# Financial and Compliance Audit of the Talking Leaves Job Corps Center July 1, 1995, through June 30, 1998

**Contract No. JC-3-40-00055**

**Office of Inspector General**
**Office of Audit**
**Report No. 06-99-010-03-370**
**Date Issued:**

## TABLE OF CONTENTS


Page

ABBREVIATIONS . . . iii

EXECUTIVE SUMMARY . . . 1

BACKGROUND . . . 4

OBJECTIVES, SCOPE, AND METHODOLOGY . . . 5

ASSISTANT INSPECTOR GENERAL'S REPORT . . . 6

FINDINGS AND RECOMMENDATIONS . . . 10

1. TLJCC's Indirect Cost Rates Were Excessive. . . . 10

   A. Job Corps paid the Nation for indirect costs for services that were either not related or already charged directly to the Job Corps program. . . . 11

   B. TLJCC's indirect cost rates were not reasonable compared to those charged by other Job Corps contractors. . . . 17

2. TLJCC Overcharged Expenses to the Program by Making Duplicate Payments. . . . 23

3. TLJCC's Property Management System Was Not Adequate to Safeguard and Account for Job Corps Assets. . . . 26

   A. A substantial amount of the furniture and equipment purchased was not included on the CPMS. . . . 26

   B. Job Corps' equipment was missing, and TLJCC's inventory was inaccurate, incomplete, and outdated. . . . 27

## TABLE OF CONTENTS

Page

FINDINGS AND RECOMMENDATIONS (cont'd)

4. TLJCC's Financial Reports Did Not Provide Reliable, Timely Information Preventing their Usefulness as a Management Tool. . . . . . . . . . . . . . . . . . 30

   A Monthly 2110s contained numerous inconsistencies and mathematical errors. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 30

   B. Vouchers often did not agree with monthly 2110s. . . . . . . . . . . . . . . . . . . . 32

   C. Financial reports were often late or not submitted. . . . . . . . . . . . . . . . . . . . . 34

   D. Certain expenses were misclassified. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 34

   E. TLJCC made journal entries to the general ledger to force the general ledger to agree with reported costs. . . . . . . . . . . . . . . . . . . . . . . 35

5. Weaknesses in TLJCC's Internal Control and Financial Management Systems Contributed to Other Findings. . . . . . . . . . . . . . . . . . . . . . . . 38

   A. TLJCC did not have any written policies and procedures other than Job Corps' Policy Requirements Handbook and did not have a Center Operating Plan . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 38

   B. TLJCC operated the entire PY 1996 without an approved budget. . . . . . . . 39

EXHIBIT A – STATEMENT OF REPORTED COSTS . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 42

APPENDIX I – AUDITEE'S RESPONSE TO DRAFT REPORT . . . . . . . . . . . . . . . . . . . . . . . . 43

## ABBREVIATIONS

| | |
|---|---|
| AFW | American FundWare |
| COP | Center Operating Plan |
| CFR | Code of Federal Regulations |
| CPMS | Contractor Property Management System |
| CTD | contract-to-date |
| DOI | Department of Interior |
| DOL | Department of Labor |
| ETA | Employment and Training Administration |
| F&C | Financial and Compliance |
| FY | Fiscal Year |
| GAR | Government Authorized Representative |
| GSA | General Services Administration |
| IDC | Indirect Cost |
| JTPA | Job Training Partnership Act |
| OAPs | Outreach/Admissions/Placement Financial Reports |
| OBS | onboard strength |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| PO | Purchase Order |
| PRH | Policy and Requirements Handbook |
| PY | Program Year |
| ROAR | Regional Office Annual Review |
| SPAMIS | Student Pay Allotment and Management Information System |

## ABBREVIATIONS )C

| | |
|---|---|
| TERO | Tribal Employment Rights Office |
| TLJCC | Talking Leaves Job Corps Center |
| TI | Texas Instruments |
| VST | Vocational Skills Training |
| YTD | year-to-date |

## EXECUTIVE SUMMARY

The U.S. Department of Labor (DOL), Office of Inspector General (OIG) conducted a financial and compliance audit of the Talking Leaves Job Corps Center (TLJCC) operated by the Cherokee Nation of Oklahoma (Nation) under DOL contract no. JC-3-40-00055. The contract was in effect for the 5-year period July 1, 1993, through June 30, 1998. This audit covered the last 3 years of the contract -- July 1, 1995, through June 30, 1998.

We questioned $1,052,574 paid to the Nation for operating the TLJCC for the 5-year contract period[1] as follows:

- $1,014,321 for the recovery of indirect costs for services for which the Job Corps program was already paying directly or for services which did not benefit the Job Corps program. (See finding 1.)

- $10,733 in direct and indirect costs for duplicate payments resulting from internal control weaknesses. These unallowable costs have already been recovered through contractor-adjusted expenditure reports. (See finding 2.)

- $27,520 for missing inventory items. Because TLJCC did not follow DOL property management procedures to safeguard and account for TLJCC assets: 71 inventory items of equipment selected from the Contractor Management Property System (CPMS) were missing; several items of furniture and equipment purchased during the audit period could not be traced to the CPMS or TLJCC's inventory; and the CPMS inventory was inaccurate, incomplete, and outdated. (See finding 3.)

