TURNER JOB CORPS CENTER
(Operated by Global Associates)

INDEPENDENT AUDITORS= REPORT ON

THE SCHEDULE OF JOB CORPS EXPENSES

FOR PROGRAM YEAR ENDED JUNE 30, 2001

FOR OFFICIAL USE ONLY

This audit report was prepared by R. Navarro & Associates, Inc., under contract to the U.S. Department of Labor, Office of Inspector General, and, by acceptance, it becomes a report of the Office of Inspector General.

Elliot P. Lewis

Assistant Inspector General for Audit
U.S. Department of Labor

Report No.: 03-03-004B03-370
Date Issued: August 7, 2003

R. NAVARRO & ASSOCIATES, INC.
Certified Public Accountants

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ACRONYMS

CFR	Code of Federal Regulations
DOL	U.S. Department of Labor
ETA	Employment and Training Administration
ETR	Employment and Training Resources, Inc.
EPMS	Electronic Property Management System
FAR	Federal Acquisition Requirements
G&A	General and Administrative
IML	Inventory Master List
JCDC	Job Corps Data Center
OAP	Outreach, Admissions, and Placement
PO	Purchase Order
PPAF	Personnel Payroll Action Form
PRH	Policy and Requirements Handbook
PRL	Property Requisition List
RJC	Regional Job Corps
TJCC	Turner Job Corps Center

EXECUTIVE SUMMARY

We were contracted by the U.S. Department of Labor (DOL), Office of Inspector General, to perform an audit of the Turner Job Corps Center=s (TJCC) Schedule of Job Corps Expenses for the program year ended June 30, 2001, in order to render an opinion on that schedule and to report on internal control and compliance with laws and regulations in accordance with applicable audit standards.

The TJCC is 1 of over 100 Job Corps Centers located throughout the country. These centers are funded and regulated by the DOL, Office of Job Corps, and are designed for operating the Job Corps program, a residential, educational, and training program that serves at-risk youth. The TJCC is operated by Global Associates under contract with the DOL. In addition, the Center subcontracted with Education and Training Resources, Inc., which was responsible for certain operations of the Center as part of Job Corps Mentor Protege program.

Our audit objective was to obtain reasonable assurance that the Schedule of Job Corps Expenses for program year ended June 30, 2001, was presented fairly in all material respects in accordance with the accounting principles prescribed by the DOL, Office of Job Corps, which is a comprehensive basis of accounting other than generally accepted accounting principles. In accordance with this objective, we also obtained an understanding of management=s internal controls and assessed control risk, and performed tests of the TJCC=s compliance with certain laws, regulations, and contracts. These procedures were performed as part of obtaining reasonable assurance on the Schedule of Job Corps Expenses, and our objective did not include expressing an opinion on the internal control or on overall compliance with laws and regulations.

Audit Results

Our opinion on the Schedule of Job Corps Expenses is qualified for $645,945 of questioned costs. In addition, we noted certain matters that were required to be reported in accordance with the applicable audit standards. These reportable conditions are identified in the following paragraphs.

Lack of Documentation for Security Services Subcontract Results in Questioned Costs of $645,945

The contractor utilized an outside company to provide security services at the Center. According to the contractor, this subcontract (totaling about $645,000) was jointly proposed as part of the Center operating contract, was an integral part of that proposal, and therefore, was approved by DOL upon acceptance of the Center proposal. We noted several discrepancies regarding this subcontract. Specifically: (1) we were not provided with the written contractual agreement between the contractor and subcontractor that set forth the scope, payment terms, and other pertinent criteria governing the services to be provided, and it is unclear if such an agreement exists; (2) the subcontractor=s invoices for certain time periods were not adequately supported; (3) an administrative position was charged to the subcontract as direct labor even though this position was not approved in the proposal as such; (4) a contractor=s (fixed) fee was paid to this subcontractor even though the proposed budget detail submitted to DOL did not include a contractor=s fee; and (5) the proposed budget indicated a General and Administrative (G&A) rate of 5 percent, whereas the subcontractor actually charged the Center 6.5 percent. These findings are contrary to Job Corps' policy, applicable regulations, and the subcontracting plan submitted by the contractor to DOL. As a result, we were unable to determine if the costs incurred for this subcontract were reasonable or allowable in accordance with the applicable regulations. The total costs incurred of $645,945 represents questioned costs.

Need to Improve Controls over Payroll Processing

Our audit of the TJCC=s payroll expenses identified several deficiencies, as follows: (1) we noted that the employee leave balances were not accrued in accordance with existing personnel policies; (2) 29 of the 66 payroll disbursements tested (44 %) had at least one error, resulting in a high risk of error over payroll expenses; (3) the payroll register and department listing did not include department codes for all job positions; (4) two academic instructors did not have teaching credentials that are required by both Job Corps and TJCC policy; and (5) approved rates of pay could not be located to support our test of accrued leave for two Center staff. We concluded that the internal controls over payroll were not sufficient to ensure that errors or irregularities would be detected on a timely basis.

Need to Improve Accountability over Inventories of Consumable Supplies

Our audit of the TJCC=s inventory system for consumable supplies disclosed that the source documents provided for the June 2001 inventory issues (i.e., amounts distributed from inventory) were about $39,000 less that the $199,000 of inventory issues reported on the Employment and Training Administration (ETA) 2110. We also noted instances where the value of medical and dental issues was computed using a zero cost. The system assigned $0 unit cost to items issued from the medical and dental inventory account. This resulted in overstating the ending inventory and understating medical and dental expenses. Based on these facts, we conclude that the Center did not exercise adequate accountability over Center inventories. These inventories are Federal assets, and the lack of accountability increases the risk that such assets may not be used for their intended purpose.

Need to Improve Controls over Property and Equipment

Our tests of the Center=s non-expendable property identified that the Center was not providing adequate control over Job Corps property and equipment. We found that acquisitions were not consistently entered into the Electronic Property Management System (EPMS) on a timely basis, and we identified certain items that were not approved by DOL prior to acquisition. We found that the Center did not document transfers of property to temporary locations; property was not removed timely from the inventory records upon disposition; dispositions were not consistently documented and approved in accordance with DOL requirements; no support was available for certain dispositions selected for audit testing; and property was not tagged in accordance with DOL requirements.

Recommendations

We recommend that the Assistant Secretary for Employment and Training require the contractor to take the following corrective actions:

Refund $645,945 because documentation maintained by the contractor did not substantiate that these costs were reasonable and allowable costs, incurred in accordance with the Job Corps contract and applicable laws and regulations.

Ensure that subcontracts for goods or services of any nature include a written contractual agreement that sets forth the terms and responsibilities of all parties involved; and ensure that invoices submitted for any subcontracted services include adequate support for the amounts billed, such as time sheets or logs of hours incurred, by individual, by date; the related hourly rate(s) billed; and other pertinent documentation.

Ensure that charges to the Job Corps contract include only those charges negotiated with the subcontractor and approved by the DOL.

Take the necessary steps to improve existing controls at the Center to ensure that adequate records are maintained in support of payroll transactions; all positions include department codes; the processing of the biweekly payrolls is well documented, approved, and results in accurate and properly classified payroll transactions; and biweekly payrolls are reviewed for accuracy prior to distribution of the payroll checks.

Review existing leave policies and ensure that sick and annual leave is accrued at a rate in accordance with such policies. Payroll records should be periodically verified to ensure that leave is set up correctly with the payroll service, and that the resulting leave balances are accurate.

Obtain regional office approval in cases where instructors do not have the required licenses or credentials.

Improve accountability over inventories of consumable supplies to ensure that records of inventory issues are consistently filed and maintained, and that the inventory system generates an accurate accounting of all receipts, issues, and ending inventory balances.

