

U.S. Department of Labor

Office of Inspector General—Office of Audit

OFFICE OF JOB CORPS



**AUDIT OF JOB CORPS
STUDENT PAY ALLOTMENT AND
MANAGEMENT INFORMATION SYSTEM
FOR THE 2 YEARS ENDED
SEPTEMBER 30, 2005**

Date Issued: September 29, 2006
Report Number: 03-06-003-01-370

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

BRIEFLY...

Highlights of Report Number: **03-06-003-01-370**, a report to the Administrator of Job Corps.

WHY READ THE REPORT

The U.S. Department of Labor (DOL), Office of Inspector General (OIG) conducted a performance audit of the Job Corps Student Pay Allotment and Management Information System (SPAMIS) activity and results for the period October 1, 2003, through September 30, 2005. Job Corps, a DOL youth training program, uses SPAMIS to process payments to Job Corps' students. SPAMIS' operating expenses totaled \$93.9 million in FY 2004 and \$91.5 million in FY 2005. Over 90 percent of SPAMIS payments are for Living Allowances paid to students during their enrollment at the Job Corps Centers and Transition Allowance payments paid to students when they complete or terminate the Job Corps program.

WHY OIG CONDUCTED THE AUDIT

The OIG conducted the audit to determine the following:

1. Were the SPAMIS Statements of Position as of March 31, 2004, and March 31, 2005, and the corresponding Statement of Operations reports for the 6 months then ended, supported by the general ledger and student data, and were the Fiscal Years 2004 and 2005 ending account balances within expected tolerances?
2. Were internal controls over SPAMIS financial operations adequate?
3. Is Job Corps effectively managing unclaimed student Living and Transition Allowance checks?

READ THE FULL REPORT

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

<http://www.oig.dol.gov/public/reports/oa/2006/03-06-003-01-370>

September 2006

Audit of Job Corps Student Pay Allotment and Management Information System for the 2 Years Ended September 30, 2005

WHAT OIG FOUND

We found that:

1. The SPAMIS Statements of Position as of March 31, 2004, and March 31, 2005, and the related Statement of Operations reports for the 6 months then ended, were generally supported by the general ledger and student data, and the Fiscal Year 2004 and 2005 ending balances were within expected tolerances.
2. Overall, the controls over SPAMIS financial operations were adequate; however, we identified weaknesses that require management attention.
3. During the 2-year period ending September 30, 2005, Job Corps took action to more effectively manage the significant number of unclaimed living and allowance checks. However, Job Corps has not determined if state escheat laws apply to these unclaimed checks.

WHAT OIG RECOMMENDED

We recommended that the Administrator of Job Corps:

1. Use the monthly Job Corps Data Center Reports to identify trends and variances to help manage the program effectively and efficiently.
2. Provide for the necessary review and authorization of financial documents.
3. Monitor the accounting for bank charges.
4. Provide for segregation of duties for payroll tax payments and IRS correspondence.
5. Request a Legal Opinion regarding whether Job Corps is required to escheat the unclaimed student property (living and transition allowance payments) to the states.
6. Rerun a report for the checks remaining unclaimed from the initial 120,633 mailings and prepare a second mailing.

Job Corps agreed with the findings and recommendations.

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Executive Summary

The U.S. Department of Labor (DOL), Office of Inspector General (OIG) conducted a performance audit of the Job Corps Student Pay Allotment and Management Information System (SPAMIS) activity and results for the period October 1, 2003, through September 30, 2005. The audit covered financial performance and internal controls of SPAMIS accounts for Fiscal Years (FYs) 2004 and 2005. Job Corps, a DOL youth training program administered by the Office of Job Corps, uses SPAMIS to process payments to Job Corps' students. Over 90 percent of SPAMIS payments are for Living Allowances to students during enrollment at the Job Corps Centers and Transition Allowance payments given to students when they complete or terminate the Job Corps program. The Job Corps Data Center (JCDC), located in Austin, Texas, is responsible for managing SPAMIS. The JCDC is a government-owned contractor-operated facility. RS Information Systems Inc. (RSIS) operates the JCDC under the JCDC services contract with the Office of Job Corps.

Our audit objectives were to determine the following:

1. Were the SPAMIS Statements of Position as of March 31, 2004, and March 31, 2005, and the corresponding Statement of Operations reports for the 6 months then ended, supported by the general ledger and student data, and were the Fiscal Year 2004 and 2005 ending account balances within expected tolerances?
2. Were internal controls over SPAMIS financial operations adequate?
3. Is Job Corps effectively managing unclaimed student Living and Transition Allowance checks?

Results

We found that:

1. The SPAMIS Statements of Position as of March 31, 2004, and March 31, 2005, and the related Statements of Operations for the 6 months then ended, were generally supported by the general ledger and student data, and the Fiscal Year 2004 and 2005 ending balances were within expected tolerances.
2. Overall, the controls over SPAMIS financial operations were adequate; however, we identified five weaknesses in controls requiring management attention:
 - Job Corps' management did not fully utilize monthly SPAMIS reports.

- Accounting and financial documents did not have the proper review or authorization.
- The contractor incorrectly accounted for bank charges.
- The contractor's accountant was responsible for payroll tax review and was also listed as the IRS third party designee, resulting in a segregation of duties concern.
- The Job Corps Program Payroll Reports contained negative Federal income tax withholding for students paid.