We also determined that the TLJCC's monthly and year-end expenditure reports were not accurate or current. While we were able to reconcile amounts recorded in the general ledger to the final total costs that TLJCC reported for the 3-year period ending June 30, 1998, monthly and year-end expenditure reports were often late and contained material errors and inconsistencies that prevented their use as effective management tools. We could not reconcile the PY 97 financial reports until April 1999, almost 10 months after the contract terminated, when TLJCC submitted its final (revised) cost report for June 1998. (See finding 4.)

[1] During our audit work for the period July 1, 1995, through June 30, 1998, we determined that the TLJCC was recovering indirect costs for services for which the Job Corps program was already paying directly or for services which did not benefit the Job Corps program. We extended our audit procedures to the unaudited costs reported for the period July 1, 1993, through June 30, 1995, only to determine the amount of TLJCC's over- recovered indirect costs for that period. The remainder of the questioned costs are for our 3-year audit period.

Finally, in addition to the deficiencies described in findings 1 through 4, TLJCC's financial management system for controlling and reporting of Job Corps funds was deficient in its ability to maintain accountability for Job Corps funds including; (1) no written policies and procedures, other than the Job Corps Policy Requirements Handbook (PRH); (2) no Center Operating Plan (COP); and (3) no approved operating budget during PY 96. (See finding 5.)

## RECOMMENDATIONS:

We recommend that the Assistant Secretary for Employment and Training direct the Director, Office of Job Corps, to disallow $1,041,841[2] as follows:

- $1,014,321 in indirect costs for the 5-year period ending June 30, 1998, and
- $ 27,520 for costs of missing inventory items.

Furthermore, we recommend that the Assistant Secretary for Employment and Training ensures that the Director, Office of Job Corps:

- requires the Nation to treat TLJCC as a separate cost objective with its own indirect cost pool and rate approved by the DOL Office of Cost Determination;

- notifies the cognizant Federal agency that special operating factors affecting TLJCC's contract with DOL necessitate special indirect cost rates;

- provides technical assistance and guidance to TLJCC to ensure that the center's financial reports and budgets are accurate, supported, and timely;

- requires the Nation and TLJCC to correct the long-standing inadequacies of its accounting and financial management systems related to TLJCC:

  - ensure that center financial staff receive training related to Job Corps budget and report preparation and applicable cost principles;

  - maintain sufficient, auditable, and otherwise adequate records to support the expenditure of all Job Corps funds; and

  - develop and implement internal controls adequate to safeguard and account for Job Corps funds and property.

[2] Total questioned costs were $1,052,574. However, $10,733 has already been recovered through contractor-adjusted financial reports while audit fieldwork was ongoing.

**Auditee's Response to our Draft Report and Auditor's Conclusions:**

The Nation responded to each of the findings. For the most part, they disagreed with finding 1 and concurred with findings 2 through 4. Their response is summarized at the end of each finding, and the detailed response is included as Appendix I to this report. The Nation also submitted supporting documentation in 19 attachments to its response. Those attachments are available in the Dallas Regional Audit Office for review upon request.

In general, we do not agree with the Nation's response to finding 1; agree with their responses to findings 2, 4, and 5; and defer our determination on the response to finding 3 to the Office of Job Corps. We have incorporated our conclusions after the auditee's response at the end of each finding. Our draft report findings and recommendations remain unchanged.

## BACKGROUND

The Cherokee Nation of Oklahoma (Nation) operates the Talking Leaves Job Corps Center (TLJCC) funded by Title IV-B of the Job Training Partnership Act (JTPA). The Job Corps program is administered by the Office of Job Corps, a component of the Employment Training Administration (ETA) of the U.S. Department of Labor (DOL).

Job Corps is a comprehensive residential training and education program for young, unemployed and undereducated youths aged 16 to 24. Job Corps provides total support for participants including basic education and vocational classes; dental, medical and eye care; single parent facilities and education; social skills training; meals; recreational activities; counseling; student leadership activities; and job placement services.

There are currently 119 Job Corps centers in operation throughout the country. Job Corps operates two types of facilities: contract centers and civilian conservation centers. The Talking Leaves Job Corps Center is a contract center located in Tahlequah, Oklahoma. A $10.3 million DOL grant funded construction of the current center, completed in 1995. The center sits on 22 acres donated by the Nation and includes outside recreational areas and 8 buildings containing 118,555 square feet.

TLJCC has the capacity to serve 250 Job Corps members. The Nation, as contractor, employs an onsite staff of approximately 95 full-time personnel to operate the center. TLJCC's vocational training programs include classes in business/clerical skills, culinary arts, building and apartment maintenance, electrical wiring, and health occupational training.

During our audit period July 1, 1995, through June 30, 1998, the Nation reported Job Corps expenditures of $13,010,080. (See exhibit A.)

## OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objectives were to determine whether the Talking Leaves Job Corps Center (TLJCC) expended and accounted for Job Corps funds in compliance with Title IV-B of the JTPA and related regulations, contact provisions, and other applicable rules and policies, and to express an opinion on the fairness of the TLJCC's claimed costs for the period July 1, 1995, through June 30, 1998.

We conducted a financial and compliance audit of the TLJCC operated by the Cherokee Nation of Oklahoma (Nation) under DOL contract no. JC-3-40-00055. The contract was in effect for the 5-year period July 1, 1993, through June 30, 1998. This audit covered the last 3 years of the contract, ending June 30, 1998.