Identify the exact value of medical and dental issues that were not properly reflected as expense on the general ledger and ETA 2110. Once the amount is identified, an adjustment should be recorded to both records.

Improve internal controls over acquisition, maintenance, and disposition of non-expendable property and equipment to ensure that these Federal assets are adequately accounted for and safeguarded in accordance with Job Corps requirements. Specifically, the contractor should ensure that (1) EPMS is updated on a timely basis; (2) temporary transfers of property are tracked with some form of hand receipt system; (3) all Center property is tagged; and (4) all purchases of property and equipment are approved by DOL in accordance with Job Corps policy and procedures.

Contractor's Response

With certain exceptions, the contractor concurred with the audit findings presented in this report and provided various explanations for the discrepancies noted. In general, the response focused on the fact that a new contractor operates the Center, and that the contractor believes current policies and procedures provide sufficient control over Center operations.

In response to our finding that $645,945 of payments for security services were not supported by a contractual agreement and were not made in accordance with the terms of the center proposal, the contractor indicated that they consider this to be an administrative concern only. A contract agreement was retroactively executed with the subcontractor, submitted to the Regional Office for approval, and subsequently approved by the contracting officer. The contractor considers this issue resolved.

Auditors' Comments

We concur with the contractor's stated intentions to provide adequate internal controls over center operations. However, we cannot conclude as to any controls implemented subsequent to the audit period, and our recommendations remain unchanged. In instances where the contractor disputed our audit findings, additional documentation was not provided with the written response that would substantiate the contractor's comments and provide a basis for revision of our original audit conclusions.

With respect to the payments for security services, we were told that information regarding the subcontractor (CUBE) and the services to be provided were specifically identified in the Center proposal. This was used to justify the fact that the security services were not competitively bid, and approval was not requested from the Regional Office (the contractor claimed that acceptance of the proposal was, in fact, approval of the "subcontract" for security services). Accordingly, we performed audit tests to ascertain whether the costs charged by the Cube Corporation, at a minimum, were in accordance with the terms set forth in the proposal. These tests identified certain discrepancies between the terms of the proposal and the actual charges for security services.

In response to our finding, the contractor has presented a subcontract agreement, retroactively executed and approved by the Regional Office, that changes the terms set forth in the proposal for each area reported as an audit discrepancy. We do not believe that it is appropriate to mirror the subcontract agreement to reflect actual payments made to the Cube Corporation (CUBE), rather that using the terms set forth in the original proposal, since the proposal (while limited) was the only evidence as to the original agreement between the contractor and subcontractor.

In addition, the Regional Office retroactively approved the CUBE contract based partially on the fact that actual costs incurred were less that those budgeted in the proposal. While the actual wages paid to security personnel were less than those budgeted in the original proposal, we noted that security supplies were paid by the contractor rather than the subcontractor, a direct administrative position was added to the subcontract, G&A costs were higher (the rate was increased), and a provision for profit was added to the subcontract that was not included in the original proposal. We do not concur that the decrease in total contract costs provides a basis by which to conclude that the costs incurred were reasonable or that services were provided as originally proposed. Furthermore, the contractor's response did not address the fact that CUBE could not locate timesheets in support of all payroll charges for the first three weeks of operation. For these reasons, our audit recommendations pertaining to this finding remain unchanged.

INDEPENDENT AUDITORS= REPORT ON
THE SCHEDULE OF JOB CORPS EXPENSES

Mr. Elliot P. Lewis
Assistant Inspector General for Audit
U.S. Department of Labor
Office of Inspector General
France Perkins Building, Room S-5512
200 Constitution Avenue, NW
Washington, DC 20210

We have audited the accompanying Schedule of Job Corps Expenses of the Turner Job Corps Center (TJCC) for the program year ended June 30, 2001. This schedule is the responsibility of the Job Corps Center=s management. Our responsibility is to express an opinion on this schedule based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance that the schedule of expenses is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule of 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 schedule of expenses. We believe that our audit provides a reasonable basis for our opinion.

We were unable to examine sufficient documentation in support of $645,945 of costs reported on the Schedule of Job Corps Expenses, and accordingly, were unable to determine whether or not these amounts represent allowable contract charges. These costs represent questioned costs that are subject to audit resolution, and the decision about whether they will be allowable contract charges will be made at the conclusion of the resolution process. Additional information regarding these questioned costs is provided at Note 4.

As described in Note 1, the Schedule of Job Corps Expenses was prepared in conformity with the accounting practices prescribed by DOL, Office of Job Corps, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine sufficient evidence regarding the questioned costs described above, the Schedule of Job Corps Expenses presents fairly, in all material respects, the expenses of the TJCC for the program year ended June 30, 2001, in conformity with the accounting principles described in Note 1.

As described in Note 2, the Schedule of Job Corps Expenses includes indirect costs that have been charged to the Job Corps contract in accordance with provisional indirect cost rates negotiated with DOL. The amount charged as indirect costs is subject to future adjustment when final rates have been issued by DOL.

In accordance with *Government Auditing Standards*, we have also issued reports dated December 14, 2001, on our consideration of TJCC's internal control and on our tests of its compliance with certain provisions of laws, regulations, and contracts. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the TJCC's management and the U.S. Department of Labor, Office of Inspector General and Office of Job Corps. This report is not intended to be, and should not be, used by anyone other than these specified parties.

R. Navarro & Associates, Inc.

R. Navarro & Associates, Inc.
San Diego, California
December 14, 2001

TURNER JOB CORPS CENTER
Schedule of Job Corps Expenses
Program Year Ended June 30, 2001

Education personnel expense	$1,091,990
Other education expense	176,656
Vocational training personnel expense	1,233,146
Other vocational training expense	182,647
Social skills personnel expense	3,415,130
Other social skills expense	222,009
Food expense	1,331,135
Clothing expense	418,161
Support service personnel expense	828,633
Other support services expense	303,086
Medical and dental personnel expense	723,422
Other medical dental expense	279,544
Child care personnel expense	109,464
Other child care expense	(97,234)
Administrative personnel expense	1,373,614
Other administrative expense (Note 4)	766,315
Indirect administrative expense (Note 2)	943,452
Facilities maintenance personnel expense	407,190
Other facilities maintenance expense	836,888
Security personnel expense (Note 4)	584,021
Other security expense	33,861
Communications expense	139,430
Utilities and fuel expense	803,690
Insurance expense	87,309
Motor vehicle expense	117,723
Travel and training expense	188,774
Construction and rehabilitation expense (Note 1g)	267,529
Equipment and furniture expense (Note 1g)	623,257
General Services Administration vehicle rental expense	201,371
Vocational Skills Training expense (Note 1g)	230,811
Outreach and screening	269,217
Placement	297,639
Total expenses before Contractor’s fee	**$18,389,880**
Contractor’s fee (Notes 3 and 4)	
Total expenses	

See accompanying notes to the Schedule of Job Corps Expenses.

TURNER JOB CORPS CENTER

Notes to the Schedule of Job Corps Expenses
Program Year Ended June 30, 2001

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Nature of Operations

The TJCC is 1 of more than 100 Job Corps Centers located throughout the country. These Centers are funded and regulated by DOL, Office of Job Corps, and are designed for purposes of operating the Job Corps program, a residential, educational, and training program that serves at-risk youth. Job Corps offers General Education Development certificates, or high school equivalency programs, and training in various vocational offerings as well as a variety of supportive services. The primary offerings at the TJCC are business clerical, retail sales, health occupations, building and apartment maintenance, plasterer, painter, cement mason, electrician, landscape technician, and heavy construction mechanic. The Center is located in Albany, Georgia, and is operated by Global Associates under contract with DOL. In addition, the Center subcontracted with Education and Training Resources, Inc. (ETR) which was responsible for certain operations of the Center as part of Job Corps= Mentor Protege program.

b. Basis of Accounting

This Schedule of Job Corps Expenses has been prepared in accordance with the accounting practices prescribed by the Office of Job Corps, as set forth in the *Policy and Requirements Handbook* (PRH), Chapter 9, Financial Management. For the most part, the PRH prescribes the accrual basis of accounting with certain exceptions, which are further described in this report.

c. Cost Categories

The PRH has defined 33 separate cost categories that are used for accounting and reporting purposes. These categories include 29 for operating costs and 4 for capital expenditures such as construction and equipment costs. Costs and other contract information are reported monthly to the Office of Job Corps on the AJob Corps Contract Center Financial Report@ (ETA 2110).

d. Use of Estimates

In conformity with the accounting practices previously identified, the preparation of Schedule of Job Corps Expenses requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual amounts could differ from those estimates.

