MEMORANDUM FOR: RAYMOND J. UHALDE
Deputy Assistant Secretary
for Employment and Training

FROM: JOHN J. GETEK
Assistant Inspector General
for Audit

SUBJECT: Audit of Penobscot Job Corps Center
Final Audit Report Number 02-01-206-03-370

The attached subject final report is submitted for your resolution action. We request a response to this report within 60 days.

You are responsible for transmitting a copy of this report to Training and Development Corporation officials for resolution. However, we are providing a courtesy copy directly to Charles G. Tetro, President and CEO of Training and Development Corporation.

If you have any questions concerning this report, please contact Richard H. Brooks, Regional Inspector General for Audit, at (212) 337-2566.

Attachment

cc: Richard Trigg, Office of Job Corps
Charles G. Tetro, Training and Development Corporation

AUDIT OF
PENOBSCOT JOB CORPS CENTER

CONTRACT NUMBER 1-JC-611-23
JULY 1, 1998 THROUGH JUNE 30, 1999

U.S. DEPARTMENT OF LABOR
OFFICE OF INSPECTOR GENERAL

REPORT NO: 02-01-206-03-370
DATE: March 21, 2001

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ACRONYMS

DOL	U. S. Department of Labor
ETA	Employment and Training Administration
G&A	General and Administrative
OMB	Office of Management and Budget
PJCC	Penobscot Job Corps Center
PRH	Policy and Requirements Handbook
TDC	Training and Development Corporation

EXECUTIVE SUMMARY

The U.S. Department of Labor (DOL), Office of Inspector General, conducted an audit of expenses claimed by the Training and Development Corporation (TDC) to operate the Penobscot Job Corps Center (PJCC) under contract number 1-JC-611-23 for the period July 1, 1998 through June 30, 1999. The audit objective was to determine if the *Consolidated Schedule of Center Expenses* was presented fairly in accordance with Federal requirements.

Audit Results

In our opinion, except for questioned costs, the *Consolidated Schedule of Center Expenses* (Exhibit) presented fairly, the results of PJCC's operations in accordance with applicable laws and regulations for the period July 1, 1998 through June 30, 1999. Overall, expenses claimed by TDC were reasonable, allocable and allowable. For the audit period, TDC claimed expenses of $6,609,054 for PJCC, of which we question $67,192 or 1 percent.

< We question $61,363 of fringe benefits allocated to PJCC. TDC did not have controls in place to reconcile estimated fringe benefits to actual costs and detect errors, such as including accrued vacation which is not chargeable to Job Corps. We calculated fringe benefits using actual fringe benefits and salaries for the audit period, and as a result, question $61,363 of fringe benefits.

< We also question $5,829 in applicable general and administration (G&A) expenses due to the fringe benefits questioned above.

Recommendations

We recommend that the Assistant Secretary for Employment and Training recover $67,192 of questioned costs and ensure TDC establishes sufficient controls to:

< provide for the consistent application of allocation methodology, and

< monitor allocation control accounts to reconcile estimated fringe benefits to actual costs and detect allocation errors.

The President and CEO of TDC responded to our draft report on February 27, 2001. He concurred with our findings and proposed settling the questioned costs as part of the closeout process for the

PJCC contract. The response 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 youths aged 16 to 24 with the opportunity to become more responsible, employable citizens. With annual funding over $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.

TDC is a not-for-profit corporation with headquarters in Bucksport, Maine. During the audit period, TDC primarily operated DOL employment and training programs for adults, youth, dislocated workers, and migrants and seasonal farmworkers. Under contracts with DOL, TDC operated two Job Corps centers in Maine which accounted for $13 million (68 percent) of TDC's $19 million of revenue for the period.

DOL's Employment and Training Administration (ETA) awarded contract number 1-JC-611-23 to TDC to operate PJCC for the period October 1, 1995 through September 30, 2000. The total contract award was $32,567,512.

AUDIT OBJECTIVE

The objective was to determine if the *Consolidated Schedule of Center Operation Expenses* reported by TDC for PJCC was presented fairly in accordance with Federal requirements.