We performed the following procedures to accomplish our audit objectives:

1. Interviewed TLJCC's accounting and administrative staff to gain an understanding of the internal control structure in order to determine the nature, timing, and extent of our auditing procedures.

2. Reviewed contract documents and modifications to obtain an understanding of the purpose and objectives for the contract.

3. Reviewed the Nation's single audit reports and auditor's working papers to identify possible problems that may impact the audit.

4. Reconciled transactions recorded on the general ledger to final expenditure reports.

5. Reviewed monthly financial reports and vouchers to determine whether they were accurate, reliable, and timely.

6. Tested payroll, furniture and equipment purchases, student payments and allowances, and other accounting transactions to determine whether they were accurate, reported in the proper period, and supported by adequate documentation.

7. Performed other tests as necessary to accomplish our objectives.

Our onsite audit field work ended April 30, 1999. We performed additional analytical procedures in the Dallas Regional Audit Office through August 7, 1999.

Mr. Raymond L. Bramucci
Assistant Secretary for
Employment and Training
Employment and Training Administration
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington, DC 20210

## ASSISTANT INSPECTOR GENERAL'S REPORT

We have audited the Statement of Reported Costs [3] (exhibit A) of the Talking Leaves Job Corps Center (TLJCC), operated by the Cherokee Nation of Oklahoma (Nation), for the periods July 1, 1995, through June 30, 1998, under DOL contract no. JC-3-40-00055. The amounts reported in the Statement of Reported Costs are the responsibility of the Nation's and the TLJCC's management. Our responsibility is to express an opinion on the costs reported based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the *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 costs claimed are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the costs claimed. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall presentation of the costs claimed. We believe that our audit provides a reasonable basis for our opinion.

The audited costs reported in exhibit A were evaluated in accordance with applicable Federal regulations, including cost principles for Native American Tribal Government Grantees -- Office of Management and Budget (OMB) Circular No. A-87 -- and specific conditions outlined in the contract.

Job Corps costs reported by the TLJCC for the period July 1, 1993, through June 30, 1995 -- labeled **unaudited** in exhibit A -- were included in single audits of the Cherokee Nation which were conducted

[3] We compiled the Statements of Reported Costs from monthly Job Corps Center Financial Reports (ETA 2110) that the contractor prepared and submitted to the Department of Labor.

by other auditors. Contract specific audits of the Job Corps program for the same period have not been performed, therefore, we express no opinion related to the Job Corps funds for that period. We have presented the reported costs for the period July 1, 1993, through June 30, 1995, to show total reported costs for the entire 5-year contract period July 1, 1993, through June 30, 1998. We take no responsibility for the reliability of reported costs for the period July 1, 1993, through June 30, 1995. However, as explained in the paragraph below, we have questioned $334,438 of costs for this unaudited period.

During our audit work for the period July 1, 1995, through June 30, 1998, we determined that the TLJCC was recovering indirect costs for services for which the Job Corps program was already paying directly or for services which did not benefit the Job Corps program. Therefore, we extended our audit procedures to the unaudited costs reported for the period July 1, 1993, through June 30, 1995, only to determine the amount of TLJCC's over-recovered indirect costs for that period. Total direct costs for the Nation -- including Job Corps program costs -- are used to establish the indirect cost rate for the Nation, and the Nation's indirect cost rate is applied against TLJCC's direct costs to determine the amount of indirect costs to be recovered by the TLJCC. Consequently, since we did not audit the TLJCC's direct costs for the period July 1, 1993, through June 30, 1995, we do not know whether the indirect cost rate was based on reliable direct costs for the period or whether the indirect cost rate was applied against reliable direct cost. However, the TLJCC used these unaudited direct costs to recover indirect costs. To determine the unallowable indirect costs claimed for the unaudited period, we excluded unallowable indirect costs from the Nation's indirect cost pools for the 2-year unaudited period and recomputed the Nation's indirect cost rates. The difference between the indirect cost rates claimed and our recomputed rates was applied to the TLJCC's unaudited reported direct costs for the periods to determine the $334,438 of questioned indirect costs.

In our opinion, except for $707,403[4] of questioned costs, the accompanying statement of reported costs (exhibit A), presents fairly, in all material respects, total reported costs claimed for the period July 1, 1995, through June 30, 1998, in accordance with the aforementioned criteria.

[4] Total questioned costs in the report are $1,052,574. However, $334,438 applies to the period July 1, 1993, through June 30, 1995, which was outside the period on which we are expressing an opinion, and $10,733 in questioned costs have already been recovered through contractor-adjusted financial reports.

Compliance

As part of obtaining reasonable assurance about whether the costs are free of material misstatement, we performed limited tests of the TLJCC's compliance with certain provisions of laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance consist of failures to follow requirements, or violations of prohibitions contained in statutes, regulations, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial reports.

We noted several instances wherein the Nation did not fully comply with provisions of laws, regulations, or terms of the grant regarding the reasonableness and allowability of costs charged to the Government grants including:

- $1,014,321 of excessive indirect costs,
- $10,733 in direct and indirect costs resulting from duplicate payments, and
- $27,520 of inventory items not accounted for.

These matters and other compliance issues are discussed in the Findings and Recommendations section of this report.

Internal Controls

In planning and performing our audit, we considered TLJCC's internal control structure over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the schedule of reported costs and not to provide assurance on the internal controls over financial reporting. Our consideration of the internal control structures would not necessarily disclose all matters in the internal control structures that might be material weaknesses.