Notes to the Schedule of Job Corps Expenses
Program Year Ended June 30, 2001

e. Accrued Leave

Earned but unpaid leave (vacation and sick leave) is recorded as expense when paid, rather than at the time it is earned by Center employees. Therefore, the salaries and wages expenses included on the Schedule of Job Corps Expenses do not include an accrual for leave earned but not yet taken as of June 30, 2001.

f. Inventories

The TJCC maintains inventories of certain operating supplies, including clothing, food, medical and dental, fuel, and other supplies. Purchases of inventoried supplies are recorded to an inventory account when received and are charged to expense at the time of issue. Inventories are accounted for using average unit pricing.

g. Property and Equipment

Property and equipment purchased with Job Corps funds are considered property of DOL. Costs of such property are not capitalized and depreciated for reporting purposes, but are charged to expense in the period when incurred. The property and equipment items reflected on the Schedule of Job Corps Expenses include costs classified as construction and rehabilitation, equipment and furniture, and vocational skills training.

NOTE 2. INDIRECT ADMINISTRATIVE EXPENSE

Global Associates, negotiated a provisional indirect rate of 6% for the fiscal year ended June 30, 2001. This rate was awarded by the Department of Defense, the Federal cognizant agency. The provisional rate is subject to adjustment in future periods when the final rate is determined. The total indirect costs, reflected on the Schedule of Job Corps expenses for the program year ended June 30, 2001, were $943,452.

NOTE 3. CONTRACTOR=S FEE

The operating contract for the TJCC includes an annual fee (i.e., provision for contractor=s profit) of $[redacted] for the contract year ended June 30, 2001. The annual fee is divided evenly over each respective 12-month contract period and recorded as expense on a monthly basis. The total

TURNER JOB CORPS CENTER

Notes to the Schedule of Job Corps Expenses
Program Year Ended June 30, 2001

contractor's fee for the program year ended June 30, 2001, as reflected on the Schedule of Job Corps Expenses was $[redacted]

NOTE 4 - QUESTIONED COSTS

The Schedule of Job Corps Expenses includes certain charges that are considered by the auditors to be questioned costs. These amounts represent costs charged to the Job Corps' contract for which documentation provided to the auditors was not sufficient to allow a determination that such costs were reasonable and allowable contract charges in accordance with Job Corps' policy and other applicable regulations, or for which documentation indicated that the costs were not charged in accordance with the terms of the Job Corps' operating contract. The amounts questioned are as follows:

Security personnel expense	$[redacted]
Other administrative expense	
Contractor's fee	
Total Questioned Costs	$

REPORT ON INTERNAL CONTROL

Mr. Elliot P. Lewis
Assistant Inspector General for Audit
U.S. Department of Labor
Office of Inspector General
France Perkins Building, Room S-5512
200 Constitution Avenue, NW
Washington, DC 20210

We have audited the Schedule of Job Corps Expenses of the Turner Job Corps Center (TJCC), for the program year ended June 30, 2001, and have issued our report thereon dated December 14, 2001.

We conducted our audit in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Job Corps Expenses is free of material misstatement.

The management of TJCC is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of Schedule of Job Corps Expenses in accordance with the accounting practices prescribed by the U.S. Department of Labor, Office of Job Corps. Because of inherent limitations in internal controls, misstatements, errors or noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of internal controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Schedule of Job Corps Expenses of TJCC for the program year ended June 30, 2001, we obtained an understanding of the design of relevant internal controls and determined whether they had been in placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the Schedule of Job Corps Expenses and not to provide assurance on the internal control. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data in a manner that is consistent with the assertions of management in the Schedule of Job Corps Expenses. Reportable conditions are described in the Findings and Recommendations section of this report as items 1 through 4.

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 the risk that misstatements or noncompliance in amounts that would be material in relation to the Schedule of Job Corps Expenses 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 internal control would not necessarily disclose all matters in internal control that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, of the reportable conditions described in the Findings and Recommendations section of this report, we consider item 1 to be a material weakness.

This report is intended solely for the information and use of the TJCC's management and the U.S. Department of Labor, Office of Inspector General and Office of Job Corps. This report is not intended to be, and should not be, used by anyone other than these specified parties.

R. Navarro & Associates, Inc.
San Diego, California
December 14, 2001

R. Navarro & Associates, Inc.

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS, AND CONTRACTS

Mr. Elliot P. Lewis
Assistant Inspector General for Audit
U.S. Department of Labor
Office of Inspector General
France Perkins Building, Room S-5512
200 Constitution Avenue, NW
Washington, DC 20210

We have audited the Schedule of Job Corps Expenses of the Turner Job Corps Center (TJCC) for the program year ended June 30, 2001, and have issued our report thereon dated December 14, 2001.

We conducted our audit in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Job Corps Expenses is free of material misstatement.

Compliance with laws, regulations, and contracts applicable to TJCC is the responsibility of TJCC=s management. As part of obtaining reasonable assurance about whether the Schedule of Job Corps Expenses is free of material misstatement, we performed tests of TJCC=s compliance with certain provisions of laws, regulations, and contracts. However, the objective of our audit of the Schedule of Job Corps Expenses 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 certain instances of noncompliance that are required to be reported under *Government Auditing Standards*. These instances of noncompliance are included in the Findings and Recommendations section of this report as items 2 and 4.

We considered these instances of noncompliance in forming our opinion on whether TJCC=s Schedule of Job Corps Expenses are presented fairly, in all material respects, in conformity with the accounting principles described in Note 1. This report does not affect our report dated December 14, 2001, on that schedule.

This report is intended solely for the information and use of the TJCC=s management and the U.S. Department of Labor, Office of Inspector General and Office of Job Corps. This report is not intended to be, and should not be, used by anyone other than these specified parties.

R. Navarro & Associates, Inc.
San Diego, California
December 14, 2001

R. Navarro & Associates, Inc.

FINDINGS AND RECOMMENDATIONS

1. Lack of Documentation for Security Services Subcontract Results in Questioned Costs of $645,945

During our audit period, the contractor utilized an outside company to provide security services at the Center. The total amount paid to this subcontractor during our audit period was $645,945, which included direct labor charges, plus indirect charges at 6.5 percent, plus a provision for profit (fixed fee), as follows:

Direct costs	$
G & A @ 6.5%	
Contractor=s Fee	
	$

A subcontract of this type and size would normally require formal negotiation using competitive procedures and approval by DOL prior to issuance, in accordance with Job Corps' policy and the Federal Acquisition Requirements (FAR). However, according to the contractor, this subcontract was jointly proposed as part of the Center operating contract, was an integral part of that proposal, and, therefore, was approved by DOL upon acceptance of the Center proposal. While we concur that this subcontract was identified in the Center operating proposal negotiated with the DOL, we noted the following:

a. We requested a copy of the written subcontract negotiated between the contractor and subcontractor that set forth the scope, payment terms, and other pertinent criteria governing the services to be provided. A subcontract was not provided by either the Center or the subcontractor. The only documents available were those submitted with the Center operating proposal, which included background information about the subcontractor, a brief (two-sentence) statement of the services to be performed, and a proposed budget. No written subcontract agreement was provided which established the exact scope of services, the levels and rates agreed to by both parties, the applicable regulations, the applicable FAR clauses governing these services, etc. In addition, there was no documentation which provided evidence that the fees paid to this contractor were determined to be competitive.

