

**WRITTEN TESTIMONY OF
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Subcommittee on Government Operations
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Good morning, Chairman Mica, Ranking Member Connolly, and Members of the Subcommittee. Thank you for the opportunity to discuss our April 2014 audit report that identified wasteful spending as a result of the misuse and mismanagement of prepaid debit cards and government travel cards in the Job Corps program. Our audit concluded that at least \$900,000 of government funds were misused or wasted because Job Corps lacked basic internal controls over prepaid debit cards and centrally billed government travel cards used to pay student travel expenses.

As you know, the Office of Inspector General (OIG) is an independent entity within the Department of Labor (DOL); therefore, the views expressed in my testimony are based on the findings and recommendations of the OIG and are not intended to reflect the Department's position.

Job Corps is the nation's only federally-operated residential training program for at-risk youth and young adults, and is a critical component of the Department's workforce development program. The Job Corps program provides residential and non-residential education, training, and support services to approximately 60,000 disadvantaged, at-risk youths, ages 16-24, at 125 Job Corps centers nationwide. The goal of this \$1.7 billion program is to offer an intensive intervention to this targeted population as a means to help them turn their lives around and prevent a lifetime of unemployment and dependence on social programs. Ensuring the effectiveness, efficiency and integrity of the Job Corps program is one of the major management challenges faced by the Department, and the OIG has focused significant audit efforts over the years towards identifying necessary improvements in the program.

Job Corps student travel costs more than \$20 million annually. Job Corps pays student travel expenses for initial visits, admissions, transfers from one center to another, summer and winter breaks, and the return home after a student graduates or otherwise leaves the program. Job Corps relies on centers to procure their own student travel arrangements for air, bus, rail, or charter service. These expenses are paid by the respective Job Corps centers via government travel cards, which are paid directly by Job Corps, or paid by the center operators, who in turn are reimbursed by Job Corps. Of Job Corps' 125 centers, 114 used the same commercial travel agency.

In April 2012, the travel agency notified Job Corps that a Miami center employee allegedly misused prepaid debit cards intended for student travel. Job Corps asked the travel agency to determine the extent of the alleged misuse and provide documentation of the improper transactions. The travel agency found transactions for a wide array of personal uses, such as hair salons, clothing stores, and online purchases from Amazon.com, T-Mobile.com, and movie ticket websites. Records showed the Miami center had ordered hundreds of cards since 2011, but relatively few were actually used for student travel.

In May 2012, the DOL's Employment and Training Administration referred these instances of alleged misuse to the OIG, and we conducted an audit to determine whether student travel expenses claimed by Job Corps' center operators were allowable and in accordance with applicable policies and requirements.

Prepaid Debit Cards

In May 2009, Job Corps began issuing prepaid debit cards to students, rather than cash, so the students could pay for checked baggage charges incurred during official travel. Job Corps later expanded the use of the cards to pay for meals while in transit.

During our audit, we reviewed 17,796 cards with a total value of \$662,870 issued at 104 of Job Corps' 125 centers from December 2009 through March 2013.

We analyzed the purchases made with each of the 17,796 cards to determine whether they complied with the Federal Travel Regulation (FTR), Department of Labor Manual Series (DLMS), and Job Corps' policy for allowable student travel expenses and spending limits. The FTR and DLMS require that agencies limit the authorization and payment of travel expenses to travel that is necessary to accomplish the agency's mission in the most economical and effective manner, giving consideration to budget constraints, adherence to travel policies, and reasonableness of expenses. Job Corps' student travel policy limits prepaid debit card use to baggage check fees and meals. Any purchases other than those for official travel are considered improper.

We found that 6,198 of the 17,796 cards, or approximately 35 percent, were misused to purchase items such as consumer electronics, clothing, wireless telephone service, and various online purchases totaling \$249,477. These improper purchases occurred at 98 of the 104 centers reviewed.

At the Miami center alone, 1,823 cards were misused to make improper purchases totaling \$96,784. The operator of the Miami center generally agreed with our results and terminated three center employees while two others resigned.

At the Muhlenberg Job Corps Center in Greenville, Kentucky, we identified 478 cards that were used to make improper purchases totaling \$16,331 during the period July 2011 through September 2012. Examples included clothing purchases at Kohl's and JC Penney department stores. The center operator agreed with our results, and after conducting its own review, terminated one employee who had misused almost 1,400 cards totaling approximately \$48,000 during the time she was employed at the Muhlenberg center.