These conditions occurred because either Job Corps management did not establish policies and procedures for its staff to follow, or the JCDC services contract did not contain the necessary procedures to be followed by the contractor. Further, contractor-established policies and procedures were incomplete or at times disregarded. These internal control weaknesses could result in funding shortfalls, inaccurate reporting, and the inability to detect fraud and/or erroneous payments. Additionally, financial information to evaluate the Job Corps Program's strengths and weaknesses and to detect immediate and long-term trends remains unused.

3. During the 2 year period ending September 30, 2005, Job Corps took action to more effectively manage the significant number of unclaimed living and allowance checks by reducing the unclaimed checks account balance by \$1.7 million. However, Job Corps has not determined if state escheat laws apply to these unclaimed checks.

Recommendations

We recommend that the National Director of Job Corps develop policies and procedures to enable the Job Corps staff and the Job Corps Data Center contractor to:

1. Use the monthly JCDC Reports to identify trends and variances to help manage the program effectively and efficiently.
2. Provide for the necessary review and authorization of financial documents.
3. Monitor the accounting for bank charges.
4. Provide for segregation of duties for payroll tax payments and IRS correspondence.

We also recommended that the National Director of Job Corps:

5. Request a Legal Opinion regarding whether Job Corps is required to escheat the unclaimed student property (living and transition allowance payments) to the states.

6. Rerun a report for the checks remaining unclaimed from the initial 120,633 mailings and prepare a second mailing.

Agency Response

The National Director of Job Corps' response to the draft report stated that Job Corps has taken corrective actions on Recommendations 1, 2, 3, 4, and 6, and agreed to take the corrective action on recommendation 5. The response is included in its entirety at Appendix D.

OIG Conclusion

Based on Job Corps' planned and completed actions, all six recommendations are resolved and will be closed when we verify that the corrective action was implemented.

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U.S. Department of Labor

Office of Inspector General
Washington, DC 20210



Assistant Inspector General's Report

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

We conducted a performance audit of the Job Corps' Student Pay Allotment and Management Information System (SPAMIS) activity and results for the period October 1, 2003, through September 30, 2005.

Our audit objectives were to determine the following:

1. Were the SPAMIS' Statements of Position as of March 31, 2004, and March 31, 2005, and the corresponding Statement of Operations reports for the 6 months then ended, supported by the general ledger and student data, and were the Fiscal Year 2004 and 2005, ending account balances within expected tolerances?
2. Were internal controls over SPAMIS' financial operations adequate?
3. Is Job Corps effectively managing unclaimed student Living and Transition Allowance checks?

We conducted the audit in accordance with Generally Accepted Government Auditing Standards for performance audits. Our audit objectives, scope, methodology, and criteria are detailed in Appendix B.

Objective 1 – Were the SPAMIS’ Statements of Position as of March 31, 2004, and March 31, 2005, and the Corresponding Statement of Operations Reports for the 6 months Then Ended, Supported by the General Ledger and Student Data, and Were the Fiscal Year 2004 and 2005 Ending Account Balances within Expected Tolerances?

Results

The Statements of Position as of March 31, 2004, and March 31, 2005, and the Corresponding Statement of Operations Reports for the 6 months Then Ended, Were Supported by the General Ledger and Student Data, and the FY 2004 and 2005, Ending Account Balances Were within Expected Tolerances.

The Job Corps Data Center (JCDC) produces two monthly reports - the Statement of Position and Statement of Operations. The Statement of Position reports year-end assets and liabilities. The assets include cash receivables and prepaid allotments. The liabilities include:

- Income Tax
- Social Security and Medicare Payables
- Unclaimed Pay
- Money Due to Centers
- Transition Allowance Liability
- Accrued Payroll
- Unclaimed Checks
- Line of Credit

The Statement of Operations provides a summary of Revenue and Expenses. Revenue includes operating revenue and miscellaneous student revenue. Expenses include:

- Living and Transition Allowances
- Various Bonuses¹
- Government Share of Taxes
- Taxable Transportation
- Clothing Allowances
- Allowance for Non-Reimbursable Charges
- DOL Mandated Checks

To accomplish our audit of the Statement of Position and the Statement of Operation, we traced the payroll data from SPAMIS files to the Job Corps Program Statements. We found that the Statements of Position as of March 31, 2004, and March 31, 2005,

¹ These represent grandfathered General Educational Development (GED) bonuses that Job Corps started phasing out of the program in 2001 and survey bonuses that remain currently in effect.

and the Statement of Operations reports for the 6 months then ended, were supported by the general ledger.

The student Living Allowance and Transition Allowance accounts represented 90 percent of the SPAMIS' program expenses. Therefore, we conducted a dual purpose test for the center level audits to determine if the expenses were accurately stated. The periods covered were from October 1, 2003, through March 31, 2004, and October 1, 2004, through March 31, 2005. The dual purpose testing consisted of a two stage statistical sample. From over 90 centers operating under DOL contracts, we randomly selected 12 centers. For FY 2004, we randomly selected 319 students for the testing of Living Allowance payments and 365 students for the testing of Transition Allowance payments. For FY 2005, we randomly selected 320 students for the testing of Living Allowance payments and 355 students for the testing of Transition Allowance payments.

The following are the results of the testing.

FY 2004

- For the random sample of 319 students who received Living Allowance payments totaling \$88,841, we are 95 percent confident there was no more than a \$22,438 understatement of living allowance expenses. From October 1, 2003, through March 31, 2004, the 90 centers in our universe made 615,130 living allowance payments to 65,191 students totaling \$18,476,475. We concluded that the living allowance errors we found were not material to the universe.
- For the random sample of 365 students who received Transition allowance payments totaling \$248,350, we found no errors. From October 1, 2003, through March 31, 2004, the 90 centers in our universe made 15,925 transition allowance payments to 15,795 students totaling \$16,791,500.