   This lack of documentation is contrary to the subcontracting plan submitted by the contractor to DOL (in which the security subcontractor is identified as one of the Centers planned subcontractors). The plan indicates that AAll subcontracts will clearly define the scope of the work to be performed, delivery schedule, reporting and interface relationships, performance standards, subcontractor evaluation procedures, inspection, insurance and termination clauses; terms and conditions; and any other government or company required policies and procedures.@ (Subcontracting Plan - 5, August 18,

1999) The plan also indicates that subcontracting policies emphasize Abuying at the lowest possible cost@ and Adeveloping and using multiple sources of supply for maximum competition whenever possible.@ (Subcontracting Plan - 1, August 18, 1999)

Furthermore, subcontracts for goods or services of any nature should include a written contractual agreement that sets forth the terms and responsibilities of all parties involved. This is a prudent business practice and is necessary to ensure that Job Corps resources are used only for their intended purpose, and that the integrity of the funds provided by the Federal government is adequately protected.

Because there was no written contract between the Center and the subcontractor, and the information provided in the proposal was very limited, we were unable to ascertain the exact scope of services to be performed or the other pertinent terms or conditions of the subcontracted services. As a result, we were unable to determine if the costs incurred for this subcontract were reasonable and incurred in accordance with the Job Corps' contract and applicable regulations. The total costs incurred of $645,945 represents questioned costs. In the following paragraphs, we have separately questioned specific items identified for this subcontract which are considered to be unsupported or otherwise unallowable.

b. We requested support for the actual charges incurred for this subcontract during the audit period and were provided with invoices that had been submitted to the Center by the subcontractor. The invoices did not indicate the number of labor hours billed, the dates that labor hours were incurred, or the labor positions or rates charged. Rather, the invoices only indicated the total amount charged for labor, indirect and fixed fee. There was no supporting documentation provided for the amounts charged, and the Center processed the invoices for payment without adequate support. No independent records were maintained at the Center on the dates and times of services performed.

We were informed that supporting payroll records were available at the subcontractors offices. Therefore, we subsequently visited the subcontractor and performed tests of the payroll records presented in support of the invoices paid by the Center. We found the following:

S Time sheets could not be located in support of the first three payroll periods invoiced to the Center (pay periods ending July 7, July 14, and July 21, 2000). The related salaries and fringe benefits of $28,910, plus related G&A charged by the contractor of $1,879 represents questioned costs.

S We noted that the subcontractor charged the Center for salaries and fringe benefits related to an individual who held an administrative support position within the company. This job position was not specified in the Job Corps proposal as a direct labor charge, and the salaries and fringe benefits charged for this individual of $20,125, plus related G&A charged by the contractor of $1,228 represents questioned costs.

c. The invoices reviewed reflect that a contractor=s (fixed) fee was paid to the subcontractor. However, the subcontract budget detail submitted with the Center operating proposal did not provide for a contractor=s fee. Rather, it indicated only direct costs and G&A charges. Furthermore, subcontracts that include a provision for fixed fee require specific notification to the awarding Federal agency. The total fixed fee paid to the subcontractor of $30,760 represents questioned costs.

d. The invoices reviewed reflect that the subcontractor was paid G&A at a rate of 6.5 percent. However, the proposal submitted to DOL indicated that G&A would be paid at a rate of 5 percent. The difference of 1.5 percent resulted in overcharges of $8,665, an amount that represents questioned costs.

The regulations state the following:

> The Job Corps Director shall ensure that sufficient auditable and otherwise adequate records are maintained to support the expenditure of all funds under the Act. 20 CFR ' 638.800
>
> A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. 48 CFR ' 31.201-2 (d)
>
> (a) A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business . . . . (b) What is reasonable depends upon a variety of considerations and circumstances, including . . . . (2) Generally accepted sound business practices, arm=s length bargaining, and Federal and State laws and regulations . . . . 48 CFR ' 31.201-3
>
> Under cost-reimbursement contracts, even if the contractor has an approved purchasing system and consent to subcontract is not required under 44.201-1, the contractor is required by statute . . . to notify the agency before the award of (a) any cost-plus-fixed-fee subcontract . . . . 48 CFR ' 44.201-2

Recommendations

We recommend that the Assistant Secretary for Employment and Training require the contractor to:

Refund $645,945 because documentation maintained by the contractor did not substantiate that these costs were reasonable and allowable costs, incurred in accordance with the terms of the Job Corps’ contract and applicable laws and regulations.

Ensure that subcontracts for goods or services of any nature include a written contractual agreement that sets forth the terms and responsibilities of all parties involved.

Ensure that invoices submitted for any subcontracted services include adequate support for the amounts billed, such as time sheets or logs of hours incurred, by individual; by date; the related hourly rate(s) billed; and other pertinent documentation.

Ensure that charges to the Job Corps' contract include only those charges negotiated with the subcontractor and approved by the DOL.

Contractor's Response

The contractor did not respond specifically to the recommendations listed above. However, the contractor provided the following:

The auditors are correct. Although CUBE had been included as a major subcontractor in our proposal and we received the services for which we were billed, we failed to execute a written agreement with CUBE. Due to pressures of start-up, this requirement was overlooked. Since there is clear evidence that the subcontracted services were provided, this is an administrative issue. As such, the Contracting Officer can retroactively approve a written contract for these services. We submitted such a subcontract to Donald E. Scott, Contracting Officer, Office of Youth Services and Job Corps, Region III. In a letter dated 19 May 2003, he approved the contract.

The contractor provided a copy of the subcontract and the letter documenting Job Corps' retroactive approval.

Auditors' Comments

Our audit conclusions remain unchanged, despite the fact that a written subcontract was retroactively executed and approved by the Regional Office.

In our discussions with the contractor, we were told that information regarding the subcontractor (CUBE) and the services to be provided were specifically identified in the center proposal, and as such were an intregal part of that proposal. This was used to justify the fact that the security services were not competitively bid, and that the contractor did not request regional office approval of the subcontract (the contractor claimed that acceptance of the proposal was, in fact, acceptance of the "subcontract" for security services). Accordingly, we performed audit tests to ascertain whether the costs charged by CUBE, at a minimum, were in accordance with the terms of the proposal. As noted in our finding, we found discrepancies between the terms of the proposal and the actual charges for security services.

In response to our finding, the contractor has presented a subcontract agreement, retroactively executed and approved by the Regional Office, that changes the terms of the proposal for each area identified as a discrepancy in our audit finding. The specifics are as follows:

- The proposal allowed G&A costs of 5 percent. The rate was changed in the subcontract agreement to 6.5 percent, the actual amount billed by CUBE.

- The proposal did not include a provision for a fixed fee. A provision was added to the subcontract agreement for a fixed fee of $[redacted] the actual amount billed by CUBE.

- The proposal included direct labor and fringe for security personnel only. Administrative charges were only provided as part of the G&A rate. Direct labor charges were added to the subcontract agreement for one secretarial position, the actual position billed by CUBE throughout the year.

We do not believe that it is appropriate to mirror the subcontract agreement to reflect actual payments made to CUBE, rather that using the terms set forth in the original proposal, since the proposal (while limited) was the only evidence as to the original agreement between the contractor and subcontractor.