At the Tongue Point Job Corps Center in Astoria, Oregon, we found 51 cards were used to make improper purchases totaling \$897. The center operator generally agreed with our results and determined that a center employee had misused cards for personal gain. The center operator terminated the employee.

Job Corps and most of the other centers where we found improper purchases acknowledged in response to our audit that prepaid debit cards had been used to make improper purchases. However, we could not always determine whether these improper purchases were made by students, center staff, or both, because the centers did not maintain adequate control over the receipt, inventory, and distribution of the cards.

Our audit also found that even if the prepaid debit cards were used properly, they were not a cost-effective means for paying allowable travel expenses.

Each prepaid debit card purchased by Job Corps ranged in value from \$10 to \$60, and cost \$6 in merchant fees, or up to 60 percent of the card's value. These fees could have been avoided if, for example, the centers used their government travel cards to prepay baggage check fees online and used restaurant meal cards or cash in lieu of the prepaid debit cards. We found that Job Corps paid \$106,776 in merchant fees to the travel agency for 17,796 prepaid debit cards purchased by centers during the period December 2009 to March 2013.

In addition, Job Corps prepaid the full value for the debit cards it purchased, regardless of whether the full value was eventually used. We identified 4,026 partially used prepaid debit cards with remaining balances totaling almost \$30,000. Completely unused cards could be returned to the travel agency for a refund of the full value, whereas a partially used card could not be refunded.

Finally, we found that four centers had excessive amounts of unused cards, which increased the risk of fraud and theft. These four centers collectively held 2,105 unused cards, totaling \$72,240¹.

This mismanagement and abuse of prepaid debit cards, and the resultant waste of government funds, occurred because Job Corps and its center operators lacked basic internal controls over the cards. Center operators did not maintain tracking logs, conduct independent reviews or reconciliations, ensure the volume of cards purchased aligned with actual needs, or periodically review card activity for proper use. Job Corps' national and regional offices did not place sufficient management emphasis on establishing processes for distributing and monitoring the cards to ensure expenses incurred were allowable, necessary and reasonable.

Government Travel Cards

Job Corps Centers use government travel cards to pay for student travel expenses other than those paid through the use of the prepaid debit cards or paid directly by the center operators. In program year 2011 (July 1, 2011 through June 30, 2012), Job Corps spent approximately \$21.2 million on student travel, including \$19 million via government travel cards.

In order to obtain government contracted airfares, centers were required to use a government travel card. However, these cards were often canceled or suspended for non-payment because Job Corps was not adequately monitoring and managing the payment of these accounts. When centers were unable to use their government travel card because it had been cancelled or suspended, they were forced to purchase commercial airfares, which were often as much as 50 percent or more above the government fare. In Job Corps' Boston, Chicago, and San Francisco regions, we found that centers' government travel cards were frequently suspended for delinquency or

¹ Clearfield Job Corps Center, Clearfield, Utah (\$35,660), Earle C. Clements Job Corps Center, Morganfield, Kentucky (\$17,120), Treasure Island Job Corps Center, San Francisco, California (\$10,150), and Frenchburg Job Corps Center, Frenchburg, Kentucky (\$9,310).

non-payment during October 2009 through April 2013, costing Job Corps at least \$500,000 as a result of using commercial instead of government airfares. The travel agency also charged Job Corps additional fees when it had to purchase travel using its own funds and then seek reimbursement from the Department.

Government travel card suspensions for the Boston region alone cost Job Corps at least \$415,758 – the cost savings lost from paying commercial airfares. The travel agency analyzed the impact these suspensions had on the Boston region from March 2010 to November 2011 and informed Job Corps of the lost cost savings in November 2011. The analysis showed Job Corps paid commercial airfares for 2,150 flight segments during this period, totaling \$723,758. According to the analysis, if the centers had been able to use their government travel cards and obtained the discounted government airfares, which averaged 57 percent less than the commercial fares for this period, Job Corps would have paid approximately \$308,000. Job Corps did not take any corrective action in response to the travel agency's analysis, and card suspensions and delinquent payments continued for more than a year until we raised concerns during our audit. According to Job Corps, there have been no suspensions or delinquent payments since April 2013.