FY 2005

- For the random sample of 320 students who received Living Allowance payments totaling \$97,997, we are 95 percent confident there was no more than a \$31,390 understatement for living allowance expenses. From October 1, 2004, through March 31, 2005, over 90 centers in our universe made 605,932 Living Allowance payments to 64,226 students totaling \$18,302,324. We concluded that these living allowance errors were not material to the universe.
- For the random sample of 355 students who received Transition allowance payments totaling \$385,350, we are 95 percent confident there was no more than a \$37,659 understatement for Transition Allowance expenses. From October 1, 2004, through March 31, 2005, over 90 centers in our universe made 15,729 transition allowance payments to 15,565 students totaling \$16,592,745. We are 95 percent confident there was no more than a \$37,659 understatement for living allowance expenses. We concluded that these transition allowance errors were not material to the universe.

We also performed other tests on the remaining significant account balances reported in each statement as of March 31, 2004, and March 31, 2005, and concluded that student data supported the general ledger.

Finally, we performed an analytical review of account balances for the periods April 1 through September 30, 2004, and April 1 through September 30, 2005. All line item account balances were included and the variances were within expected tolerances. Overall, the FY end account balances were within expected tolerances.

Objective 2 - Were Internal Controls over SPAMIS Financial Operations Adequate?

Results

Overall, the Controls over SPAMIS Financial Operations Were Adequate; However, We Identified Five Weaknesses in Controls Requiring Management Attention.

The weaknesses noted were:

- Job Corps management did not fully utilize monthly SPAMIS reports.
- Accounting and financial documents did not have the proper review or authorization.
- The contractor incorrectly accounted for bank charges.
- The contractor's accountant was responsible for payroll tax review and was also listed as the IRS third party designee, resulting in a segregation of duties concern.
- The Job Corps Program Payroll Reports contained negative Federal Income Tax withholding for students paid.

These conditions occurred because either Job Corps management did not establish policies and procedures for its staff to follow or the contract did not contain the necessary procedures to be followed by the contractor. Further, contractor established policies and procedures were incomplete or at times disregarded. These internal control weaknesses could result in funding shortfalls, inaccurate reporting, and the inability to detect fraud and/or erroneous payments. Additionally, financial information to evaluate the Job Corps Program's strengths and weaknesses and to detect immediate and long-term trends remains unused.

The Government Accountability Office (GAO) Standards for Internal Control in the Federal Government, Information and Communications, states:

Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud ... Internal control helps government program managers achieve desired results through effective stewardship of public resources.

The following provides details on each of the weaknesses we found.

Job Corps Management Did Not Fully Utilize Monthly SPAMIS Reports

GAO Standards for Internal Control in the Federal Government, Information and Communications, states:

For an entity to run and control its operations, it must have relevant, reliable and timely communications relating to internal as well as external events. Information is needed throughout the agency to achieve all of its objectives. Program managers need both operational and financial data to determine whether they are meeting their agencies' strategic and annual performance plans and meeting their goals for accountability for effective and efficient use of resources. Financial information is needed for both external and internal uses. It is required to develop statements for periodic external reporting, and, on a day-to-day basis, to make operating decisions, monitor performance, and allocate resources.

RSIS prepared the monthly SPAMIS Statement of Position and Statement of Operations Reports. Job Corps management said they and RSIS used the reports to perform various financial reviews and trend analyses. Despite Job Corps management's assertions, we found no written evidence that they or RSIS reviewed the reports in order to: take action if program expenses exceed the budgeted funds; detect fraud and/or erroneous payments; or perform trend analysis to request timely budget modifications.

Accounting and Financial Documents Did Not Have the Proper Review or Authorization

Review of the detail and summary accounting and financial documents provided by the contractor disclosed that some documents did not have documentation to show they were reviewed or authorized. The JCDC services contract did not specifically require these reviews and authorizations. As a result, there was an increased risk that erroneous or fraudulent accounting transactions could occur, and if undetected could undermine the integrity of the reports produced by the JCDC.

According to the contract, the contractor was responsible for all payroll functions, general ledger postings, reconciliations and tax payments and filings. The RSIS/JCDC Accounting and Procedures Manual dated March 31, 2004, drafted by the contractor, contained procedures addressing which documents needed contractor reviews. However, the procedures contained in the contract and the RSIS/JCDC Accounting and Procedures Manual did not specify the officials responsible for conducting the reviews.

We reviewed the accounting and financial documents processed by the JCDC on a regular basis, such as the Electronic Federal Tax Payment System (EFTPS) direct payment worksheets, and Draws/Authorization sheets. We observed instances where these documents were not reviewed or authorized.

The written procedures provided by the contractor were unclear as to who should review and authorize the EFTPS and Draws/Authorization worksheets. Subsequent to our notifying Job Corps management officials of this weakness, they told us controls will be developed so that it is clear as to which contractor staff is responsible for reviewing and authorizing the EFTPS and the Draws/Authorization worksheets. These reviews began to take place as of October 21, 2004. The contract needs to be modified to specify the individuals responsible for reviewing and authorizing these documents. Also, the contractor needs to revise its RSIS/JCDC Accounting and Procedures to incorporate the contractual requirements into its manual to provide for the necessary review and authorization of financial documents.