In addition, the Regional Office retroactively approved the CUBE contract based partially on the fact that the resulting costs were less that those budgeted in the proposal. However, we do not concur that this is an indication that the costs incurred were reasonable. The proposed versus actual costs are as follows:

	Proposed	**Actual**	
Direct labor and fringe			
Security	$ [redacted]		
Administration			
G& A			
Other direct costs (supplies)			*
Fixed fee (profit)			
Total	$		

* According to the subcontract, supplies were paid by the contractor not the subcontractor. However, the proposal provided a budget for the subcontractor to pay these costs.

While the actual costs were in fact less than the proposed costs, this was due to a reduction in the actual wages paid for security personnel, and to the fact that the contractor paid for security supplies rather than the subcontractor. The actual charges reflect an increase in administrative costs and include a provision for profit not included in the original proposal. We do not concur that the decrease in total contract costs provides a basis by which to conclude that the costs incurred were reasonable or that services were provided as originally proposed.

Finally, the contractor's response did not address the fact that CUBE could not locate timesheets in support of all payroll charges for the first three weeks of operation.

Our recommendations remain unchanged.

2. Insufficient Controls over Payroll Processing

The TJCC was jointly operated by two separate entities during the audit period, Global Associates and ETR, Inc., the protege subcontractor. The Center used an outside payroll service to process payroll for both companies. Our audit of the TJCC=s payroll expenses identified the following deficiencies.

a. We noted that the employee leave balances were not accrued in accordance with existing personnel policies. Both ETR and Global Associates personnel policies provide 80 hours of sick or short-term leave and 80 hours of annual leave per year. The Global employee handbook states that the leave accrual is 3.6924 hours per pay period (up to the 80 hours maximum). ETR policy states employees accrue 8 hours a month up to the 80 hour maximum, rather than a set amount per pay period.

   Assuming an equal accrual per pay period, the accrual rate would be 3.0769 hours per pay period (80 hours per year/26 biweekly pay periods = 3.0769 hours per pay period). However, our tests of the accrued leave records identified that leave was actually accrued at a rate of 3.34 hours per pay period, or in some cases, 3.18 hours per pay period. The accrual of 3.34 hours per pay period is the computation for a semimonthly payroll (80 hours/24 pay periods = 3.34 hours per pay period) rather than a biweekly payroll. The Center staff believed that 3.34 was the correct accrual, and did not know why some employees were accruing at a different rate (3.18). In either case, the rates applied were not in accordance with existing personnel policies and resulted in incorrect accruals of sick and annual leave. The ending balances for many employees exceeded the maximum of 80 hours per year.

   In response to this finding, Center staff indicated that they were planning to transfer to a different accounting and payroll system. However, we conclude that this situation was not caused by the payroll service. Rather, it was caused by a lack of sufficient internal controls within the payroll department to detect and correct the excess leave accruals on a timely basis.

   ETR personnel policies state the following:

   > Vacations. Eligible employees, with one to five years of service, will accrue vacation hours during each month of active employment at the rate of (8) hours (one working day) per month, up to a maximum accrued vacation time of eighty (80) hours (10 working days). Employee Handbook, Turner Job Corps Center, ETR, p. 30.
   >
   > Short Term Absences. Regular, full-time employees accrue short term absence hours during each month of employment at the rate of eight (8) hours (one working day) per month, up to a maximum accrued short term absence time of eighty (80) hours (10 working days). Employee Handbook, Turner Job Corps Center, ETR, p. 31.

Global Associates personnel policies state the following:

> Vacation Leave. All regular status exempt and non-exempt staff accrue the following hours of Vacation Leave: During one (1) to five (5) years of service, staff members accrue a maximum of eighty (80) hours of Vacation Leave per year. Vacation Leave is accrued at a rate of 3.6924 hours per pay period for full-time staff. Employee Information Handbook, Turner Job Corps Center, Global Associates, p. 25.
>
> Sick leave. Staff accrue ten (10) days of sick leave per year. A maximum of eighty (80) hours can be accumulated with <u>no cash out</u> option for unused sick leave. Employee Information Handbook, Turner Job Corps Center, Global Associates, p. 25.

In addition, the cost principles applicable to Job Corps contractors indicate that payment of annual and sick leave is an allowable contract cost only if paid in accordance with contractor policy. The cost principles state the following:

> The costs of fringe benefits are allowable to the extent that they are reasonable and are required by law, employer-employee agreement, or an established policy of the contractor. 48 CFR ' 31.205-6(m)(1)

b. Our audit of payroll expenses included a test of 66 payroll transactions. This test identified numerous exceptions, as follows:

- S The Personnel Payroll Action Form (PPAF) which documents the approved rate of pay could not be located for one sample.
- S The time cards were found to contain mathematical errors for 12 samples, because the hours logged for a particular day did not agree to the total hours reflected for that day. This caused both overpayments and underpayments to these employees.
- S Leave taken was not recorded against leave balances but was paid as regular time for three samples. In one of these cases, an employee was paid for 6 hours of sick time which was not reflected on the time card and resulted in an overpayment.
- S Time cards were not signed by the supervisor for four samples.
- S The approved rate (as of July 2000) for one sample was $13.23. However, the actual rate paid (as of September 2000) was $11.32.
- S For one sample, the approved rate (as of July 2000) was $13.23 per hour. However, the letter of offer dated June 21, 2000, indicated a rate of $11.55 per hour.
- S The PPAF was not located in the employee files provided for two samples. This was brought to the Center=s attention, and we were subsequently provided with PPAF forms dated July 2000. However, the rates of pay indicated on the forms were not the actual rates paid until September 2000, 3 months after the effective date indicated on the PPAF.

- In one sample, the wrong amount was paid. The transaction was entered for 80 hours at an authorized rate of $12.21 per hour, or $976.80. However, the gross amount of the check was $1,000.80.
- For 12 samples, the actual rate of pay exceeded rates proposed for like positions on the Job Corps proposal, and two were not listed on the proposal.

Of the 66 samples tested, 29 (44 %) had at least one exception. While only certain of these errors resulted in overpayments or underpayments, and the dollar amounts involved were not material, these sample results indicate a very high level of control risk over the processing of payroll transactions. Payroll transactions were not being properly reviewed for accuracy and many mistakes went unnoticed. We conclude that the internal controls in place at the Center were not sufficient to identify and correct payroll errors on a timely basis, resulting in a high risk of error over payroll expenses.

> The Job Corps Director shall ensure that sufficient auditable and otherwise adequate records are maintained to support the expenditure of all funds under the Act. 20 CFR § 638.800
>
> A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. 48 CFR § 31.201-2 (d)
>
> The Job Corps Director shall establish procedures to ensure that each center operator and each subcontractor maintain a financial management system that will provide accurate, complete, and current disclosures of financial results of Job Corps operations, and will provide sufficient data for effective evaluation of program activities. Fiscal accounts shall be maintained in a manner that ensures timely and accurate reporting as required by the Job Corps Director. 20 CFR § 638.808

c. Payroll expense is recorded in the payroll registers, journalized to the general ledger, and reported on the ETA 2110. For the most part, the payroll registers indicate each employee's department code, which translates to a corresponding general ledger account and to a line item in the ETA 2110. However, we noted that the payroll register and department listing did not include department codes for all job positions. We noted two key positions, the Administrative Services Director Protégé and the Center Director Protégé, that were not coded with a department code.

The finance manager stated that the coding for these positions was made to the correct departments based on his knowledge of which accounts to use, and did not consider this a problem since he was the only one responsible for coding payroll. Although our testing did not identify payroll expenses coded to the wrong general ledger accounts, the correct classification of transactions should not be dependent upon the knowledge of one individual, rather, this should be documented in the Center's accounting procedures. We conclude that all positions should be treated consistently and included in the chart of accounts.

The likelihood and risk of misstatement increase when tasks such as transaction coding are not performed in accordance with an established chart of accounts.