Although the Job Corps centers use the government travel cards to procure travel, the Department is billed directly by Citibank. In response to our draft report, the Assistant Secretary for Employment and Training stated that the travel cards were suspended because payments had not been set up properly within the Department's accounting system. While we agree that the improper setup of payments in the accounting system may have contributed to the delinquent payment and card suspension problems, we believe management's inattention allowed this problem to continue for much longer than it should have.

In addition to travel cards being suspended, we found significant charges could not be supported with documentation to show that the costs were for Job Corps students and were for allowable travel. We statistically sampled 215 purchase transactions, totaling

\$624,491, or 2 percent of the \$31 million in student travel costs charged to the centers' government travel cards during July 1, 2011, through September 30, 2012. We questioned 48 of these purchases, totaling about \$40,000, because the centers did not have documentation supporting the costs were for students, did not have invoices or receipts supporting the claimed costs, or did not have documentation demonstrating the travel met Job Corps' requirements for chargeable travel. Based on these results, we estimated center operators may have incurred \$4.2 million of questionable travel costs during the period July 1, 2011, through September 30, 2012.

This mismanagement of Job Corps student travel costs occurred because Job Corps did not regularly review or monitor government travel card expenses to ensure expenses were prudent and allowable in accordance with the Federal Travel Regulation and departmental policy. Instead, Job Corps placed reliance on the centers to verify the reasonableness and allowability of their own expenses. Job Corps also did not require centers to establish and adhere to student travel budgets and utilize discounted government airfares whenever possible. Budgets are essential cost management tools and the budget review process could have helped prevent the wasteful spending on non-government airfares and merchant fees, as well as the unsupported government travel card expenses.

Audit Recommendations

As a result of our audit, we recommended that Job Corps require the centers to improve their internal controls to ensure student travel expenses are allowable, necessary, and prudent. Specifically, centers should review student travel expenses for compliance with the federal requirements, and maintain adequate supporting evidence (e.g., receipts).

We also recommended that Job Corps improve its own management processes and oversight for student travel by establishing budgets for each center and ensuring adherence to established spending limits, and regularly reviewing expenses claimed by centers for compliance with federal requirements. Finally, we recommended that Job

Corps determine why its centers' government travel card accounts were suspended and take corrective action to ensure bills are paid timely, and collect \$289,224 in questioned costs from the applicable center operators.

In response to our audit, the Department stated that it has taken steps to address the issues identified in our report, and will take additional actions to improve the oversight of Job Corps student travel. In particular, the Department stated it eliminated the use of prepaid debit cards at all centers. The Department indicated that all corrective actions are expected to be completed by December 2014.

Finally, the Department stated it will conduct its own review of travel card misuse for the questionable items noted in our report, and will pursue collection of questioned costs to the maximum extent feasible.

In conclusion, it is important that Job Corps ensure that all of its funds are spent efficiently and effectively in support of the program. Although travel is not the largest of Job Corps' costs, the results of this audit demonstrate that Job Corps can do more to ensure its travel funds are spent wisely. As with all of our reports, we will follow-up on the Department's actions in response to our recommendations.

Thank you for the opportunity to testify today. I would be pleased to answer any questions that you or any Members of the subcommittee may have.



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Elliot Lewis is the Assistant Inspector General for Audit of the Office of Inspector General, U.S. Department of Labor. As the Assistant Inspector General for Audit, Elliot is responsible for and provides overall leadership to the Office of Audit. He is responsible for all audits within the Department of Labor including all financial, compliance and performance audits in the 11 program offices with missions that include providing employment and training services, unemployment compensation, workers' compensation, workplace safety standards and oversight, mine safety standards and oversight, as well as many other services to protect the American workers. Prior to his appointment as AIGA, he served as the Deputy Assistant Inspector General for Audit.

Mr. Lewis joined the U.S. Department of Labor in 1991 as an Assistant Director of the Office of Financial Management Audits. He was promoted to the position of Director, Office of Financial Management Audits in 1996. In 2000, Mr. Lewis became the Director, Office of Audit Operations. Before joining the Department of Labor, Elliot was a partner with T. R. McConnell & Company, CPAs, in Columbia, South Carolina, from 1986 to 1991.

Mr. Lewis is a Certified Public Accountant in the State of South Carolina, a member of the American Institute of Certified Public Accountants, the Association of Government Accountants, and a past member of the AICPA's Governmental Technical Standards Subcommittee. He has an undergraduate degree in accounting from the University of South Carolina in 1978.