The Contractor Incorrectly Accounted For Bank Charges

The contractor reported \$110,327 in bank charges for bank analyses service charges and business banking note interest payments to the incorrect general ledger accounts on the Statement of Position. The contractor should have directly invoiced the bank charges to the DOL for reimbursement and not reported them on the SPAMIS Statements. Because the contractor did not comply with the terms of the contract, the amount for the Bank Exception Account was overstated. Job Corps needs to establish policies and procedures to monitor the contractor's bank charges.

In July 2004, the contractor corrected the error by depositing the amount into the Main Bank Account. The contractor then corrected the charges to the Main Bank Account.

The Contractor's Accountant Was Responsible For Payroll Tax Review and Was Also Listed as the IRS Third Party Designee, Resulting in a Segregation of Duties Concern

The GAO internal control standard on segregation of duties states:

Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud ... No one individual should control all key aspects of a transaction or event.

The lack of segregation of duties situation existed because the contractor's accountant, who was responsible for preparing the bank reconciliations and reports and reviewing the tax liability for the JCDC payroll taxes, was also the third party designee to discuss payroll tax matters with the IRS. The Job Corps and contractor managers were not aware that controls to ensure an adequate segregation of duties for these responsibilities was needed. The existing process could present the contractor an opportunity to conceal tax underpayments. Further, in any payroll tax matters involving

discussions with the IRS, the JCDC Contracting Officer's Technical Representative should be involved.

The Job Corps Program Payroll Reports Contained Negative Federal Income Tax Withholding for Students Paid

The contract states: "The Contractor shall be responsible for all aspects of the pay function including, but not limited to bi-weekly pay processing and distribution, allotment processing and mailing, tax payment and reporting, producing and distributing W-2's, General ledger reporting and reconciliation, preparing and monitoring Electronic Funds Transfers (EFT), printing and mailing all checks, reconciling the check register and preparing all statuses to the Office of Job Corps."

Our audit of the SPAMIS Post Termination Tax Reports for the period October 1, 2004, to March 31, 2005, identified \$2,272.50 in negative Federal income tax withholding. Because the system was generating negative tax withholding, students were being overpaid and additional funds were being drawn down to pay students.

According to the contractor, certain tax rules, built into the system, trigger calculation of taxes during each bonus payroll run. JCDC corrected the system problem and we found no other incidents of negative income tax withholding.

Recommendations

We recommend that the National Director of the Office of Job Corps develop policies and procedures to enable the Job Corps staff and the Job Corps Data Center contractor to:

1. Use the monthly JCDC Reports to identify trends and variances to help manage the program effectively and efficiently.
2. Provide for the necessary review and authorization of financial documents.
3. Monitor the accounting for bank charges.
4. Provide for segregation of duties for payroll tax payments and IRS correspondence.

Agency Response

The Job Corps Administrator responded that they took the following corrective actions:

1. Added a comparative statement of operations to the financial package. Management reviews the statements, uses the variance analysis to identify differences, and follows up with additional investigation when warranted.
2. Ensured EFTPS and the Draws/Authorization worksheet reviews are performed regularly and that the Job Corps Accounting Procedures includes that the EFTPS

Tax Payments are Draws be prepared by the Payroll supervisor and approved and documented by the Compliance Manager prior to payroll or tax-related action being taken.

3. Corrected the bank posting error in July 2004 and the line of credit statements are reviewed as part of the month end closing process.
4. Implemented segregation of duties for the payroll tax payments and IRS correspondence.

OIG Conclusion

The recommendations are resolved and will be closed when we verify that the corrective actions have been implemented.

Objective 3 - Is Job Corps Effectively Managing Unclaimed Student Living and Transition Allowance Checks?

Results

During the 2-Year Period Ending September 30, 2005, Job Corps Took Action to More Effectively Manage the Significant Number of Unclaimed Living and Allowance Checks by Reducing the Unclaimed Checks Account Balance by \$1.7 Million but Job Corps Has Not Determined If States Escheatment Laws Apply to These Unclaimed Checks

Job Corps living and transition allowance checks mailed to Job Corps students were often returned to the JCDC because the postal service was not able to deliver the checks to the students. These checks represented amounts owed to Job Corps students for allowances earned during the course of their participation in Job Corps. As of September 30, 2003, the balance of the unclaimed and outstanding allowances was \$9,592,895.28. As of September 30, 2005, the balance had been reduced to \$7,883,316.22, a decrease of \$1,709,579.06 over the 2-year period.

The reduction of \$1.7 million in the Unclaimed Pay-Unclaimed Checks Account was a result of actions taken by Job Corps management. Beginning in August 2004, the JCDC mailed out letters to every former Job Corps student who had an unclaimed check within the past 7 years. As a result of this effort, the JCDC reissued \$1,994,993.58 in student living and transition allowance checks during the period September 1, 2004, through March 31, 2005.

Additionally the JCDC planned to do the following:

- Reissue letters to students whose letters were returned because the mailing address was incorrect, using alternative primary and secondary addresses on record.

- Send out a second round of center, regional and Career Transition Services (CTS) notifications.

Every state requires employers to turn over unclaimed property to their respective state. For example, in one state, property that is unclaimed for 3 years is presumed abandoned and must be remitted to the state. Job Corps managers and the contractor said that they had not previously considered the issue of states' escheat requirements and, therefore, had not sought the advice of counsel. Job Corps has a significant amount of unclaimed checks in storage that are over 7 years old. Job Corps could owe the states the value of the unclaimed checks as determined by each state's escheat laws. Job Corps needs to determine if state escheat laws apply to the unclaimed pay and take appropriate action.

