

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



FROM: ELLIOT P. LEWIS
Assistant Inspector General
for Audit

SUBJECT: Allegations of Questionable Accounting Practices by
Applied Technology Systems Incorporated
Final Report No. 21-04-007-03-370

The Office of Inspector General received an anonymous complaint alleging various questionable accounting practices by Applied Technology Systems Inc. (ATSI), a prime contractor at the Cleveland Job Corps Center in Ohio, and a subcontractor to Management & Training Corporation at the Gary Job Corps Center located in San Marcos, Texas.

Specifically, the anonymous complaint alleged that:

- Three senior ATSI officials charged their entire salaries to the Job Corps contract, yet would have a difficult time accounting for work hours;
- Two of the three senior ATSI officials failed to file expense reports for Job Corps billing;
- A senior ATSI official traveled first class, contrary to Federal billing procedures; and
- If audited, ATSI would not be able to produce written policies and procedures, especially for their finance and accounting practices.

We evaluated the allegations and found that ATSI did not have approved operating procedures. However, the remaining charges could not be substantiated.

Objective, Scope, and Methodology

The objective of our evaluation was to determine the merits of specific allegations regarding unsupported salary and expenses charged to the Jobs Corps contract by senior level ATSI officials, a senior ATSI official disregarding Federal billing procedures by traveling first class, and a lack of written operating policies and procedures.

To determine the merits of these allegations, we reviewed three contracts awarded by Job Corps totaling \$28.8 million. These contracts included:

- Contract AE94006000 – to provide placement services in Mississippi, South Carolina and Tennessee, during the period November 1, 2000, through October 31, 2001.
- Contract 5-JC-977-39 – to operate the Cleveland Job Corps Center in Cleveland, OH, during the period August 1, 2000, through July 31, 2002.
- Contract JC-48-0-000110 – to operate the Gary Job Corps Center in San Marcos, TX, during the period November 1, 2000, through October 31, 2002.

We also reviewed related contract modifications, financial documents, and related reports maintained by the Employment and Training Administration (ETA) regional offices. In addition, we obtained financial records from the ATSI Chief Financial Officer, which included checks and check registers for the contract period August 2000 to December 2002; the Labor Distribution Journal for the period August 2000 to December 2002; the organization chart; contract modifications; ATSI's draft Internal Control Narrative dated December 31, 2003; and the Department of Labor's Policy and Requirements Handbook that describes the operation of the Job Corps program. Further, we conducted interviews with various ETA and ATSI personnel to ascertain and clarify information.

This evaluation was conducted in accordance with the *Quality Standards for Inspections* published by the President's Council on Integrity and Efficiency.

Results

Our conclusions regarding the merit of each of the four allegations are presented below:

Allegation

Three senior-level ATSI officials charged their entire salary to the Job Corps contract, yet would have a difficult time accounting for work hours.

Conclusion

Documents provided by ATSI show that the duties and responsibilities for these senior level officials pertain to Job Corps. According to the semi-monthly Labor Distribution Journal for the period August 2000 to December 2002, their labor hours were distributed among seven Job Corps labor categories. There are no detailed documents to support or refute the semi-monthly

labor hours and Job Corps does not require such records to be maintained. Based on the results of our evaluation, the allegations could not be substantiated.

Allegation

Two senior level ATSI officials failed to file expense reports for Job Corps billings.

Conclusion

We found that for one ATSI official mentioned in the complaint, expense reports were filed February 20, 2001 to December 16, 2002. For the other ATSI official mentioned in the complaint, expense reports were filed from May 8, 2001 to December 13, 2002. We reviewed these expense reports and compared them to travel vouchers submitted during these timeframes, and no discrepancies were found. Based on the results of our evaluation, the allegations could not be substantiated.

Allegation

A senior level ATSI official has been traveling first class, which is contrary to Federal billing procedures.

Conclusion

Based on our evaluation of expense records and related documents from Travel Express, Inc. (the travel agency used by ATSI), we found that the ATSI official did not charge first class travel expenses to the Job Corps account. In those instances where first class travel arrangements were made, the ATSI official used frequent flyer mileage previously earned to upgrade from economy class to first class. Therefore, based on the results of our evaluation, the allegation could not be substantiated.

Allegation

If audited, ATSI would not be able to produce written policies and procedures, especially for their finance and accounting practices.

Conclusion

We requested ATSI's operating policies and procedures, and were provided with the U.S. Department of Labor Handbook which stipulates that contractors shall establish standard operating procedures submitted to the regional office for approval within 90 days of contract award. Subsequent documentation provided by ATSI included a 4-page document in draft form entitled "ATSI Internal Control Narrative," dated December 31, 2003. This document included subsections related to cash receipts, cash disbursements, contracts, and journal entries. Since the latest contract award date was October 24, 2000, and ATSI's draft Internal Control Narrative has not been submitted to the regional office for approval, ATSI has not met the requirements

governing the operation of the Job Corps program as outlined in 20 CFR, subpart A, section 638.100. Therefore, the allegation is substantiated.

Recommendation

We recommend that the Assistant Secretary for Employment and Training ensure that ATSI has established written operating procedures and those procedures have been approved by the ETA Regional Office, as required by the Policy and Requirements Handbook, and the terms of ATSI's contracts with DOL.

In response to our draft report, ETA verbally informed the OIG that it agreed with the findings and recommendation. As a result, we consider the above recommendation to be resolved. This recommendation will be closed pending OIG's receipt of a copy of ATSI's approved written operating procedures. Please submit your response to this report within 60 days.

If you have any questions, please contact Dennis Raymond, Acting Director, National Office of Audit and Evaluations, at (202) 693-5227.

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cc: C. Ching
D. Raymond