November 28, 2003

MEMORANDUM FOR: EMILY STOVER DeROCCO
Assistant Secretary for
Employment and Training

Elliot P. Lewis

FROM: ELLIOT P. LEWIS
Assistant Inspector General
for Audit

SUBJECT: Complaint Involving the Whitney Young Job Corps Center,
Simpsonville, Kentucky
Report Number 04-04-007-03-370

The Office of Inspector General (OIG) has evaluated a complaint made against Education Management Corporation (EMC) through the OIG Hotline (Complaint Number 3C-03-370-0031). A former Center staff member made the complaint, alleging mismanagement and misappropriation of Job Corps funds by EMC employees. EMC has been the managing contractor of the Whitney Young Job Corps Center (Center), in Simpsonville, Kentucky, since October 2000. The time period covered by the complaint was July 1, 2001 to July 31, 2003.

Our objective was to determine if allegations discussed in the complaint were substantiated. We concluded that with the exception of an allegation involving lost property at the Center, the complainant's charges were not substantiated. Because the Employment and Training Administration (ETA) is taking appropriate corrective action on the property issue, we do not believe recommendations are required or that additional involvement by the OIG is necessary.

BACKGROUND

Job Corps is a national program that provides employment and training, primarily in a residential setting, to disadvantaged youth between the ages of 16 to 24. The U. S. Department of Labor (DOL) administers Job Corps. It was established by the Economic Opportunity Act of 1964, and is currently authorized under the Workforce Investment Act of 1998, Part 670, Title I. The objective of Job Corps is "to provide young people with the skills they need to obtain and hold a job, enter the Armed Forces, or enroll in advanced training or further education."

Effective October 1, 2000, EMC succeeded the Vinnell Corporation as the Center's operator. Considered a mid-size center, the Center has the capacity to accommodate approximately 400 residential students. The initial contract amount was $15.2 million for a two-year period, with three one-year options. According to EMC officials, Whitney Young is the first Job Corps center for which it has been the primary contractor. In the past, EMC provided services to other Job Corps centers as a subcontractor.

On May 29, 2002, a former employee made several allegations against officials at the Center and EMC. The Complaint alleged:

A. Student incentive funds may have been misused;
B. Incentive payments were made after students terminated from the program or while on unpaid leave;
C. Questionable downsizing of 30 employees;
D. Loss of $170,000 of property;
E. Furniture and equipment were not purchased as expected;
F. Excessive travel expenses were incurred for the acting vocational supervisor's stay in Louisville, KY;
G. Some students were forced to leave the program before completion in order to bring in other students;
H. Job Corps funds were used to impress a local congressman;
I. Inappropriate bonuses were paid to management but employees did not receive raises; and
J. EMC paid off someone in DOL.

OBJECTIVE

Our evaluation objective was to determine if the allegations discussed in the complaint against the EMC employees were substantiated.

SCOPE AND METHODOLOGY

Our evaluation focused on the allegations against the Center and EMC. We examined the Center's financial and expense reports, property lists, student status reports and DOL contracts/grants, for compliance with applicable laws and regulations from July 1, 2001 through July 31, 2003. We interviewed officials at the Center and EMC for relevant information. We also interviewed the complainant to gather additional information and to clarify information previously provided. We selected a judgmental sample of 11 of 82 former Center employees' files and reviewed their contents to determine whether there were any unusual circumstances related to their terminations from the Center. We also reviewed files of six students identified as receiving incentive pay after leaving the program or while on unpaid leave. We examined controls over financial disbursements and property. We conducted fieldwork from July 29, 2003 through August 15, 2003.

We conducted our evaluation in accordance with the Quality Standards for Inspections published by the President's Council for Integrity and Efficiency.

RESULTS OF EVALUATION

We found the allegations were not substantiated, with the exception of one allegation concerning missing property. However, as discussed later in this report, ETA has already addressed the property issue and we do not believe further OIG action is necessary.

During our initial interview, the complainant's recollections were vague on several of the allegations. The complainant agreed to research personal files and contact us with additional information. The complainant was given the opportunity to provide us this additional information, but repeated attempts to contact the complainant were unsuccessful and our calls were not returned.

Each allegation we reviewed and our conclusions are discussed below:

A. Student Incentive Funds May Have Been Misused: The complaint alleged that an incentive trip was not allowed. The complainant was upset that the Center's management had not approved a trip to an amusement park, and alleged funds may have been misappropriated by EMC.

   According to the Center Director, a variety of student incentives were allowed, such as funds given to students for trips to restaurants and shopping at local retailers; however, other incentives were not allowed due to lack of resources and other priorities. The complainant alleged that money might not have been available for use as incentives because unspecified misappropriation by the Center's management may have limited the funds available.