Recommendations

We recommend that the National Director of the Office of Job Corps:

5. Request a Legal Opinion regarding whether Job Corps is required to escheat the unclaimed student property (living and transition allowance payments) to the states.
6. Rerun a report for the checks remaining unclaimed from the initial 120,633 mailings and prepare a second mailing.

Agency Response

The National Director of Job Corps responded that Job Corps will request a legal opinion from the DOL Office of the Solicitor concerning the escheat of unclaimed student living and transition allowance payments. The National Director of Job Corps responded that Job Corps has performed the second mailing and they are now performing mailings on a monthly basis.

OIG Conclusion

Recommendation 5 is resolved and will be closed when Job Corps provides us a copy of the request to the Officer of the Solicitor for a Legal Opinion concerning the escheat of the unclaimed student living and transition allowance payments. Recommendation 6 is resolved and will be closed when we verify that the corrective actions have been implemented.



Elliot P. Lewis
October 13, 2005

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Exhibits

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EXHIBIT A

**SPAMIS
Statement of Operations Reports**

Account Descriptions	FY 2004	Percent of Total	FY 2005	Percent of Total
REVENUE				
Operating Revenue	\$92,954,804.76	99.0	\$90,650,434.06	99.0
Miscellaneous Student Revenue	961,976.00	1.0	841,978.78	1.0
Total Revenue	93,916,780.76	100.0	91,492,412.84	100.0
OPERATING EXPENSES				
Living Allowance	42,739,123.31	46.0	41,998,106.52	46.0
Transition Allowance	41,810,151.14	45.0	40,206,792.62	44.0
Vocational Bonuses	22,250.00	.0	.00	.0
GED Bonus	2,750.00	.0	.00	.0
Survey Bonus	891,200.00	1.0	1,064,730.00	1.0
Government Share of Taxes	6,468,588.08	7.0	6,567,062.17	7.0
Government Share of Allotments ²	1,969,287.15	2.0	1,650,635.40	2.0
Taxable Transportation	10,858,588.42	11.0	10,037,455.56	11.0
Clothing Allowance	6,007,921.65	6.0	5,218,204.21	6.0
Allowances for Non Reimbursable Charges ³	(16,866,510.07)	(18.0)	(15,256,389.27)	(17.0)
DOL Mandated Checks	13,431.08		5,815.63	.0
Total Operating Expenses	\$93,916,780.76	100.0	\$91,492,412.84	100.0
Net Income from Operations	.00		.00	
Other Income and Expenses	.00		.00	
Total Other Income and Expense	.00		.00	
Earnings Before Income Tax	.00		.00	
NET INCOME (Loss)	.00		.00	

² Students who have children or other dependents are eligible for allotments to help defray the costs of dependent care.

³ This account represents clothing allowance and taxable transportation that are non-reimbursable to the JCDC

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**SPAMIS
Statement of Position Reports**

Account Descriptions	Balances as of September 30, 2004		Balances as of September 30, 2005	
ASSETS				
Cash				
Main Bank ⁴ Account	(\$2,720,190.28)		(\$1,904,500.72)	
Holding Acct – Cash at Centers			2,080.04	
Total Cash		(\$2,720,190.28)		(\$1,902,420.68)
Receivables				
Due from Students	1,986,063.74		1,254,748.98	
Advance to Centers –Payroll	408,909.32		194,332.65	
Due from DOL – Unclaimed Checks	9,269,385.38		7,883,316.22	
Due from DOL- Tax Payments	240,887.87		141,519.18	
Due from DOL ⁵	19,975,901.72		17,909,174.03	
Prepaid Allotments	6,230.45		37,267.35	
Total Receivables		31,887,378.48		27,420,358.41
Total Assets		29,167,188.20		25,517,937.73
LIABILITIES & EQUITY				
Liabilities				
Income Tax Payable	1,408.09		0.00	
Social Security Payable	194,088.18		114,695.28	
Medicare Payable	45,391.60		26,823.90	
Unclaimed Pay – Centers	351,207.53		203,528.84	
Due to Centers	741,215.95		548,703.15	
Transition Allowance Liability	16,416,221.73		14,499,580.87	
Accrued Payroll	1,621,847.67		1,991,443.07	
Unclaimed Pay – Unclaimed Checks	9,269,385.38		7,883,316.22	
Line of Credit – Chase	\$526,422.07		\$249,846.40	
Total Liabilities		29,167,188.20		25,517,937.73
Equity		0.00		0.00
Total Liabilities & Equity		29,167,188.20		\$25,517,937.73

⁴ The normal balance is a credit balance due to checks that are issued and are outstanding and the monies to cover them has not been drawn down from DOL yet.

⁵ This is the main receivable for the operating draws necessary to pay student payrolls, bonuses and reimbursements to centers.

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Appendices

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BACKGROUND

The DOL Office of Job Corps administers the Job Corps program, which is a national training and employment program for disadvantaged youth in the United States. This program was established under the Economic Opportunity Act of 1964. The program provides intensive educational and vocational training to disadvantaged youth, primarily in a residential setting and operates exclusively as a distinct national program. There are approximately 60,000 students located at 122 Job Corps centers nationwide.

The Office of Job Corps operates the JCDC, which provides technical and data services for the program. This full service facility is located in Austin, Texas, and is operated by RSIS, under the JCDC services contract with DOL. The JCDC maintained attendance and progress records on all students, performed biweekly payroll processing, separation and incentive pay processing, dependent support allotment payment processing, and national performance and student outcome reporting. The JCDC provided a wide variety of customer support services including 12 hours per day, 5 days per week, network and customer support to respond to hardware, communications and systems problems. The JCDC performed all payroll functions including responding to user queries, processing and filing of unclaimed checks, general ledger posting and reconciliation and tax payments and filings.

