operating Procedures (SOP) and Center Operating Procedures (COP) that are not designed to bypass required procurement policies and regulations. When these transactions are reduced to daily and/or weekly operating needs within a 24/7 remotely located Job Corps environment, this appearance becomes realistic and normal.

ETR concurs that 8 of the 9 disbursements, totaling $5,351 and identified in Table 2 of the draft report as questioned costs, lacked the necessary level of supporting documentation to support the required procurement/bid process or sole source justification documents.

ETR does not concur that the $5,877 holiday party related disbursement should be unallowable in its entirety. (Refer to ETR Response for Finding #4.)

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As indicated in the draft report, ETR has also revised applicable SOPs and COPs to improve corporate and center controls over "imprest type" fund disbursements, including management oversight and only those specific disbursements authorized for use by this type of necessary operational account.

Petty Cash Purchases Were Not Always Authorized

ETR Concurs with this finding. ETR acknowledges that Iroquois COP 579 requires the Administrative Services Director to authorize petty cash reimbursements; and, that ETR SOP 2030 requires the "Area Director" and not specifically the Administrative Services Director. The Iroquois Center wrote COP 579 more stringent on approvals than was required by the ETR SOP 2030, or simply made a typo in assigning the appropriate Director for the approving signature (i.e., Admin Director vs. Area Director). In short, the Iroquois Center was following the ETR SOP 2030 and had proper authorizations for purchases, but they were not following COP 579, which required the additional Administrative Director signature approvals.

As indicated in the draft report, ETR has revised SOPs and COPs related to petty cash to provide the recommended level of consistency in petty cash signature approvals.

Objective 2 – Did ETR ensure compliance with Job Corps requirements for managing safety programs?

Finding 2 – ETR did not ensure compliance with Job Corps requirements at the Iroquois Center for safety in three areas — safety inspections, safety committee meetings, and student misconduct.

Iroquois Was Not In Compliance with Safety Inspection Requirements

ETR concurs with this finding. As clearly indicated in the draft report, the audit team did not observe any unsafe conditions at the Iroquois Center throughout their 6-7 week on-site visit. ETR agrees that improved documentation on the scope of inspections was warranted. As such, and as indicated in the report, ETR developed new and revised COPs for safety inspections in coordination with the audit team members while they were on-site at Iroquois. This cooperative OIG and ETR approach has resulted in more comprehensive safety inspections and greater levels of documentation for safety inspections at the Center. Effective October 1, 2009, ETR also created a new corporate safety officer position to provided enhanced training and oversight.

As a note of importance, Quarterly Health and Safety Inspections at the Iroquois Center were conducted by the Orleans County of Department of Health and Safety during the CY2008 period, as required:

- ✓ 1st Quarter 2008-Score 376/400
- ✓ 2nd Quarter 2008-Score 388/400
- ✓ 3rd Quarter 2008-Score 484/500
- ✓ 4th Quarter 2008-Score 461/500

Other safety and health related inspections that were performed at the Iroquois Center during the CY 2008 period include:

- ✓ Building inspections were conducted by an outside company.
- ✓ Quarterly inspections were conducted on all fire alarms and sprinkler systems.
- ✓ Kitchen and hood/exhaust inspections were conducted quarterly.
- ✓ Boiler inspections are regularly conducted by the New York State Department of Labor, Division of Health and Safety.
- ✓ Elevator inspections were conducted by an outside company.
- ✓ Annual inspections were conducted on all fire extinguishers.

Monthly Safety Committee Meetings Not Held Consistently

ETR concurs with this finding. ETR agrees that sufficient documentation for three out of the required twelve monthly Safety Committee Meetings during the period of January 1, 2008 to December 31, 2008 did not meet applicable PRH expectations. Although nine of the twelve required Safety Committee Meetings occurred and were properly documented, the required meetings did not take place in three of the months during CY 2008.

As indicated in the draft report, ETR has revised its COPs related to conducting and documenting required monthly safety committee meetings.

Significant Incidents of Student Misconduct Were Not Reported to Job Corps

ETR concurs with this finding. ETR agrees that five students were terminated from the Iroquois Center during CY 2008 for Level 1 infractions, and that SIRs were not reported. ETR contends these unreported incidents were based on "simple administrative oversights" and should not be extrapolated further. To support this contention, the draft report specifically states that the Iroquois Center took appropriate disciplinary action by separating each of these five students at the time of their Level 1 infractions. Further, each of the students' disciplinary actions was appropriately entered into CIS.

Objective 3 – Did ETR ensure compliance with Job Corps requirements for reporting performance?

Finding 3 – ETR had control weaknesses in one of three areas relating to compliance with Job Corps requirements for reporting performance — Student Attendance/Accountability.