> The Job Corps Director shall establish procedures to ensure that each center operator and each subcontractor maintain a financial management system that will provide accurate, complete, and current disclosures of financial results of Job Corps operations, and will provide sufficient data for effective evaluation of program activities. Fiscal accounts shall be maintained in a manner that ensures timely and accurate reporting as required by the Job Corps Director. 20 CFR § 638.808

d. We noted that two academic instructors did not have teaching credentials, even though these are required by both Job Corps and TJCC policy. The job descriptions provided by the Center stated that teaching credentials were required for these instructor positions. In addition, the PRH states the following:

> Center operators and OAP contractors shall ensure that all staff hired meet the minimum qualification levels specified in Exhibit 8-3. PRH, Chapter 8, p. 8-6.

> Academic Instructor [minimum qualifications]. Certified to teach in State in which center is located (may be waived by RO if center unable to hire certified teachers, but must pursue certification). PRH Chapter 8, Exhibit 8-3, p. 1.

The Center indicated that it understood that a college degree would suffice to qualify as an instructor. As a result, the Center is not in compliance with the staffing requirements outlined by the Job Corps Program for the use of the funds in regard to academic instructors.

e. Two personnel payroll action forms (PPAF) requested during our review of accrued leave balances were not available. According to Center personnel, the new contractor (effective July 1, 2001) rehired some of the Center staff employed by the prior contractor. When this happened, corporate personnel handled the hiring, letters of offer, and the creation of personnel payroll action forms, along with entering the new pay rates for employees in the database. Not all of this documentation was consistently included in the employee files.

The Job Corps Director shall ensure that sufficient auditable and otherwise adequate records are maintained to support the expenditure of all funds under the Act. 20 CFR ' 638.800.

A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. 48 CFR ' 31.201-2 (d)

Recommendations

We recommend that the Assistant Secretary for Employment and Training direct the contractor to:

Take the necessary steps to improve existing controls at the Center to ensure that adequate records are maintained in support of payroll transactions; that all positions include department codes; and that the processing of the biweekly payrolls is well documented, approved, and results in accurate and properly classified payroll transactions. Specifically, the contractor should ensure that biweekly payrolls are reviewed for accuracy prior to distribution of the payroll checks.

Review existing leave policies and ensure that sick and annual leave is accrued at a rate in accordance with such policies. Payroll records should be periodically verified to ensure that leave is set up correctly with the payroll service, and that the resulting leave balances are accurate.

Obtain Job Corps' regional office approval in cases where instructors do not have the required licenses or credentials.

Contractor's Response

With certain exceptions, the contractor concurred with our audit findings and provided various explanations for many of the payroll discrepancies noted in our report. In general, the response focused on the fact that a new contractor operates the center, and that changes have been made to various procedures used to control and account for center payroll transactions. Notable exceptions were:

- The contractor contended that the Child Care Specialist position was listed in the center business proposal;
- The contractor contended that discrepancies between actual and approved rates of pay were corrected with retroactive pay adjustments; and
- The contractor contended that waivers were obtained for non-certified instructors.

Specific responses to our recommendations were provided as follows:

> *We feel that sufficient internal controls are currently in place to identify and correct payroll errors in a timely manner and adequate records are maintained in support of payroll transactions . . . .*
>
> *All staff in the payroll system currently are assigned department codes.*
>
> *The current CSD payroll system does provide a report of gross pay and deductions which the payroll clerk reviews for accuracy prior to checks being processed. ETR is still on the original ADP software version and this review is performed after the checks arrive on the Center . . . . ETR has purchased a new software system that includes a payroll module. The payroll module will be in operation in July or August, 2003 and will provide the capability to review gross/deductions calculations prior to the issuance of pay checks.*
>
> *The Center is currently adhering to these [existing sick leave and annual leave] policies . . .*
>
> *We make every effort to hire instructors who are certified. When we are not able to do so, a waiver is obtained from the Department of Labor.*

Auditors' Comments

We concur with the contractor's stated intentions to improve internal controls over the payroll process. However, no documentation was provided beyond the contractor's written response, and we cannot conclude as to the effectiveness of any controls implemented subsequent to the period covered by our report. Our findings and recommendations remain unchanged.

With respect to the Child Care Specialist position, we are aware that the proposal lists these positions for line 13 of the center operating budget (Child Development Center). However, the budget for line 13 was $0. These costs were to be paid with other funding sources and were not part of the proposed Job Corps contract costs. The child development staff noted in our finding were charged to line 5 of the ETA 2110, as residential advisors.

With respect to retroactive pay adjustments and waivers for non-certified instructors, we were not provided with documentation to substantiate the contractor's statements that appropriate pay adjustments were made to the respective center employees, or that regional office waivers were obtained for non-certified instructors. Documentation was not provided at the time the center was presented with our initial audit results or with the written response to the draft report.

3. Need to Improve Accountability over Inventories of Consumable Supplies

Job Corps Centers are required to maintain perpetual inventories of consumable supplies for clothing, food, educational and vocational materials, medical and dental supplies, fuel, and other inventory items. In general, purchases of inventory items are vouchered at the time of receipt and expensed as items are issued from inventory for use at the Center. Centers are required to process all receipts and issues through the inventory accounts in order to maintain a complete accounting of inventory items. Our audit of the TJCC=s inventory system and records disclosed certain discrepancies which are described as follows:

a. The source documents provided for inventory issues (i.e., amounts distributed from inventory) did not add up to the total issues recorded in the general ledger and reported on the ETA 2110. We requested records of inventory issues, including the supporting request slips. The files provided contained numerous computer printouts listing inventory issues, which were attached to the approved request slips. We totaled these documents for the month of June 2001 and noted that the total dollar amount was about $39,000 less that the $199,000 of inventory issues reported on the ETA 2110. In order to determine if this difference was caused by adjustments for inventory shortages, we obtained the records of inventory adjustments for the same month. However, the adjustments provided by the Center only totaled to about $2,000, and there were no large shortages reported on the ETA 2110 for the month. We also noted one inventory issue report of $5,187 for food was not supported by approved request slips. (Costs were not questioned because this was an isolated occurrence.)

   Part of the problem we believe was due to the fact that inventory records are not organized and tracked by ETA 2110 category. Rather, the records for multiple categories are filed together making it difficult to determine which issues support the respective ETA 2110 category.

b. While scanning the inventory issue reports for medical and dental supplies, we noted instances where the value of the issues was computed using a zero cost. A review of the issues entered in the system shows the system assigned $0 unit cost to items issued from the medical and dental inventory account, which are transferred to the medical and dental expense category. This has the result of overstating the dollar value of the ending inventory and understating medical and dental expenses.

   We inquired about this finding and were informed that while the finance manager was unaware of the computer problem, the data entry staff had previously identified that the computer system was not working properly. The computer problem was rectified, however, the value of past issues of inventory was not adjusted. As a result, medical and dental expenses remain understated, and ending inventory values overstated on the ETA 2110. While our estimate of the amount misstated is not considered to be material for audit purposes, had this situation occurred in the food or other inventory categories, it could have resulted in a much higher misstatement.

Based on these facts, we conclude that the Center did not exercise adequate accountability over Center inventories. These inventories are Federal assets, and the lack of accountability increases the risk that such assets may not be used for their intended purpose.

The PRH requires Center operators to safeguard and account for consumable inventories, as follows:

> It is important to note that inventory is a government-owned asset and must be protected and accurately reported. All receipts and issues in the inventory accounts must be recorded. Abnormally high or low usage in a particular category may not be evident if records do not reflect total usage. PRH, Chapter 9, Appendix 901, p. 64
>
> The contractor, however, must exercise due diligence and control over such property [inventory] to maximize its use and minimize the potential for theft and diversion to personal use. At a minimum, the expendable property must contain the following components/capabilities: A. Receipts . . . ; B. Distributions . . . ; C. Remaining Balance . . . ; D. Inventories. The records must be verified through periodic inventories, not less than once per quarter. ETA Handbook 359, Supplement for Job Corps Property Managers, Chapter VI, Section 3, pp. 4-5

Recommendations

We recommend that the Assistant Secretary for Employment and Training require the contractor to:

> Improve the accountability over inventories of consumable supplies to ensure that records of inventory issues are consistently filed and maintained, and that the inventory system generates an accurate accounting of all receipts, issues, and ending inventory balances.
>
> Identify the exact amount of medical and dental issues that were not properly reflected as expense on the general ledger and ETA 2110. Once the amount is identified, an adjustment should be recorded to both records.