Students enrolled in Job Corps received Living Allowance payments throughout the course of their training. They also receive Transition Allowances and Survey Bonuses after termination from the program. During their stay at the Job Corps centers, students were paid biweekly Living Allowances in cash. When students completed or left the program, they were entitled to Transition Allowance payments based on their achievements. If a student obtained a GED, he or she was entitled to \$250. Vocational Completers received \$750. Students who earned a GED and were Vocational Completers received \$1,200. Non-completers received only final pay. Students entitled to Transition Allowance payments received a portion of their allowance when they left the Job Corps centers, and received the remaining portion when they reported to their assigned CTS providers.

The JCDC transferred funds for the Living Allowances and Survey Bonuses to the Job Corps Centers through an EFT by the bank. The center's disbursed these funds to the students either by cash or check. The JCDC is reimbursed by DOL through draw downs from the Health and Human Services disbursement system.

The JCDC contractor used SPAMIS to generate and track student Living Allowance and Survey Bonus payments. Student information was uploaded from the Job Corps centers into the Center Information System then to the SPAMIS system where pay was calculated. The information was exported into files that are uploaded into the accounting system. The contractor used the MAS 200 program for its general ledger and monthly program report preparation. The information was reconciled and reviewed

and the reports for the Job Corps program were produced on a monthly basis. After the contractor prepared the program reports, they were sent to the Job Corps' Division of Budget and Facility Support (DBFS), in Washington, D.C. DBFS management said they used the reports to compare draw downs to the Department of Labor Accounting and Reporting System (DOLAR\$). DBFS management said they forward the reports to the Office of Financial and Administrative Services which used them to project expenses and liabilities for recording in DOLAR\$.

OBJECTIVES, SCOPE, METHODOLOGY, AND CRITERIA

Objectives

We conducted a performance audit of SPAMIS activity and results for FYs 2004 and 2005. The purpose of our audit was to answer the following questions.

1. Were the Statements of Position as of March 31, 2004, and March 31, 2005, and the corresponding Statement of Operations reports for the 6 months then ended, supported by the general ledger and student data, and were the Fiscal Year 2004 and 2005, ending account balances within expected tolerances?
2. Were internal controls over SPAMIS financial operations adequate?
3. Is Job Corps effectively managing unclaimed Living and Transition Allowance checks?

Scope

The scope of our audit was SPAMIS activities and results for FYs 2004 and 2005, (October 1, 2003 through September 30, 2005). We conducted our audit at the JCDC in Austin, Texas, between May 11 and June 24, 2004, for FY 2004, and between April 26 and June 22, 2005, for FY 2005. We continued to receive monthly Job Corps program reports and the accompanying notes from the contractor. Also, at 12 randomly selected Job Corps centers, we conducted testing of Student Living and Transition Allowance payments for each FY.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards for performance audits issued by the Comptroller General of the United States. An audit made in accordance with these standards provides reasonable assurance that its objectives were achieved; but it does not guarantee the discovery of illegal acts, abuse or all internal control weaknesses. Providing an opinion on compliance with all laws, regulations, and other compliance requirements or internal controls was not an objective of our audit and accordingly, we do not express such an opinion. We believe our audit provides a reasonable basis for our assessment and conclusions.

In planning and performing our audit, we considered internal controls over program reporting by obtaining an understanding of the offices' internal controls, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of internal controls in order to determine our auditing procedures. The objective of our audit was not to provide assurance on the internal controls over financial reporting. Consequently, we do not provide an opinion on internal controls.

Our consideration of internal controls over program reporting would not necessarily disclose all matters that might be reportable conditions. Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report program data consistent with the assertions of management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted matters involving the internal controls and its operation that we considered to be reportable conditions but not material weaknesses as detailed in this report.

The conclusions provided in this report are the result of our performance audit of SPAMIS activities and results for FYs 2004 and 2005. Changes in management of the program, including changes in controls or laws, regulations, and other compliance requirements could result in performance that would be different from the performance during that period. Therefore, this report should not be used to evaluate performance results of future periods.

Methodology

From 90 Job Corps Centers operating under DOL contracts, we randomly selected 12 Centers for each FY that our audit covered. We conducted substantive and compliance testing of a random sample of Student Living and Transition Allowance payments at the 12 randomly selected Job Corps Centers for each FY. At the Job Corps Centers, we also reviewed monthly reconciliations; performed an independent reconciliation of fund transfers; traced unclaimed student pay from pay rosters to bank deposits; observed student pay distributions; performed substantive and compliance testing on a random sample of students who received Living Allowance payments and students who received Transition Allowance payments; and tested for irregular or improper student payments. An Independent Public Accountant under contract with the OIG visited and performed audit work of the Job Corps Centers. The following table shows the sample sizes and Job Corps Centers visited for each FY.

