

**AUDIT OF
WHITNEY M. YOUNG JOB CORPS CENTER
JOB CORPS TAX PAYMENTS
JUNE 1, 1999 THROUGH JUNE 30, 2000**

U.S. DEPARTMENT OF LABOR
OFFICE OF INSPECTOR GENERAL
REPORT NO: 02-03-202-03-370
DATE: March 14, 2003

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ACRONYMS

| | |
|-------|--|
| USDOL | U.S. Department of Labor |
| OIG | Office of Inspector General |
| WYJCC | Whitney M. Young Job Corps Center |
| ETA | Employment and Training Administration |

EXECUTIVE SUMMARY

The U.S. Department of Labor (USDOL), Office of Inspector General (OIG), conducted an audit to determine if Vinnell Corporation claimed and was reimbursed for property taxes or other inappropriate taxes related to the operation of the Whitney M. Young Job Corps Center (WYJCC) during the period June 1, 1999 through June 30, 2000, under Contract Number 3-JC-843-42.

Audit Results

While Vinnell Corporation did not pay property taxes for the WYJCC, it claimed unallowable sales and school taxes of \$13,582 as part of utility fees paid to the Kentucky Utilities Company during the period June 1, 1999 through June 30, 2000. Further review disclosed that Vinnell Corporation claimed unallowable sales and school taxes for the entire contract period March 1, 1998 through September 30, 2000, totaling \$34,111.

These taxes are not allowable Job Corps costs. WYJCC is owned by USDOL and is exempt from taxes under specific statutory prohibitions. Further, an official from the Kentucky Utilities Company indicated that had Vinnell Corporation requested tax-exempt status, these taxes would not have been included on its bills.

Recommendations

We recommend that the Assistant Secretary for Employment and Training recover the questioned tax payments of \$34,111 from Vinnell Corporation, and follow-up with the current operator to ensure it requested tax-exempt status and has not charged sales and school taxes to DOL contracts.

Vinnell Corporation's Response to Draft Report

The Chief Financial Officer of Vinnell Corporation responded to the draft report on March 5, 2003. He agreed with the finding and indicated these costs should not have been paid nor billed to USDOL.

Vinnell's response to the draft report has been incorporated in the report and is also included in its entirety as an appendix.

INTRODUCTION

BACKGROUND

Job Corps was established in 1964 and is presently authorized under Title I, Subtitle C of the Workforce Investment Act of 1998. The overall purpose of the program is to provide economically disadvantaged youth aged 16 to 24 with the opportunity to become more responsible, employable citizens. With annual funding of more than \$1 billion, Job Corps is the largest Federal youth employment and training program. Job Corps provides total support for participants including basic education and vocational classes; dental, medical and eye care; social skills training; meals; recreational activities; counseling; student leadership activities; and job placement services.

The Employment and Training Administration (ETA), awarded Contract Number 3-JC-843-42 in the amount of \$19,147,614 to Vinnell Corporation to operate the Whitney M. Young Job Corps Center (WYJCC) for the period March 1, 1998 through September 30, 2000.

The WYJCC is located on the former site of the Lincoln Institute, approximately 25 miles east of Louisville, Kentucky, and three-fourths of a mile west of Simpsonville, in Shelby County. The location is rural with four lakes, surrounding trees and open space totaling approximately 85 acres. The Center is utilizing 28 buildings.

AUDIT OBJECTIVE

The audit objective was to determine if Vinnell Corporation claimed and was reimbursed for property taxes or other inappropriate taxes charged to the WYJCC.

AUDIT SCOPE AND METHODOLOGY

We reviewed charges for utilities, fuel, rent, and maintenance, claimed under Job Corps Contract Number 3-JC-843-42, for the period June 1, 1999 through June 30, 2000, to determine if property taxes or other inappropriate taxes were included in the costs claimed for reimbursement.

We considered Vinnell Corporation's internal controls over the WYJCC operations through inquiries with appropriate personnel, inspection of relevant documentation, and observation of operations. Our purpose was to determine the nature and extent of testing needed to satisfy our audit objectives, not to provide assurances on the internal controls; therefore, we do not provide any such assurances.

For the period June 1, 1999 through June 30, 2000, Vinnell Corporation reported \$684,502 in utilities, fuel, rent and maintenance costs. We used random sampling techniques to sample expenses totaling \$201,156. Subsequently, we discovered the center operator was inconsistent in how it recorded utilities costs, in some cases recording for each building and individual meter; and other times combining different meters and associated buildings for one utility charge. In order to avoid possible duplications of costs and payments, we obtained and reviewed all of the costs claimed for utilities for the contract period March 1, 1998 through September 30, 2000, totaling \$452,972. We examined center operations expenses, general ledgers and supporting documentation including vouchers and invoices relating to utilities, fuel, rent and maintenance costs totaling \$600,153.