Contractor's Response

In response to this finding, the contractor describes various inventory procedures currently used by the center to account for inventories of consumable supplies. With respect to our audit recommendation, the contractor states:

> *We feel that the Center currently has a system with adequate accountability for inventories of consumable supplies . . . . The Finance Manager reviews and verifies that the total issues amounts per the source documents agree with the issues amounts per the*

ETA 2110. CSD policy requires that physical inventories be conducted in accordance with the PRH. If variances occur between the physical and book inventories, the book inventory is adjusted to the physical inventory count valuation.

We are currently in the process of identifying the amount of medical and dental issue costs as recommended and will make any necessary adjustment to the general ledger and ETA 2110.

Auditors' Comments

We concur with the contractor's stated intentions to provide adequate control over the inventory process. However, no documentation was provided beyond the contractor's written response, and we cannot conclude as to the effectiveness of any controls implemented subsequent to the period covered by our report. Our findings and recommendations remain unchanged.

4. Need to Improve Controls over Property and Equipment

The Job Corps program uses a property management system, entitled EPMS, to track and manage non-expendable property held at the Job Corps Centers. All Centers are required to electronically input pertinent property data into the system and to maintain all associated documentation in support of the entries recorded. The Inventory Master List (IML) is generated on a monthly basis from EPMS, and Center operators are responsible to review the IML and verify that the inventory and transactions processed within the period are accurate.

Our tests of the Center=s non-expendable property and equipment identified the following:

a. We noted many items of non-expendable property and equipment were not tagged with DOL property tags, as explained below:

S We selected a sample of non-expendable property acquired during the audit period. Of the 16 items in the sample, 8 items were not tagged as DOL property. These included five computers, one television, and two other pieces of equipment. In performing this test, we observed 15 additional acquisitions, computers with monitors and computer cameras, which were not tagged.

S We selected 15 items from the IML to verify their physical existence at the Center. We noted one item, an offset machine with a cost of $23,589, which was not tagged as DOL property. (We identified the machine with the serial number label affixed by the manufacturer.) At the same location, we observed two additional offset press machines, valued at $8,500 and $12,430, respectively, which were not tagged as DOL property.

S We selected 10 serialized pieces of equipment from the Center premises to see if the items were recorded in the IML. We noted that 4 of these 10 items were not tagged as DOL property. These included a computer, a monitor, a radio, and the copier in the records office.

According to Center staff, many of the items in question were Aold@ and the tags had fallen off. However, this did not explain the lack of tags on current year acquisitions. We conclude that the Center was not adequately tagging property and equipment as required in the regulations. Proper identification of Center property as AUS Department of Labor@ is essential to ensure that these Federally-owned assets are properly safeguarded and used only for their intended purpose. The regulations require the following:

> All non-expendable Federal property whether owned, loaned, or rented, must be labeled with DOL property decals upon receipt by the contractor . . . . The required information is AU.S. Department of Labor,@ the item code assigned the item in the EPMS, and the item=s

serial number. ETA Handbook 359, Supplement for Job Corps Property Managers, Chapter VI, Section 9.A.IV, p. 13

b. We tested 16 items of property acquired during our audit period and found that 6 items were received but not entered in EPMS on a timely basis. (The EPMS requires property to be entered within 10 days of receipt.) These are as follows:

Serial Number	Description	Date Received	Date Recorded in EPMS	Number of Days
CMA025CG43HP133	Computer monitor	10-11-00	1-4-01	55
EUR005001831	Vacuum cleaner	2-23-01	3-16-01	21
HWPMY08G15281	Laser printer	10-11-00	1-4-01	55
HWPUSBB378641	Laser printer	10-10-00	1-4-01	56
MOT869FBC2634	Radio unit, 2 way	2-20-01	3-7-01	15
SHA708461	Television	11-28-00	1-11-01	45

If property is not recorded in EPMS on a timely basis, the property is not accorded the safeguards of the system, thereby increasing the risk of loss or misuse.

> The contractor is responsible for updating EPMS and supplying all associated supporting documentation to the RJC [Regional Job Corps] property officer within 10 working days of property activity. (Job Corps Centers should maintain their electronic transactions at least on a weekly basis). ETA Handbook 359, Supplement for Job Corps Property Managers, Chapter VI, Section 4, p. 5

c. Of the 16 property acquisitions selected for testing, we noted that 7 laser printers were purchased without obtaining the required Property Requisition List (PRL). These items were all purchased with PO #685 dated 9-29-00. The Center should have had a PRL for the PO, given the individual item amounts.

The Center property manager stated that according to prior versions of the PRH, a PRL was not required for items costing less than $500 regardless of the PO total dollar amount. However, the PRH in effect during the audit period, November 1999, as well as the previous version dated October 1998, do not indicate such guidelines. Rather, the PRH requires that contractors account for expendable and non-expendable property in accordance with ETA Handbook 359.

> DOL/ETA requires that all contractors use a PRL to inform DOL of their requirements for non-expendable personal property that the contractor wishes to procure with Government funds. ETA Handbook 359, Chapter III, Section 2, p. III-1

> Non-expendable property includes the classes and types of property listed below. (a) Furniture regardless of cost. (b) Any other property,

regardless of classification, that has a unit acquisition cost of $50 or more. ETA Handbook 359, Chapter I, Section 3.m.(2), p. I-3

We conclude that the Center was not in compliance with the requirement to obtain DOL approval via the submission of a PRL for all required purchases of non-expendable property, as defined by the regulations.

d. We selected a sample of 15 items from the IML to determine if the items could be physically located at the Center, were actually at the correct location as listed in the IML, and were in usable condition. We observed the following:

- One paving machine with a cost of $94,000 was not found at the Center, and the property officer was not aware of its location. Subsequently, the property officer found that the machine was located in Maryland with the paving instructor and the paving class. However, no paperwork was used to monitor the temporary transfer of this machine to an off-center location. The property manager advised that it is necessary for some machines to be transferred off Center, and the instructors would always know where the machines were located.

  This lack of documentation for temporary transfers of property is not in accordance with DOL policy. In such cases, Center operators are required to document transfers of property using a hand receipt system, as follows:

  > . . . contractors must establish a hand receipt system for documenting temporary movement of property between locations. Contractors are responsible for knowing where Federal property assigned to them is at all times, and hand receipts should reduce the time spent updating EPMS to accomplish temporary and/or interim moves of property. ETA Handbook 359, Supplement for Job Corps Property Managers, Chapter VI, Section 4, p. 6

- Two computers with an aggregate value of $31,613 were also not found at the Center. According to the property manager, these items had been disposed of.

  One item was transferred to another Center on a SF-122, signed by the Job Corps Regional Office on June 30, 2000. While the disposition was approved, the item should have been taken off EPMS within 30 days of disposition. Over a year later the equipment was still listed in the TJCC's IML. The Center property manager indicated that EPMS was not yet updated.

  No paperwork was available to document the disposition for the second item. The Center property manager indicated that possibly the approval was not yet given, in which case the equipment should not have been removed from EPMS. However, the documentation requesting the disposition approval (form SF-120) was not available.