	FY 2004		FY 2005	
	Payment	Sample Size	Payment	Sample Size
	Living Allowance	319	Living Allowance	320
	Transition Allowance	365	Transition Allowance	355
	Job Corps Center	Location	Job Corps Center	Location
1.	Albuquerque	Albuquerque, New Mexico	Cascades	Sedro Woolley, Washington
2.	Atterbury	Edinburgh, Indiana	Clements	Morganfield, Kentucky
3.	Earle C. Clements	Morganfield, Kentucky	Gadsen	Gadsen, Alabama
4.	Gary	San Marcos, Texas	Gary	San Marcos, Texas
5.	Homestead	Homestead, Florida	Inland Empire	San Bernadino, California
6.	Iroquois	Medina, New York	Jacksonville	Jacksonville, Florida
7.	Laredo	Laredo, Texas	Keystone	Drums, Pennsylvania
8.	North Texas	McKinney, Texas	Loring	Limestone, Main
9.	Penobscot	Bangor, Maine	Los Angeles	Los Angeles, California
10.	Sierra Nevada	Reno, Nevada	Northlands	Vergennes, Vermont
11.	Treasure Island	San Francisco, California	Pittsburgh	Pittsburgh, Pennsylvania
12.	Turner	Albany, Georgia	San Jose	San Jose, California

We determined whether Living Allowances paid during the period were accurate for each sampled student by:

- Recalculating the Base Pay Rate for each pay period using the cumulative number of Paid Training Days.
- Recalculating the number of Paid Training Days and the Base Pay Rate for each pay period for each student in our sample.
- Recomputing the Living Allowance for each student for each pay period.
- Comparing the recalculated Living Allowance for each student to the amount paid per SPAMIS.

We determined whether Transition Allowances paid during the period were accurate for each sampled student by:

- Recomputing the amount of Transition Allowance due at the time of termination for each student in the sample, and comparing it to the Transition Allowance amount paid per SPAMIS.
- Selecting a sample from the student pay rosters or the listings of students who did not pick up their Transition Allowance payment, and obtaining evidence to verify that the students actually existed (by reviewing student files, and interviewing counselors or instructors).
- Verifying that copies of the GED or High School diplomas were in the file for GED/High School graduates.
- Verifying that the Training Achievement Records were completed for vocational completers.

To ensure that the MAS 200 general ledger revenue transactions were properly supported by the Health and Human Services/Payment Management System drawdowns made by the JCDC for allowance payments, we reconciled the drawdowns recorded by JCDC to the general ledger for the periods October 1, 2003, to March 31, 2004, and October 1, 2004, to March 31, 2005. We also tested to ensure that the system drawdown requests recorded by the JCDC equaled the system drawdown payments posted in DOLAR\$ for the same period. We also analyzed JCDC cash requirements, system drawdowns, and the amount posted in DOLAR\$.

We performed other tests on the Job Corps Program Reports accounts. For FY 2004, we performed tests on accounts with balances \$500,000 and greater and having significant activity as of March 31, 2004. We used random sampling. First we randomly selected Job Corps centers that supported the activity in the account. Then we randomly selected one month from the period October 1, 2003, through March 31, 2004. We traced the data from the SPAMIS program that was exported to Excel spreadsheets to the MAS 200 generated general ledger to the Trial Balance and ultimately to the Job Corps Program Reports. We gathered detailed student data information generated by the SPAMIS program and exported into the MAS 200 general ledger. In order to test the data reliability, we analyzed the SPAMIS data and made sure it was complete.

Specifically, that the data contained:

- student name
- pay type
- pay period
- payroll identification number
- dollar amount

For FY 2005, we used Excel spreadsheet schedules provided by the contractor which contained the SPAMIS generated monthly account activity for each account on the

general ledger by Job Corps Center and by dollar amount. The schedules contained information for the period October 1, 2004, through March 31, 2005. We chose a sample size of 88 in total Job Corps program reports account activity, for the Statement of Operations (55) and the Statement of Position (33) respectively.

We determined whether account activity during the period were accurate for each item sampled:

We chose the sample size for the Statement of Operations (55) and the Statement of Position (33), respectively, for a total of 88 general ledger account transactions.

We provided the sample selected to the contractor.

The contractor provided us with the SPAMIS documentation and general ledger detail report to support the general ledger account activity sampled.

We reviewed the data and verified Job Corps Center name, account name, account number, date, and dollar amount sampled were accurate.

Additionally, we chose attribute sampling as a sampling technique so amounts on the general ledger and the internal controls associated with them could be tested. Specifically, we tested that the data contained the following attributes:

The sample data selected from SPAMIS was recorded accurately and timely in the general ledger.

The sample represented valid student payroll expense,

The sample was described accurately in the MAS 200 account description guide.

For the second half of FYs 2004 and 2005, we performed an analytical review of the account balances and activities. The analytical review included comparing current and prior year costs, preparing estimated Job Corps Program Reports, examining trend analysis data, and considering variance explanations provided by the contractor regarding these variances.

For FY 2004 and FY 2005, we sent bank account confirmation requests to the Chevy Chase Bank for the Main Bank Account and Line of Credit – Chase as of March 31, 2004, and March 31, 2005. We also compared the monthly bank reconciliations to the Bank Statements and agreed with the reconciled balances of the Job Corps Program reports.

We reviewed the methodology and contractor prepared schedules used for the Payroll, Living Allowance, and Transition Allowance projected expenses and liabilities made by the contractor for the 6-month period ending March 31. We also reviewed the

schedules prepared for the Payroll, Living Allowance and Transition Allowance Liability projected expenses and liabilities. We compared the Job Corps Program report account balances to the schedules and checked for accuracy.

Additionally, to ensure the proper amounts were posted to the MAS 200 general ledger, we traced the dollar amounts for the period of October 1 through March 31, for each FY from the Job Corps Program Reports to the general ledger to the Payroll, Living Allowance, and Transition Allowance project expense and liability schedules provided by the contractor.