Compliance with laws, regulations, and contract provisions is the responsibility of Vinnell Corporation management. We performed tests of compliance with certain provisions of laws, regulations, and the contract to evaluate if the Vinnell Corporation was meeting the requirements of the contract. The audit was performed using criteria we considered relevant in evaluating the reasonableness, allowability and allocability of claimed expenses. Criteria included Title 20 of the Code of Federal Regulations, the Job Training Partnership Act, the Workforce Improvement Act, Circular A-122 of the Office of Management and Budget, and the Job Corps Policy and Requirements Handbook. Also, other requirements in the contract were used as criteria in evaluating the allowability of claimed expenses. However, our objective was not to provide an opinion on overall compliance with such provisions, and accordingly, we do not express such an opinion.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such tests as we considered necessary to satisfy the objective of the audit. We conducted fieldwork from January 28, 2002 to January 31, 2002, at Vinnell Corporation headquarters located in Fairfax, Virginia.

FINDING AND RECOMMENDATIONS

QUESTIONED COSTS - \$34,111

PAYMENT OF TAXES

Vinnell Corporation paid Kentucky Utilities Company, and was reimbursed by USDOL, \$452,972 of utilities costs for the operation of WYJCC from March 1998 through September 2000. The utilities costs included charges for sales taxes of \$23,036 and school taxes of \$11,075 as shown below:

| Calendar Year | <u>School Tax</u> | <u>Sales Tax</u> | <u>Total</u> |
|------------------|-------------------|------------------|-----------------|
| 1998 | \$ 3,447 | \$ 7,102 | \$10,549 |
| 1999 | 4,261 | 8,777 | 13,038 |
| 2000 | <u>3,367</u> | <u>7,157</u> | <u>10,524</u> |
| | <u>\$11,075</u> | <u>\$23,036</u> | <u>\$34,111</u> |

These taxes are not allowable Job Corps costs because WYJCC is owned by USDOL and is exempt from taxes under specific statutory prohibitions. The prohibitions are found in the Job Training Partnership Act, section 437(c) and is now in the Workforce Investment Act, section 158 (d), which states:

. . . Such an operator or service provider shall not be liable to any State or subdivision of a State to collect or pay any sales, excise, use, or similar tax imposed on the sale to or use by such operator or service provider of any property, service, or other item in connection with the operation of or provision of services to a Job Corps center.

Further, an official from the Kentucky Utilities Company indicated that had Vinnell Corporation requested tax-exempt status, these taxes would not have been included on its bills.

Recommendations

We recommend that the Assistant Secretary for Employment and Training recover questioned tax payments of \$34,111 from Vinnell Corporation, and follow-up with the current center operator to ensure it requested tax-exempt status and has not charged sales and school taxes to DOL contracts.

Vinnell Corporation's Response to Draft Report

The Chief Financial Officer of Vinnell Corporation responded to the draft report on March 5, 2003, and stated the following:

We concur with your findings that \$34,111 of sales and school tax was paid by Vinnell Corporation and billed to the Department of Labor. Since Vinnell was managing the Center on behalf of the U.S. Department of Labor, these costs should not have been paid nor billed to the DOL.

We will issue a credit of \$35,987.10 (which is the questioned costs plus the corresponding 5.5% G&A) to the Department of Labor on our next invoice. We will forward a copy to you when it is issued at the end of March.



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March 5, 2003

Richard H. Brooks
Regional Inspector General
U.S. Department of Labor
Office of Inspector General
201 Varick Street, Room 871
New York, NY 10014

Audit Report Number: 02-03-202-03-370

Mr. Brooks:

We have received your draft audit report for the Whitney M. Young Job Corps Center for the audit period of June 1, 1999 through June 30, 2000.

We concur with your findings that \$34,111 of sales and school tax was paid by Vinnell Corporation and billed to the Department of Labor. Since Vinnell was managing the Center on behalf of the U.S. Department of Labor, these costs should not have been paid nor billed to the DOL.

We will issue a credit of \$35,987.10 (which is the questioned costs plus the corresponding 5.5% G&A) to the Department of Labor on our next invoice. We will forward a copy to you when it is issued at the end of March.

Respectfully,

A handwritten signature in cursive script that reads "Brian Colan".

Brian Colan
Chief Financial Officer

BPC:pss
Enclosure

Cc: J. Romagnoli
J. Sharpe
E. Shedlick