A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material to a Federal award program being audited may occur and not be detected within a timely period by employees in the normal course of performing their functions.

We noted several matters involving the internal control structures and their operation that we consider to be material weaknesses as defined above.

We determined that the TLJCC's financial management system was deficient during our 3-year audit period. Specifically, we identified the following conditions:

- Financial reports were not accurate or current. (Finding 4)

- Internal controls were not sufficient to maintain accountability for Job Corps funds and property. (Findings 2, 3, and 5)

- Applicable cost principles and regulations were not always followed. (Findings 1, 2, and 3)

This report is intended solely for the information and use of the U.S. Department of Labor, the Nation, and TLJCC management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, when issued, is a matter of public record.

This report is dated April 30, 1999, which represents the last day of our onsite field work.

JOHN J. GETEK
Assistant Inspector General
for Audit

## FINDINGS AND RECOMMENDATIONS

### 1. TLJCC's Indirect Cost Rates Were Excessive.

The Cherokee Nation, as contractor, charged Job Corps $2,146,095 in indirect costs for operating the Talking Leaves Job Corps Center (TLJCC) during PYs 93 through 97. We determined that at least $1,014,321 (47 percent) of these costs were unallowable because:

A. Job Corps paid the Nation for indirect costs for services that were either not related or already charged directly to the Job Corps program.

B. TLJCC's indirect cost rates were not reasonable compared to those charged by other Job Corps contractors.

The following table summarizes the questioned indirect costs.

| A<br>Period | B<br>Amount Subject to Indirect Costs | C<br>Actual Indirect Cost Rate Applied | D<br>Actual Indirect Costs Charged (cols B*C) | E<br>Recalculated OIG Indirect Cost Rate | F<br>Indirect Costs Beneficial to TLJC (cols B*E) | G<br>Questioned Indirect Costs Charges (cols D-F) |
|---|---|---|---|---|---|---|
| 7/1/93-9/30/93 | $ 848,563 | 12.30% | $ 104,373 | 6.08% | $ 51,593 | $ 52,781 |
| 10/1/93-9/30/94 | 3,639,381 | 12.30% | 447,644 | 7.08% | 257,668 | 189,976 |
| 10/1/94-9/30/95 | 3,150,538 | 12.30% | 387,516 | 8.42% | 265,275 | 122,241 |
| 10/1/95-9/30/96 | 3,588,090 | 12.20% | 437,747 | 4.66% | 167,205 | 270,542 |
| 10/1/96-6/30/97 | 2,520,229 | 12.30% | 309,988 | 6.24% | 157,262 | 152,726 |
| 7/1/97-6/30/98 | 3,730,295 | 12.30% | 458,826 | 6.24% | 232,770 | 226,056 |
| Totals | $ 17,477,096 | | $ 2,146,095 | 6.48% | $ 1,131,774 | $ 1,014,321 |

The TLJCC contract limited indirect costs to 12.3 percent of direct costs or the rate approved by the cognizant agency, the Department of Interior (DOI), whichever was **lower**. DOI reviews and approves the Nation's indirect cost rates for each fiscal year (FY) ending September 30.

The term of TLJCC's contract covered Job Corps' PYs 93 through 97, the 5-year period ending June 30, 1998. The five program years' indirect costs were affected by the following FY rates as approved by DOI:

- 12.6 percent for FY 93
- 14.3 percent for FY 94
- 17.1 percent for FY 95
- 12.2 percent for FY 96
- 14.9 percent for FY 97 (also used for FY 98)

Consequently, the only time the DOI-approved rate fell below the 12.3 percent contract-capped rate was in FY 96 when it was 12.2 percent.

Because of problems with its accounting system, the Nation was late in closing its FYs 97 and 98 books. As a result, the Nation used an interim-approved rate of 14.9 percent for both FYs 97 and 98. The exact indirect costs to be charged for FYs 97 and 98 are, therefore, impossible to determine at this time. However, we based our estimate on the most reliable information available at the time of audit; and, unless the rates fall below the contract capped 12.3 percent, the final rates will not affect our estimate of excess indirect costs.

**A. Job Corps paid the Nation for indirect costs for services that were either not related or already charged directly to the Job Corps program.**

TLJCC charged $2,146,095 in indirect costs for PYs 93 through 97. The actual rates applied to expenditures subject to indirect costs ranged from 12.2 (actual approved rate) to 12.3 percent (contract-capped rate). However, the Office of Job Corps paid the Nation for indirect costs for services that were either not related or already charged directly to the Job Corps program.

We recalculated indirect cost rates applied during PYs 93 through 97 to more reasonably reflect the benefits TLJCC received. Our recalculated rates averaged 6.48 percent, ranging from 4.66 to 8.42 percent. We used these rates to determine that $1,014,321, or 47.26 percent, of the indirect costs charged during the 5-year contract was unreasonable relative to the benefits TLJCC received.