   The complainant could not provide further specifics, and our work found no evidence that misappropriation of incentive funds had occurred. Therefore, the allegation is not substantiated.

B. Incentive Payments Were Made After Students Terminated From The Program or While on Unpaid Leave: The complaint alleged that incentive payments were made to students after leaving the program or while on unpaid leave. Students who leave the Center are generally owed some monies as part of their termination package. The Data Center processes all terminated student payments and will issue a check, which is mailed to the student. Students at the Center must show a valid Whitney Young ID and sign to receive cash payments. When students are off Center (AWOL-absence without leave or on unpaid leave), they do not receive payment.

   We reviewed the files of six students the complainant identified as receiving incentive pay after leaving the program or while on unpaid leave. Based on our review of student files and other financial records, none of these students received any incentive payments to which they were not entitled. Therefore, the allegation is not substantiated.

C. Questionable Downsizing of 30 Employees: The complaint states that since EMC took over, the Center lost over 30 employees for no apparent reason. According to EMC officials, all of the Center's employees were placed on a 6-month probationary period when EMC took over operation of the Center on October 1, 2000. Employees were evaluated twice during the initial 6-month period. Employees who failed to meet their performance standards were terminated, while other employees chose to leave during the probationary period. EMC Standard Operating Procedures state that employees are free to resign at any time, and the company reserves the right to terminate employment at any time for any reason. Even the complainant stated that some employees chose to resign in lieu of being terminated by EMC. We judgmentally selected and reviewed 11 of 82 files of former Center employees and found no evidence that EMC improperly terminated employees or the employees resigned due to unusual circumstances. Therefore, the allegation is not substantiated.

   In addition, when EMC assumed control of the Center, it ranked 109th of 115, compared to other Job Corps centers around the United States, on established performance measures. According to the Center Director and another EMC official, changes in personnel were necessary to improve the Center's overall ranking. The official stated that getting better results was their primary objective at the time. According to Job Corps "Center Report Card by Rank (OMS-10R)," the Whitney Young center went from the low ranking of 109th in program year (PY) 2000 to 45th in PY 2002.

D. Loss of $170,000 of Property: The complaint alleged that EMC lost $170,000 of property and has tried to make the staff sign forms indicating they were responsible for the losses. According to the complainant, a memorandum was written by Center officials alleging that $170,000 of property was missing. However, the complainant was not able to provide us with a copy of the memorandum, nor did we find a copy of the memorandum at the Center. Based on interviews and review of relevant material, we found the Center's staff did not follow inventory control protocol during the transition from the previous center operator to EMC. Because there was a shortage in property management personnel, many properties were transferred without proper documentation. Properties that were no longer used were not secured and new property was given to staff without documentation in the Electronic Property Management System (EPMS).

   Prior to our fieldwork, ETA found that 270 items of Government owned property, valued at $80,154, were missing. ETA completed a separate review of property in October 2002. EMC was granted "*relief of accountability*" for 147 items valued at $49,304, in February 2003, by the DOL Contracting Officer. These items were purchased in 1996 and 1997 and were considered to be in scrap condition or excess. EMC was held liable for the remaining 123 items with an acquisition value of $30,850.

Under the agreement, EMC was required to purchase replacement items for the missing property. ETA officials provided us an inventory of items EMC purchased as replacements. ETA agreed to the list and on September 26, 2003, conducted an on-site visit to confirm the items had been purchased and were in the Center's inventory. The ETA Contracting Officer expects to close the issue soon.

Regarding property control weaknesses, ETA reported a monitoring visit was conducted in June 2003. The monitoring report described a "vast improvement" in property accountability since the last regional assessment in October 2002.

Concerning the allegation that staff were pressured into signing statements admitting responsibility for the lost property, none of the staff we interviewed who were present during PY 2001 and PY 2002 recalled being forced to sign for lost inventory.

Since ETA has already addressed the property issues and we believe their review of the issue and the corrective action they are taking are adequate, no further OIG action is planned.

E. Furniture and Equipment Were Not Purchased As Expected: The complaint alleged the Center's staff was asked to a make a list of furniture and equipment needed to support their programs. According to the complainant, although funds were available, Center staffers did not receive the furniture or equipment they had expected. According to an EMC official, all staff members are asked each year to provide a "wish list" of items they need or would like to have. The EMC official emphasized that this is only a "wish list" and is subject to the availability of funds and other priorities.

We reviewed property records and determined EMC made several purchases of property and equipment. In fact, many purchased items were those requested by the complainant, although they were purchased in a subsequent period.

F. Excessive Travel Expenses Were Incurred for the Acting Vocational Supervisor's Stay in Louisville, Kentucky: The Complainant alleged that EMC incurred excessive cost for the Acting Vocational Supervisor's travel expenses in Louisville, Kentucky. The Complainant believed that Center funds were used to pay for the cost of travel.