To accomplish our audit, we gained an understanding of the JCDC's internal control processes and obtained knowledge about the design of relevant controls and whether they were in operation. We performed system walk-throughs to confirm the understanding of significant information about the payroll and accounting systems. In a walk-through of the SPAMIS and MAS 200 systems, we traced one payroll cycle from initiation to inclusion of the transactions in the general ledger, we observed the processes in operation and we examined the supporting documents, that included: Payroll Verification Reports, Bank Cash Requirement Reports, Payroll Deductions Report, Payroll Earnings Report, Los Angeles Job Corps Center Payroll Run check, Allotment Check Register, Job Corps Program reports, and Manual Check processing report with supporting documents.

The contractor explained the flow of transactions through the various payroll/cash disbursement processes. We documented, or observed the operations of the Payroll/Cash Disbursement cycle through the following stages:

- Student data was uploaded from the Job Corps centers into the Center Information System,
- Student pay from SPAMIS was recalculated,
- Student pay was reviewed by the Contractor,
- Contractor requested funds were drawn down,
- Student Living Allowance pay was transferred electronically to the Job Corps Centers, except, one Center that disbursed checks in lieu of cash for the bi-weekly student payroll run,
- Student Allotment, Transition Allowance and Bonus checks were run and mailed to students,
- Student payroll taxes were paid to the IRS,
- JCDC daily bank activity was reviewed, and
- Ultimately the JCDC general ledger journal entries were posted.

We verified the physical inventory of unclaimed checks filed and held in storage, on and offsite by the JCDC. As of March 31, 2004, the inventory contained 119,207 unclaimed checks. For FY 2004, we randomly sampled 25 unclaimed checks from the unclaimed check inventory report for each of the last seven years, except November 2000, where we sampled 24 checks. We tested 174 checks in total. We also randomly sampled 25 checks filed and stored onsite at the JCDC. We discussed the unclaimed check

procedures in place at the JCDC during an interview with the contractor staff. We agreed with the account balance on the Job Corps Program Report to the general ledger Trial Balance and detailed unclaimed check inventory schedules provided by the contractor.

For FY 2005, we performed detailed reviews of all accounts. For FY 2004, we performed minimum review procedures on the following accounts that were insignificant:

- Prepaid Allotments
- DOL Mandated checks
- and Bad Debt Expense

Criteria

We used the following criteria to perform this audit:

- Standards for Internal Control in the Federal Government (November 1999)
- Contract J-9-A-1-0003, RSIS
- SPAMIS User Manual (June 30, 2002)
- RSIS Employee Handbook (July 1, 2001)
- Student Payment Allowance and Allotment System (January 2001)
- Policy and Requirement Handbook (PRH July 1, 2001)
- Payroll Processing Procedures
- General Ledger MAS 200 Manual (1998 – 2001)

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ACRONYMS AND ABBREVIATIONS

CTS	Career Transition Service
DBFS	Job Corps Division of Budget and Facility Support
DOL	U.S. Department of Labor
DOLAR\$	Department of Labor Accounting and Reporting System
EFTPS	Electronic Federal Tax Payment System
EFT	Electronic Funds Transfer
FY	Fiscal Year
GAO	Government Accountability Office
GED	General Educational Development
IRS	Internal Revenue Service
JCDC	Job Corps Data Center
MAS 200	Mid-Level Accounting Solution 200
OIG	Office of Inspector General
RSIS	RS Information Systems, Inc.
SPAMIS	Student Pay Allotment and Management Information System
SSA	Social Security Administration

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AGENCY RESPONSE TO THE DRAFT REPORT

U.S. Department of Labor

Office of Job Corps
Washington, D.C. 20210



SEP 27 2006

MEMORANDUM FOR: MICHAEL HILL
Regional Inspector General for Audit
Office of Inspector General

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

SUBJECT: OIG – Office of Audit
SPAMIS for the Two Years ended September 30, 2005
Report Number: 03-06-003-01-370

Job Corps appreciates the comprehensive work that your office put forth in conducting a performance audit of the Job Corps Student Pay, Allotment Management Information System (SPAMIS). The following is in response to the above stated Audit Report.

Recommendation 1, “*Use the monthly JCDC Reports to identify trend analysis and variances to help manage the program effectively and efficiently.*” Job Corps has added a comparative statement of operations to the financial package. Management reviews the statements, and uses the variance analysis to identify differences and follows up with additional investigation when warranted.

Recommendation 2, “*Provide for the necessary review and authorization of financial documents.*” Job Corp continues to ensure EFTPS and the Draws/Authorization worksheet reviews are performed regularly. Job Corps Accounting Procedures include that the EFTPS Tax Payments and Draws be prepared by the Payroll supervisor and approved and documented by the Compliance Manager (or another designated manager) prior to payroll or tax-related action being taken.

Recommendation 3, “*Monitor the accounting for bank charges.*” As noted, the contractor corrected this bank posting error in July, 2004. The line of credit statement continues to be reviewed as part of the month end closing process.

Recommendation 4, “*Provide for segregation of duties for payroll tax payments and IRS correspondence.*” This recommendation has been implemented.

Recommendation 5, “*Request a Legal Opinion regarding whether Job Corps is required to escheat the unclaimed student property (living and transition allowance payments) to the states.*” Job Corps will request a legal opinion from the Department of Labor’s Office of the Solicitor.

Recommendation 6, “*Rerun a report for the checks remaining unclaimed from the initial 120,633 mailings and prepare a second mailing.*” In addition to a second mailing, subsequent mailings have taken place and continue on a monthly basis.

Thank you again for the time you and your staff took to review SPAMIS. External reviews conducted by the OIG are constructive in providing Job Corps with information to improve program efficiency and effectiveness.