The cost principles applicable to the Nation's grants and contracts provide:

> *Indirect costs are those that have been incurred for common or joint purposes. These costs benefit more than one cost objective and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved. After direct costs have been determined and assigned directly to Federal awards and other activities as appropriate, indirect costs are those remaining to be allocated to* ***benefitted cost objectives****.* [Emphasis added.] (OMB Circular A-87, Attachment E, §A1, May 17, 1995 revision)
>
> [To be allowable, a cost must] *Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.* (OMB A-87, Attachment A, §C1f)
>
> *. . . A cost may not be allocated to a Federal award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a Federal award as a direct cost.* (OMB A-87, Attachment E, §A1)
>
> *Where a grantee agency's indirect costs benefit its major functions in varying degrees, such costs shall be accumulated into separate cost groupings. Each grouping shall then be allocated individually to benefitted functions by means of a base which best measures the relative benefits.*
> (OMB A-87, Attachment E, §C3a)

In recalculating indirect cost rates, we deducted costs for certain activities, in whole or in part, from the indirect cost pool because the activities' costs were not related to TLJCC or had already been charged directly to the Job Corps program. In analyzing the costs of these activities, we used estimates that we calculated based on information contained in the Nation's indirect costs proposals and agreements. Further, we used the same methodology and formats that the Nation used in calculating its indirect cost rates

In calculating its indirect cost pool, the Nation deducts other revenues related to indirect costs activities so that only net costs for each indirect cost activity are included. The Nation's FYs 93 and 94 indirect costs agreements provided the source of other revenue for each indirect costs activity. Therefore, we were able to precisely allocate the other revenues to each indirect costs activity -- those we excluded and those we left in the indirect cost pool.

For those 2 fiscal years, over 90 percent of the other revenues -- 96.46 percent in FY 93 and 91.11percent in FY 94 -- were related to indirect costs activities that we excluded from the Nation's indirect cost pool for purposes of determining which indirect costs activities benefitted TLJCC.

Beginning in FY 95, the indirect costs agreements show other revenue as a total sum without showing the source. Accordingly, in recalculating the indirect cost rates applicable to Job Corps, we used an estimate of 90 percent -- based on FYs 93 and 94 data -- of other revenue as allocable to the indirect costs activities we exclude from the indirect cost pool for FYs 95, 96, and 97.

From the Nation's indirect cost plan, we were able to determine personnel staff salaries applicable to each indirect cost activity. However, the following five cost categories in the plan were shown in total only: (1) staff training and development, (2) fringe benefits,
(3) contractual,(4) travel, and (5) operational costs.

Since these five cost categories represent expenditures benefitting each indirect cost pool activity in relation to each activity's personnel salaries, in excluding indirect costs activities from the indirect cost pool to recalculate the indirect cost rate applicable to the TLJCC, we reduced these five cost categories in each indirect cost activity in proportion to our reduction of indirect personnel salaries for each activity we excluded from the indirect cost pool.

As explained in the following paragraphs, we excluded from the indirect cost pool 100 percent of costs for the following activities except for **Human Resources/Personnel** which we excluded 70 percent:

- Human Resources (HR)/Personnel
- Tribal Services Admin (E&T)
- Registration
- Marketing/Business Development
- Accounting/CFO
- Procurement (TERO)
- Administrative Services
- Travel Office
- Programs Management
- Procurement/Purchasing/Materials Management
- Office Services
- Security/CN Police Dept (50 percent)/Marshals Service
- Internal Audit
- Tribal Development
- Inspector General

**<u>Human Resources (HR)/Personnel:</u>** At least one HR/Personnel staff has always been charged directly to TLJCC. Based on the following calculations, the average salary of one HR person was more than 70 percent of the HR/Personnel cost allocated to Job Corps per year. Therefore, TLJCC had already paid more than 70 percent of its share of the expense directly.

FY 95* HR salaries in IDC 456,955
FY 95 Total DC Base 45,455,741 = 1.01%
Job Corp FY 95 DC subject to IDC, $3,150,538 X 1.01% = $31,820
Average FY 95 HR salary = $22,848.
$22,848 / $31,820 = 71.80% * FY 93-94 Salary details not available

FY 96 HR salaries in IDC 475,334
FY 96 Total DC Base 57,808,858 = 0.82%
Job Corp FY 96 DC subject to IDC, $3,588,090 X 0.82% = $29,422
Average FY 96 HR salary = $21,606.
$21,606 / 29,422 = 73.43%

FY 97 HR salaries in IDC 524,750
FY 97 Total DC Base 63,667,564 = 0.82%
Job Corp FY 97 DC subject to IDC, $3,452,803 X 0.82% = $28,313
Average FY 97 HR salary = $22,815.
$22,815 / $28,313 = 80.58%

**Tribal Services Admin (E&T):** There was no apparent benefit to TLJCC from this category of indirect costs. This category included, for example, salaries related to TERO (see below), Child Services, and Child Welfare, which were not related to Job Corps.

**Registration:** Although TLJCC is an "Indian preference" center, registration into the Cherokee Tribe is a tribal expense and was not related to programs.

**Marketing/Business Development:** The Nation operates several profit and nonprofit businesses that are not related to Job Corps. Soliciting more of such businesses was also not related to Job Corps. Although preparing a Job Corps contract proposal is "business development," the Job Corps contract proposals are prepared by TLJCC staff whose costs are charged directly to the Job Corps contract.