AUDIT SCOPE AND METHODOLOGY

We audited expenses of $6,609,054 claimed under contract number 1-JC-611-23 for the period July 1, 1998 through June 30, 1999. We obtained an understanding of TDC's internal controls through inquires with appropriate personnel, inspection of relevant documentation, and observation of operations. The nature and extent of our testing were based on the risk assessment.

We examined center operation expenses, public vouchers, general ledgers and supporting documentation including vouchers and invoices. We used judgmental sampling techniques to test individual account transactions. We sampled $2,224,918 or 34 percent of reported expenses. We did not audit performance measurements of PJCC.

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, Circular A-122 from the Office of Management and Budget (OMB), and the Job Corps Policy and Requirements Handbook (PRH). Also, other requirements in the contract were used as criteria in evaluating the allowability of claimed expenses.

We conducted our audit in accordance with generally accepted auditing standards and standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted fieldwork from December 5, 2000 to January 12, 2001, at PJCC located in Bangor, Maine. We held an exit conference with TDC on February 15, 2001.

Mr. Raymond J. Uhalde
Deputy Assistant Secretary for Employment and Training
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington, D.C. 20210

ASSISTANT INSPECTOR GENERAL'S REPORT

We audited the accompanying *Consolidated Schedule of Center Expenses* (Exhibit) for the period July 1, 1998 through June 30, 1999, under DOL contract number 1-JC-611-23. Expenses claimed are the responsibility of TDC management. Our responsibility is to express an opinion on the reported expenses based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether reported expenses are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the reported expenses. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the reported expenses. We believe our audit provides a reasonable basis for our opinion.

The *Consolidated Schedule of Center Expenses* was prepared in conformity with accounting practices prescribed by the Job Corps' Policy and Requirements Handbook, Chapter 9, Financial Management, which is a comprehensive basis of accounting other than generally accepted accounting principles. Allowable costs are established by Federal regulations.

Opinion on Financial Statement

As discussed in the Finding and Recommendations section, excessive fringe benefits allocated to PJCC resulted in questioned costs of $67,192 or 1 percent of reported expenses. ETA is responsible for resolving these questioned costs. The total effect of ETA's determination cannot be estimated at this time.

In our opinion, except for the matter discussed in the preceding paragraph, the *Consolidated Schedule of Center Expenses* presents fairly, in all material respects, the results of PJCC's operations in accordance with applicable laws and regulations for the period July 1, 1998 through June 30, 1999.

Report on Internal Control

In planning and performing our audit, we considered TDC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on reported expenses and not to provide assurances on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect TDC's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Finding and Recommendations section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described in the Finding and Recommendations section of this report are material weaknesses.

Report on Compliance with Laws and Regulations

Compliance with laws, regulations, and grant agreement provisions is the responsibility of TDC. As part of obtaining reasonable assurance about whether reported expenses are free of material misstatement, we performed tests of TDC's compliance with certain provisions of laws, regulations, and the contract. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the Finding and Recommendations section of this report.

This report is intended solely for the information and use of TDC and ETA, and is not intended to be and should not be used by anyone other than these specified parties.

John J. Getek
Assistant Inspector General
for Audit

January 12, 2001

FINDING AND RECOMMENDATIONS

Overall, expenses claimed by TDC were reasonable, allocable and allowable. For the audit period, TDC claimed expenses of $6,609,054 of which we question $67,192 or 1 percent.

Excess Fringe Benefits Charged	$61,363
Applicable G&A at 9.5 percent	5,829
Total Questioned	$67,192

Excess Fringe Benefit Allocations

Excess fringe benefits of $61,363 were allocated to PJCC. TDC did not have controls in place to reconcile estimated fringe benefits to actual costs and detect errors, such as including accrued vacation which is not chargeable to Job Corps. We calculated fringe benefits using total fringe benefits and salaries for the audit period, and questioned $61,363 of fringe benefits.

OMB's Circular No. A-122, Costs Principles for Nonprofit Organizations, Attachment A, Section A, Part 2, states to be allowable, costs must be accorded consistent treatment and be adequately documented. Part 4 states that a cost is allocable to a particular cost objective in accordance with the relative benefit received.

TDC's policy is to allocate fringe benefits monthly based on payroll distributions. TDC used different allocations methods to allocate actual fringe benefits by payroll distributions. In its response, TDC noted that it allocated fringe benefit costs to Job Corps and other programs by applying either a predetermined fixed percentage or the actual fringe benefit rate to salaries.