> All disposition actions require interaction between the contractor and the Regional Job Corps (RJC) property officer, i.e., the contractor must contact DOL before property disposal. No property can be removed from the EPMS without the requisite approvals and substantiating documentation described in this Chapter. ETA Handbook 359, Supplement for Job Corps Property Managers, Chapter VII, Section 1, p. 16
>
> Once relief of accountability for an item has been obtained, the contractor should arrange for removal of the property within 30 days of such notice. ETA Handbook 359, Supplement for Job Corps Property Managers, Chapter VII, Section 2.D., p. 18

e. We selected 18 property items disposed during our audit period to ascertain whether the Center followed the guidelines of the ETA Handbook 359. We determined if the Center prepared an SF-120, obtained DOL approval, adhered to Job Corps Data Center officer instructions, and accurately removed the item from EPMS within 30 days of DOL approval. We found the following:

S Three items were disposed and taken off EPMS before requesting approval from the Regional Office, and before submitting the required SF-120. Although, the SF-120 was subsequently submitted to DOL, and the Region granted permission, this process is required before rather than after the actual disposition. Obtaining approval after disposition defeats the purpose of this procedure.

S Written DOL approval was not provided for three items.

S Form SF-120 was not provided for three items.

Based on these facts, we conclude that the Center was not consistently following the requirements for disposition of non-expendable property. When these requirements are not followed, controls over the unauthorized removal of government-owned property from the Job Corps Center are substantially weakened, and property is not adequately safeguarded against loss, theft, or misuse.

The ETA Handbook 359 includes the following requirements with regards to property disposal:

> DOL requires that all non-expendable DOL personal property that the Contractor wishes to dispose of, regardless of cost, condition, classification, and/or group number, be reported to DOL on SF-120 for disposition. ETA Handbook 359, Supplement for Job Corps Property Managers, Chapter VII, Section 2.A., p. 17

> All disposition actions require interaction between the contractor and the Regional Job Corps (RJC) property officer, i.e., the contractor must contact DOL before property disposal. No property can be removed from the EPMS without the requisite approvals and substantiating documentation described in this Chapter. ETA Handbook 359, Supplement for Job Corps Property Managers, Chapter VII, Section 1, p. 16
>
> Once relief of accountability for an item has been obtained, the contractor should arrange for removal of the property within 30 days of such notice. ETA Handbook 359, Supplement for Job Corps Property Managers, Chapter VII, Section 2.D., p. 18

Recommendations

To ensure that Federal assets are adequately accounted for and safeguarded in accordance with Job Corps requirements, we recommend that the Assistant Secretary for Employment and Training require the contractor to improve the internal controls over acquisition, maintenance, and disposition of non-expendable property and equipment. Specifically, the contractor should ensure that (1) all Center property is tagged; (2) EPMS is updated on a timely basis; (3) temporary transfers of property are tracked with some form of hand receipt system; and (4) all purchases and dispositions of property and equipment are approved by DOL in accordance with Job Corps' policy and procedures.

Contractor's Response

With certain exceptions, the contractor concurred with our audit findings and provided various explanations for many of the property discrepancies noted in our report. In general, the response focused on the fact that a new contractor operates the center, and that changes have been made to various procedures used to control and account for center property. Notable exceptions were:

- The contractor contended that the March 1994 edition of Job Corps' PRH specified a PRL approval threshold of $500, and that while subsequent editions are silent on this threshold, the policy remains that non-expendable property with a unit cost less than $500 do not require the use of a PRL. The contractor indicated that they received an email from the Regional Office confirming that PRL approval is only required for items costing $500 or more.
- The contractor contended that copies of all SF120s were provided to the auditors onsite, and that only one audit sample had an approval date subsequent to the date disposed. The contractor also explained that the system used by the center allowed dispositions of property once a SF120 was "acknowledged" by the regional office, and that this would sometime occur prior to the date the SF120 was received by the center.

Specific responses to our recommendations were provided as follows:

All center property is tagged. As described above, the Property Department ensures that all property is tagged prior to delivery to the appropriate custodian. Property personnel also spot check for tags on a weekly basis. Labels are sent to all custodians during quarterly inventories and are made available to all staff. Annual custodian training and quarterly inventory instructions reinforce these procedures.

EPMS is updated on a timely basis. The center currently updates the EPMS for all new acquisitions within 10 days. The Property Specialist delivers the accountable property to the responsible custodian. The custodian accepts receipt by signing a copy of the purchase order (PO). The Property Specialist returns the signed PO to a special file for this purpose on the Property Manager's desk for entry into the EPMS.

Temporary transfers of property are tracked with some form of hand receipt. As described above, hand receipts (internal move orders) are used to track temporary accountable property transfers on center. The original move order is retained by the custodian of record and a copy is issued to the temporary property custodian. The original move order is returned to the temporary custodian upon return of the property to the original custodian. All custodians are trained on this procedure during the annual property custodian training.

All purchases and dispositions of property and equipment are approved by DOL in accordance with the Job Corps policy and procedure. Currently purchases requiring PRL approval from the Regional Office are obtained prior to purchase; the Buyer and Finance Manager monitor for compliance. All dispositions are approved by the Center Director and Regional Project Manager and are then processed in the EPMS system for the Regional Property Specialist to approve. Once approved on the EPMS and the hard copies of the approved forms SF120 are received on Center, the property disposition is effected.

Auditors' Comments

We concur with the contractor's stated intentions to provide adequate control over center property and equipment. However, no documentation was provided beyond the contractor's written response, and we cannot conclude as to any controls implemented subsequent to the period covered by our report. Our findings and recommendations remain unchanged.

With respect to the PRL approval level, our audit conclusions were based on the PRH and regulations effective during the audit period (PYE 2001). These regulations did not specify a unique dollar threshold for obtaining DOL approval. However, we concur with the contractor that the 1994 version of the PRH specified that only non-expendable property costing $500 or more required prior DOL approval. We believe that the Office of Job Corps should clarify the current requirements for approving purchases of center property and equipment, and revise the PRH or regulations as necessary.

With respect to the SF120s, our conclusion remains that SF120s were not provided for all dispositions selected for our audit samples, and that certain SF120s were received by the Center subsequent to the date of property disposition. Copies of the SF120s in question were not provided by the contractor with their written response.

EXHIBIT I
CONTRACTOR'S RESPONSE TO DRAFT AUDIT REPORT

CSD CAREER SYSTEMS DEVELOPMENT CORPORATION

Turner Job Corps Center

Job Corps

etr Education and Training Resources

May 21, 2003

RECEIVED
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2003 MAY 22 AM 10: 40
OFFICE OF THE
INSPECTOR GENERAL
PHILADELPHIA, PA

Michael T. Hill
Regional Inspector General for Audit
Office of Inspector General
Philadelphia Regional Audit Office
The Public Ledger Building, Suite 1072
150 S. Independence Mall West
Philadelphia, PA 19106

Subject: Turner Job Corps Center
Contract No. 13-00-001-43
Audit for Program Year Ended 6/30/01

Ref.: Your Letter of 4/7/03, Subject: Draft Audit Report

Dear Mr. Hill:

Enclosed is our response to the referenced audit report. Thank you for extending the deadline for our response.

Our response includes a copy of the signed agreement between Global Associates and The Cube Corporation for the security services provided by Cube during the audit period. It also includes a letter from the Contracting Officer retroactively approving this agreement.

If you have any questions or require additional information, please contact me.

Sincerely,

John Henry Young Jr.

John H. Young
Center Director

Enclosure

2000 Schilling Avenue Albany, Georgia 31705 Telephone: (229) 883-8500 Fax: (229) 434-0383

THE REMAINING CONTRACTOR'S RESPONSE TO DRAFT AUDIT REPORT CONTAINS CONFIDENTIAL INFORMATION SUBJECT TO THE PRIVACY ACT. AND THE REST OF THE RESPONSE WILL NOT BE SHOWN.