**Accounting/CFO*:** At least two finance/accounting positions were always charged directly to TLJCC. In FY 97, at least two additional finance/accounting positions were added because TLJCC assumed responsibility for preparing all Job Corps reports, purchase orders, and check requests. In FY 97, the Nation continued to prepare payroll and issue checks for TLJCC. However, as shown in the following calculations, average salaries for two positions charged to TLJCC directly in FY 95 represented 111.23 percent of Accounting indirect costs allocated to Job Corps. Applying the same formula in FY 96 yielded 97.35 percent. Average salaries for four positions charged directly in FY 97 represented 188.50 percent of Accounting/CFO indirect costs allocated to Job Corps. Therefore, TLJCC has already paid more than 100 percent of its share of Accounting/CFO expense directly. (*

CFO added in FY 97.)

FY 95 Acctg salaries in IDC 742,983
FY 95 Total DC Base 45,455,741 = 1.63%
Job Corp FY 95 DC subject to IDC, $3,150,538 X 1.63% = $51,354
Average FY 95 Acctg salary = $24,766.
[$28,560 (2)] / $51,354 = 111.23%

FY 96 Acctg salaries in IDC 858,714
FY 96 Total DC Base 57,808,858 = 1.49%
Job Corp FY 96 DC subject to IDC, $3,588,090 X 1.49% = $53,463
Average FY 96 Acctg salary = $26,022.
[$26,022 (2)] / $53,463 = 97.35%

FY 97 Acctg/CFO salaries in IDC 926,487
FY 97 Total DC Base 63,667,564 = 1.46%
Job Corp FY 97 DC subject to IDC, $3,452,803 X 1.46% = $50,411
Average FY 97 Acctg/CFO salary = $23,756.
[$23,756 (4)] / $50,411 = 188.50%

**Procurement (TERO):** The Tribal Employment Rights Office (TERO) certifies businesses as being Indian-owned for the purpose of giving Indian-owned businesses preference when the Nation procures goods and services. TERO also prepares lists of certified Indian-owned businesses for the Nation's use. This function is not related to Job Corps, and TLJCC did not use TERO when procuring goods and services; therefore, TLJCC received no benefit.

**Administrative Services:** TLJCC charges its administrative costs directly to the program. Administrative services that the Nation provided were billed to and paid by TLJCC directly.

**Travel Office:** The Nation added this category to its indirect cost pool in FY 97. The function of this office is to review and process employees' travel claims. This function was performed by TLJCC independently; therefore, such costs were already charged directly.

**Programs Management:** This category, added to the indirect cost pool in FY 97, is related to the Nation's administration of welfare programs, which are not related to Job Corps.

**Procurement/Purchasing/Materials Management:** The Nation performed these functions until TLJCC moved into its new center at the beginning of FY 96. After that time, TLJCC performed these functions and charged them directly to the program. Accordingly, we deducted 100 percent of indirect costs in this category from the FYs 96 and 97 indirect cost pools. We did not deduct these costs from the FYs 93, 94, and 95 indirect cost pools.

**<u>Office Services:</u>** This category includes general administrative services such as the Nation's switchboard service and copying services. TLJCC's telephone system is independent of the Nation's; and TLJCC performed office services onsite with the cost charged directly. If the Nation provided any office services, such as large copying jobs, TLJCC was billed, and the cost was charged directly to Job Corps.

**<u>Security/CN Police Dept (50 percent)/Marshals Service:</u>** TLJCC employed its own security staff, which was charged directly to Job Corps. Further, because the center is not on Tribal property, the Nation's Police Department and Marshals Service have no jurisdiction.

**<u>Internal Audit:</u>** The TLJCC contract required the Nation, as contractor, to perform an annual internal audit of the center, in addition to the annual single audit performed by a CPA firm. We found evidence of only two internal audits of the TLJCC. Deloitte & Touche LLP, the CPA firm that performed the Nation's single audit, performed one of the audits with fees charged to the indirect costs category entitled "Contractual." The other internal audit was performed at no cost by another Job Corps center as a favor to the Regional Job Corps Director. Therefore, the costs included in this category were not related to TLJCC.

**<u>Tribal Development:</u>** Tribal Development activities are not related to TLJCC. Further, the FY 95 indirect costs negotiation agreement stated that this category had been transferred to the direct cost base because it had previously been classified erroneously as indirect costs.

**<u>Inspector General (IG):</u>** This category, added in FY 97, has no relation to TLJCC. The Nation's IG oversees the Marshals Service and Tribal Security Office, neither of which benefitted TLJCC.

The Nation's FY 1997 indirect cost rate proposal includes the following certification:

> *All costs included in this proposal are properly allocable to Federal agreements on this basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently.*

In our opinion, this certification is not accurate because 1) the costs of the activities discussed above are not allocable to the TLJCC's Job Corps program based on a beneficial or causal relationship, and 2) the Nation is charging TLJCC indirectly for costs that TLJCC is charging directly. Consequently, the Nation's overall indirect cost rate is not applicable to the TLJCC.

## B. TLJCC's indirect cost rates were not reasonable compared to those charged by other Job Corps contractors.

We wanted further assurance that the rates we calculated during our audit were fair and reasonable and that the costs we questioned in finding 1A were conservative. Therefore, we:

- compared TLJCC's indirect cost rates to those of other Job Corps center contractors operating in DOL Region VI during PYs 95, 96, and 97; and

- analyzed TLJCC's net center operations costs compared to such costs reported by other Job Corps centers in Region VI for PYs 95, 96 and 97.