However, TDC did not have controls in place to reconcile estimated fringe benefits to actual costs and detect errors. We examined the fringe benefit allocations for May and June 1999, and found the following:

- In May, TDC allocated fringe benefits using a predetermined fixed rate (25 percent for Job Corps and 28 percent for non-Job Corps programs and activities) which was set by the finance department based on an estimate of what the rate would be. The resulting allocations exceeded actual costs by $80,774 for the month.

- In June, TDC allocated fringe benefits using the same rate (26 percent) for Job Corps as for non-Job Corps programs and activities. TDC did not exclude accrued vacation of $19,059 in determining the Job Corps rate and, as a result, inappropriately allocated accrued vacation to PJCC. PRH, Chapter 9, Appendix 901, Section D-5, requires: "*Earned but unpaid leave will not be accrued, reported as expense nor vouchered.*"

As a result, Job Corps was charged more than its fair share of fringe benefit costs while other governmental programs were charged less than their fair share and TDC's non-governmental activities ended up having a negative fringe benefit charge. For the audit period, we calculated fringe benefits for the audit period using actual total fringe benefits and salaries for the year. We determined PJCC was overcharged $61,363 in fringe benefits and $5,829 in applicable G&A, as shown below.

ETA 2110 Personnel Expense Categories	Salaries Reported for Period	Fringe Benefits for Period		
		Reported	Per Audit	Difference
01 Education	$288,727	$72,866	$66,953	$5,913
03 Vocational	539,658	135,927	124,874	11,053
05 Social Skills	908,084	227,929	209,330	18,599
09 Support Service	239,462	60,251	55,347	4,904
11 Medical / Dental	163,485	40,965	37,617	3,348
15 Administration	536,184	138,417	127,435	10,982
18 Facility Maintenance	148,113	37,579	34,545	3,034
20 Security	172,342	43,252	39,722	3,530
Totals	$2,996,055	$757,186	$695,823	$61,363
Applicable G&A at 9.5 percent				$5,829
Total Questioned Costs				$67,192

Recommendations

We recommend that the Assistant Secretary for Employment and Training recover the $67,192 of questioned costs and ensure that TDC establishes controls to:

- provide for the consistent application of allocation methodology, and

- monitor allocation control accounts to reconcile estimated fringe benefits to actual costs and detect allocation errors.

TDC Response:

> *Having discussed the matter with your staff at length during their fieldwork, we agree with the finding of questioned cost, which states that Job Corps contracts were charged an incorrect amount of allocated fringe benefits. We would point out that the costs in question were not found to be unallowable with respect to public contract, but that it was found that errors in our allocation methodology caused Job Corps contracts to be assigned too great a share of fringe benefit costs while other government contracts and non-contract activities were correspondingly under-charged. . . .*
>
> *The Penobscot contract ended on September 30, 2000 and is due to be closed out at the end of March, 2001. We propose to settle the obligation to the Government for the Penobscot contract as part of the closeout process, by reducing the costs we report for the contract and refunding and difference between our total adjusted costs and our total vouchered costs.*

EXHIBIT

Penobscot Job Corps Center
Consolidated Schedule of Center Expenses
Reported, Questioned, and Other Adjustments
July 1, 1998 to June 30, 1999