Travel expenses related to the trips were $7,976. We found the Acting Supervisor is a corporate employee who temporarily stayed in Louisville while serving in that capacity. According to EMC officials, the Acting Supervisor stayed at EMC's corporate apartment during this period and the corporate credit card was used to pay for other incidental travel expenses. EMC officials stated that corporate travel costs related to technical support or even acting in a temporary capacity were classified as "unrecoverable costs" which are absorbed by the corporation.

We reviewed EMC's expenditure reports related to the travel. In addition, we obtained a signed certification from EMC's Vice President of Finance and Administration that the expenses related to the trips were charged to corporate expenses, and not directly or indirectly to the Job Corps Center accounts. The individual was already on travel orders at the Center to provide technical support and was later given the position of Acting Vocational Supervisor. Consequently, this allegation is not substantiated.

G. Some Students Were Forced to Leave the Program Before Completion In Order to Bring In Other Students: The complaint alleged that students were pushed through the system before completing the vocational program so that management could bring in other students. According to the Center Director (subsequent to the complaint), administrators periodically terminate students prior to completing the program because of disciplinary problems.

The Center's "Termination List" contains 679 students who were terminated from the program between June 1, 2001 and August 15, 2003. Of that number, 651 students graduated and 28 (4 percent) students failed to complete the vocational requirements, due to personal or disciplinary reasons.

Our review of 14 files of students (names obtained from the complainant) who were terminated from the Center showed only 2 students were terminated for disciplinary reasons and did not complete the program. Nine of the 14 students had jobs with income ranging from $6.00 to $8.25 per hour. Five of the 14 students had no income reported, but had occupation titles and GED or high school diplomas. We found no evidence to indicate students were forced to leave the Center for other than disciplinary reasons before completing the program. Therefore, the allegation is not substantiated.

H. Job Corps Funds Were Used to Impress a Local Congressman: The complaint alleged that the Center spent Job Corps funds to impress a local Congressman when the funds could have been used for incentives. On May 29, 2002, the Center and EMC sponsored a "Round Table Partnership Meeting" with a host of local community leaders. Based on the agenda, the event's primary purpose was a presentation of the Center's accomplishments.

According to the Center Director, the Center is allowed to sponsor or host community outreach events. The contract between EMC and DOL prohibits center funds to be used for Religious and Political Activity, but it does allow for Community Relationships and Public Education. The contract also requires the contractor to "establish a community relations program . . . [to] promote positive public awareness about the Job Corps program and will ensure that the center is an active partner with the local community and the State's workforce investment system."

Based on the agenda, the event met the definition of community relations and public education. The event lasted about 4 hours (11am to 3pm) with only 15 minutes set aside for the Congressman to receive an "Honorary Award." Also, according to an EMC official, other community leaders received similar awards.

According to the Center Director and EMC officials, the cost of the event was shared by EMC and the Center, with most of the cost absorbed by EMC.

We also contacted the ETA's Project Manager for the Whitney Young Job Corps Center and asked if ETA considered such events allowable, under the contract. According to the Project Manager, such events are allowable and are encouraged. Consequently, the allegation is not substantiated.

I. Inappropriate Bonuses Were Paid to Management but Employees Did Not Receive Raises: The complaint alleged that $5,000 to $10,000 bonuses were paid to management. Based on information we obtained, a total of $5,000 was paid in bonuses to eight employees at the Center. Of the eight, three were management and the other five were staff employees. The amounts of the individual bonuses ranged from $500 to $1,000. Based on our review, the bonuses do not appear to be inappropriate.

The complainant alleged that staff members did not receive raises. An EMC official told us that it has been the company's policy for individual raises to be based on performance. According to EMC's records, several employees, including those at the Center, received a raise during EMC's first year as the Center's contractor. These individuals included both management and staff employees. Therefore, the allegation is unsubstantiated.

J. EMC Paid Off Someone in DOL: The complaint alleged that there were allegations the President of EMC paid off someone in DOL, and there was a write-up in the newspaper about it. When we asked for additional information related to this allegation, the complainant could not recall where this particular allegation originated. However, the complainant stated that the allegation was supposed to have been reported in the Louisville Courier Journal.

We interviewed contacts at the Courier Journal and the Shelbyville, Kentucky Sentinel-News (another local newspaper) who assisted us by researching their archives for any topics related to EMC and DOL. Their search found no information about an alleged payoff to DOL employees. We did not find credible information to continue our inquiry into this allegation. Therefore, this allegation is not substantiated.

CONCLUSION

With the exception of the property issue that had been addressed by ETA prior to our fieldwork, information we reviewed did not substantiate the allegations made by the complainant. Based on evaluation of available information, further OIG action or recommendations are not warranted.