**Results of our comparison of indirect cost rates**

We found that TLJCC's indirect cost rates were substantially higher than those charged by other Region VI centers. We interviewed the DOL Region VI cost negotiator, the Region VI Job Corps director, and a Job Corps contractor who operated several centers in Region VI. We found that indirect cost rates negotiated by DOL for other Job Corps contractors in Region VI rarely exceeded 5 percent.

Typically, the contractor's indirect cost pool included costs for payroll, human resources, management consultation, and some reporting or accounting services. Since the Nation provided similar, but not additional, services to TLJCC, a 5 percent indirect cost rate appears reasonable. A 5 percent indirect cost rate applied to the TLJCC's 5-year total $17,477,096 direct costs subject to indirect costs[5] yields an indirect costs recovery of $873,855, or $1,272,240 less than the $2,146,095 actual indirect costs charged for PYs 93 through 97. Therefore, if we had used this method of determining a reasonable amount of indirect costs, the amount of costs we questioned in finding 1A would have been higher.

**Results of our analysis of net center operations costs**

Our analysis of net center operations costs reported by TLJCC as compared to that reported by other Job Corps centers in Region VI for PYs 95, 96 and 97 disclosed that TLJCC's administrative costs -- administrative costs as a percentage of net center operations costs, and administrative costs per student -- were materially higher than that of other Region VI centers.

[5]Certain types of direct costs -- such as equipment and GSA vehicle rentals -- are not subject to indirect costs.

For the purpose of our analysis, we defined "administrative cost" as the sum of three line items included in net center operations costs: "administrative personnel," "other direct administrative cost," and "indirect administrative cost (G&A)."

We determined that:

- TLJCC's administrative costs as a percentage of net center operations cost were 22.85, 21.63, and 24.32 percent, as compared to other Region VI centers' averages of 16.94, 16.71, and 16.91 percent for PYs 95, 96, and 97, respectively.

- For PY 95, TLJCC's administrative cost per student was $4,660, or $1,707 (57.78 percent) higher than the average $2,953 for other Region VI centers. The difference of $1,707 times TLJCC's 189 students equals **$322,623 in excessive administrative cost for TLJCC in PY 95**.

- For PY 96, TLJCC's administrative cost per student was $3,716, or $897 (31.84 percent) higher than the average $2,819 for other Region VI centers. The difference of $897 times TLJCC's 235 students equals **$210,795 in excessive administrative cost for TLJCC in PY 96**.

- For PY 97, TLJCC's administrative cost per student was $4,580, or $1,594 (53.38 percent) higher than the average $2,986 for other Region VI centers. The difference of $1,594 times TLJCC's 225 students equals **$358,650 in excessive administrative cost for TLJCC in PY 97**.

The cost principles applicable to the Nation's grants and contracts provide:

> *There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. Therefore, it is essential that each item of cost be treated consistently in like circumstances either as a direct or an indirect cost. . . .* (OMB Circular A-87, Attachment A, §D2)

Accordingly, a **high indirect** cost rate should indicate **low direct** general and administrative (G&A) costs, or vice versa. This was not true for TLJCC.

In total -- based on average administrative costs per student -- TLJCC's combined direct and indirect administrative costs for PYs 95, 96, and 97 were **$892,068** higher than that reported by other Region VI centers, which is 69.51 percent of the $1,283,374 indirect costs TLJCC charged for the 3-year period PYs 95, 96, and 97. Applying this 69.51 percent reduction to the $2,146,095 indirect costs charged for the entire contract ( PYs 93 through 97) would reduce indirect costs by $1,491,751. This method of determining questioned indirect cost also results in higher questionable indirect costs than we used to question such costs in finding 1A.

The cost principles applicable to the Job Corps contract state:

> [To be allowable, costs must] *Be necessary and reasonable for proper and efficient performance and administration of Federal awards.* (OMB A-87, Attachment A, §C1a)
>
> *A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. . . . In determining reasonableness of a given cost, consideration shall be given to . . . Market prices for comparable goods or services*. (OMB A-87, Attachment A, §C2a)

Compared to indirect cost rates charged by other contractors operating Job Corps centers in DOL Region VI during PY 95-97, TLJCC's rates were not reasonable.

In our opinion, the TLJCC should have been treated as a separate cost center with its own indirect cost rate, pool, and base. Unlike other major programs and activities operated by the Nation, TLJCC (1) is located on non-Tribal land, physically separate from the Main Tribal Complex of the Cherokee Nation; (2) has its own telephone system; and (3) employs its own staff for maintenance, security, accounting/finance/budgeting, procurement, purchasing, and warehousing.

The cost principles applicable to the Job Corps contract state:

> *In some instances, a single indirect cost rate for all activities of a grantee department or agency or for each major function of the agency may not be appropriate. It may not take into account those different factors which may substantially affect the indirect costs applicable to a particular program or group of programs. The factors may include the physical location of the work, the level of administrative support required, the nature of the facilities or other resources employed, the organizational arrangements used, or any combination thereof. When a particular award is carried out in an environment which appears to generate a significantly different level of indirect costs, provisions should be made for a separate indirect cost pool applicable to that award. . . .* (OMB Circular A-87, Attachment E, §C4a)

In summary, the single indirect cost rate that the Nation used was not appropriate for TLJCC. Therefore, we developed a separate indirect cost pool applicable to TLJCC for each year in the 5-year contract. After recalculating the indirect cost rates, we determined that $1,014,321, or 47.26 percent, of the total $2,146,095 indirect costs charged during the 5-year contract was unreasonable relative to the benefits TLJCC received. Accordingly, we question $1,014,321 in indirect costs charged for operating TLJCC.