	ETA 2110 Report Expense Categories	Reported Expenses	Amount Questioned	Other Adjustments	Totals Per Audit
1	Education Personnel	$361,593	$5,913	$0	$355,680
2	Other Education	51,053	0	0	51,053
3	Vocational Personnel	675,585	11,053	(1,059) [1]	665,591
4	Other Vocational	89,605	0	0	89,605
5	Social Skills Personnel	1,136,013	18,599	(9,554) [1]	1,126,968
6	Other Social Skills	93,567	0	0	93,567
7	Food	364,618	0	0	364,618
8	Clothing	131,840	0	0	131,840
9	Support Service Personnel	299,713	4,904	0	294,809
10	Other Support Services	68,750	0	0	68,750
11	Medical/Dental Personnel	330,354	3,348	0	327,006
12	Other Medical/Dental	111,487	0	0	111,487
15	Administrative Personnel	674,601	10,982	10,613 [1]	653,006
16	Other Administration	135,378	0	0	135,378
17	Indirect Administration (G&A)	532,942	5,829	0	527,113
18	Facility Maintenance Personnel	185,692	3,034	0	182,658
19	Other Facility Maintenance	143,779	0	0	143,779
20	Security Personnel	230,594	3,530	0	227,064
21	Other Security	5,985	0	0	5,985
22	Communications	57,344	0	0	57,344
23	Utilities and Fuel	284,420	0	0	284,420
25	Insurance	24,350	0	0	24,350
26	Motor Vehicle	35,282	0	0	35,282
27	Travel and Training	118,335	0	0	118,335
28	Contractor's Fee	215,412	0	0	215,412
	Net Center Operations	**$6,358,292**	**$67,192**	**$0**	**$6,291,100**
32	Construction/Rehabilitation	$90,823	0	0	90,823
33	Equipment/Furniture	55,648	0	0	55,648
34	GSA Vehicles Rental	42,402	0	0	42,402
35	VST	61,889	0	0	61,889
	Total Center Expenses	**$6,609,054**	**$67,192**	**$0**	**$6,541,862**

( ) denotes increases in reported costs

Note 1: PJCC staff identified $1,059 of Vocational Personnel expenses and $9,554 of Social Skills Personnel expenses which were misclassified as Administration Personnel expenses. Adjustments were made by PJCC as of December 13, 2000.

APPENDIX

Auditee's Response to the Draft Audit Report

T·D·C
TRAINING & DEVELOPMENT CORPORATION

February 27, 2001

Richard H. Brooks
Regional Inspector General for Audit
Office of Inspector General
201 Varick St.
New York, NY 10014

Dear Mr. Brooks:

We have received and reviewed your draft report on the audit of the Penobscot Job Corps Center. Your report contained one finding of questioned cost, along with explanatory findings relating to the questioned cost, and three recommendations. Our comments are as follows.

Having discussed the matter with your staff at length during their fieldwork, we agree with the finding of questioned cost, which states that Job Corps contracts were charged an incorrect amount of allocated fringe benefits. We would point out that the costs in question were not found to be unallowable with respect to public contracts, but that it was found that errors in our allocation methodology caused Job Corps contracts to be assigned too great a share of fringe benefit costs while other government contracts and non-contract activities were correspondingly under-charged.

The draft report attributes the questioned costs to an inconsistent application of our corporate policy regarding cost allocation. We disagree with this statement. Our use of two, related methodologies, one involving allocation using a fixed percentage of salaries and the other allocating on the basis of actual fringe costs, was discussed with your staff during their field work, although we agree that it is inadequately described in our written policy and procedures manual. We believe that our procedures, as used during the period audited, were consistent with generally accepted accounting practices. We also agree, however, with your staff's comments made during their fieldwork that those procedures were more complex and therefore more susceptible to error, and we concur that errors in their application were made. We have subsequently adopted a methodology that conforms to the recommendations made by your staff.

We suggest that the report recommendations be revised to more accurately reflect the conditions observed by the audit staff. Specifically, the first two bullet items in the "Recommendations" sections on pages 1 and 7 should be removed, and could be replaced with a recommendation that the TDC policy and

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procedures manual maintain a current and accurate description of all procedures in use, or that an additional review step be incorporated to detect any error of the type discovered in the audit.

As noted above, the finding from this audit will result in our transferring costs from the Penobscot Job Corps contract to other contracts and activities. The Penobscot contract ended on September 30, 2000 and is due to be closed out at the end of March, 2001. We propose to settle the obligation to the Government for the Penobscot contract as part of the closeout process, by reducing the costs we report for the contract and refunding any difference between our total adjusted costs and our total vouchered costs. For example, at the end of January 2001 we reported total costs on the contract of $32,476,402. If there were no further transactions affecting contract costs, we would reduce the total on our closeout report by $67,192 to a new total of $32,409,210. Depending on the total amount vouchered at that time, we would reconcile contract receipts to adjusted contract costs either by reducing our final voucher amount or by refunding any amount received in excess of the adjusted costs.

We appreciate the opportunity to comment on the findings and recommendations contained in the draft report and understand that our comments will be included in the final report in their entirety.

Sincerely,

Charles G. Tetro
President and CEO