Students Were Not Separated For Attendance Violations

- ***Students Improperly Enrolled***

ETR concurs with this finding. ETR agrees that two students were inadvertently entered in CIS as enrolled at the Iroquois Center, but did not arrive at the Center on their scheduled arrival dates. As indicated in the draft report, the Iroquois Center revised and developed a COP for

Page **4** of **6**

student arrivals to ensure enrollment is now based on verification that each scheduled-to-arrive student actually arrives at the Center. It should be noted, throughout the period these two students were enrolled in CIS that Iroquois reconciled and returned their respective student pay on a regular basis. It should also be noted, even though the Center inadvertently entered the two students in CIS as enrolled, that neither ETR nor any other Job Corps operator/contractor has the ability or authority to remove students from enrollment in CIS.

- ***Approvals for Extending Enrollment Not Consistently Obtained***

ETR concurs with this finding. Of the eight students referenced in the draft report whose enrollments exceeded two years, each of these students successfully graduated from the Iroquois Center and entered post-secondary educational programs. ETR agrees that two of these eight students lacked official written Regional Office approval in their files for the extension of their enrollments at Iroquois as they entered college.

- ***Liquidated Damages May Be Assessed***

ETR concurs-in-part with this recommendation. Throughout the CY 2008 period, the Iroquois Center's cumulative OBS was over 98%. As such, ETR contends that the impact of the two improperly enrolled students on overstating OBS is not significant to warrant liquidated damages.

Objective 4 – Did the hotline complaints alleging improper practices pertaining to financial reporting, student accountability, student and staff conduct, and safety programs at the Iroquois Job Corps Center have merit?

Finding 4 – Two of eighteen hotline complaint allegations had merit.

Hotline Compliant #1 - *Iroquois Improperly Spent Job Corps Funds for a Holiday Staff Party.*

ETR does not concur with this finding. The Iroquois Job Corps Center is in compliance with its 2008 Staff Incentive Plan, as submitted and approved by USDOL. ETR contends that this event was an approved staff incentive related function and not solely an entertainment/social function, which is evidenced by the event's absence in CY 2007; and, only held during contracting periods that resulted in increased Iroquois Center performance. The Center Operating Procedure (COP) that governs approved staff incentives is divided into Bonus (cash) and Other (non-cash) staff incentives. The Holiday Party is specifically identified as an event scheduled in December of each year, which corresponds to the end of each ETR/Iroquois contract period (December 31); and, which happens to coincide with annual Student Winter Breaks (e.g. Holiday Party).

Given the fact that ETR charged other holiday party related expenses as unallowable for these same staff incentive functions, it is evident that ETR consulted FAR Title 48, Volume 1, Section 31.205 and its own Cost Policy Statement for cost allowance and compliance. ETR contends that more than adequate justification exists to support these functions as staff incentive versus the functions being questioned as entertainment/social events only. ETR also contends that the amount is not excessive for over 100 Center employees, but rather, very reasonable and cost efficient. When averaged, the cost for each annual function only ranges from $50-$115 per

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employee. This amount indicated as improper for the three respective years equates to approximately *one-quarter of one percent* of the center operating funds for the same period. ETR further contends that staff of the Iroquois Job Corps Center earned the opportunity for this type and level of staff incentive. During the period since CY 2005, the Iroquois Center has improved from a historically underperforming center to a consistently ranked Top 25 performing center in the nation.

With respect to the questioned costs recommended in the draft report for all holiday party expenses, ETR contends that any enforcement of these related questioned costs should not be applied. OIG Recommendation #9 requests that the National Office of Job Corps "develop policy and procedures to clarify or eliminate the inclusion of holiday parties in contractor incentive plans." Each of the Iroquois Center's annual Staff Incentive Plans was properly approved at the time these costs are being questioned. As such, it is not reasonable and appropriate to apply these questioned costs during this period of time. Once Recommendation #9 is established by the National Office of Job Corps, the application and enforcement of a new policy and/or procedure should be from that point forward.

Hotline Compliant #2 - *A Student Never Arrived at the Center Was Reported as Enrolled for More Than a Year.*

ETR concurs with this finding. ETR agrees that two students were inadvertently entered in CIS as enrolled at the Iroquois Center, but did not arrive at the Center on their scheduled arrival dates. As indicated in the draft report, the Iroquois Center revised and developed a COP for student arrivals to ensure enrollment is now based on verification that each scheduled-to-arrive student actually arrives at the Center. It should be noted, throughout the period these two students were enrolled in CIS that Iroquois reconciled and returned their respective student pay on a regular basis. (See ETR Response to Finding #3.)

Hotline Complaints #3-#18 - *Sixteen Allegations Did Not Have Merit.*

No ETR response necessary.

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Appendix F

Acknowledgements

Key contributors to this report were Ray Armada, Barry Weiss, Gerald Howe, John Gruppioni, Richard Donna, and Goleda Sutton-Watson.

TO REPORT FRAUD, WASTE, OR ABUSE, PLEASE CONTACT:

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