**Recommendations:**

We recommend that the Assistant Secretary for Employment and Training direct the Director, Office of Job Corps:

- Disallow $1,014,321 in indirect costs charged for operating the TLJCC during PYs 93 through 97.
- In future contract negotiations, require the Cherokee Nation to treat TLJCC as a separate cost objective with its own indirect cost pool and indirect cost rate approved by the DOL Office of Cost Determination.
- In accordance with OMB Circular A-87, Attachment E, §E1, notify the cognizant Federal agency that special operating factors affecting TLJCC's contract with DOL necessitate special indirect cost rates.

**Nation's Response to Draft Report:**

The Nation responded:

> *The DOI has approved the IDC pool to be costs that benefit more than one cost objective and are not readily allocable to benefitted programs . . . **the Cherokee Nation is a fully-functional tribal government, and associated government functions are an inherent component of the overall operation of all endeavors, including programs and services such as the TLJCC.** Therefore, governmental functions as well as administrative functions have been made part of the Nation's DOI-approved indirect cost pool. . . .*

The Nation did recognize that the OIG draft report raised valid concerns regarding duplication of certain items of cost, such as office services and human resources. However, they maintain that the cost of most activities we took exception to should rightfully remain in the IDC pool. The Nation went into great detail to explain the functions of certain activities and how the associated costs benefitted TLJCC. For example, the Nation contends that:

- Only about 5 percent of the accounting function was transferred from the Nation to TLJCC.

- TERO is applicable to all vendors doing business with the Nation, including TLJCC.

- The procurement function was transferred directly to TLJCC in FY 97, rather than FY 96, as the draft report stated.

- In addition to being an inherent part of tribal government, the Nation's law enforcement function provided some direct services to TLJCC during the audit period.

The Nation also contends that its IDC rate is consistently lower than that of most other tribal governments, and that we unfairly compared its IDC rate to those of for-profit contractors who tend to have lower indirect costs but higher direct costs.

**Auditor's Conclusion:**

We recognize the fact that the Nation's DOI-approved IDC pool contains costs that are not readily allocable to **benefitted** programs. However, the costs of activities we excepted from the IDC pool were either unallowable, already charged directly, or **did not benefit** TLJCC. Further, the fact that the Nation is a tribal government is not relevant to calculating an IDC rate because the "general costs of government are unallowable" under cost principles applicable to the Job Corps contract (OMB Circular A-87, Attachment B, §23a).

One exception is that Tribal governments are allowed to charge "the portion of salaries and expenses directly attributable to managing and operating Federal programs by the chief executive and his staff" (OMB Circular A-87, Attachment B, §23b). Therefore, we did not take exception to the 50 percent of cost for the Nation's Chief's Office that was included in the IDC pool. However, all other general costs of government are unallowable, whether classified as direct or indirect. These include salaries and expenses of chief executives (other than the Chief), tribal councils, and the judicial branch, and other general types of government services normally provided to the general public, such as fire and police.

We carefully considered the Nation's explanations of why they disagreed with our removal of certain activities from the IDC pool; and, if we recalculated the Nation's IDC rate again, we would consider making minor adjustments based on those explanations. However, we would also take a closer look at activities we did not remove from the IDC pool. For example, we were generous in not removing from the IDC pool all costs associated with the Deputy Chief, Secretary/Treasurer, Tribal Council, and Law and Justice because these activities fall under the category of general government. We also did not remove the cost of several activities -- such as information systems, social programs, community development, and tribal operations -- where the benefit to TLJCC was conceivable, but not apparent. Further, when we briefed the

Job Corps Regional Director on our draft report, he commented that the OIG had been extremely generous in leaving several categories in the IDC pool that he would have removed. For example, he said that, based on his personal knowledge and observation, the cost of "Education Administration" did not relate to TLJCC.

Our draft report did not state that the Nation's IDC pool contained inappropriate costs. Rather, we stated that the costs of certain activities were inappropriately allocated to TLJCC because they were either charged directly to or did not benefit TLJCC. For example:

- Although the Nation provided substantial accounting services, our report explains that TLJCC paid more than its share of accounting costs directly. Therefore, had we left the costs of the Nation's accounting function in the IDC pool applied to TLJCC, we would have questioned the costs of all accounting, financial, and budget functions charged directly to TLJCC.

- While TERO may be applicable to all vendors doing business with the Nation, it benefits the tribe, rather than TLJCC. Further, regardless of the Nation's policies, TLJCC staff told us that they did not consider whether vendors were approved by TERO. In fact, all of the contracts and agreements that we reviewed were awarded without competition with no documentation to justify the selection. Therefore, we could have questioned the cost of all contracts because TLJCC did not comply with DOL acquisition regulations.

- Although the procurement function may have formally transferred to TLJCC in FY 97, the costs of procurement and property management personnel were charged directly to TLJCC during the entire 5-year contract. TLJCC had already paid its fair share of costs for this function.

- While the Nation's law enforcement might have provided some direct services to TLJCC during the audit period, OMB Circular A-87 specifically prohibits such costs.

As stated in our draft report, recalculating the IDC rate yielded the most conservative estimate of excessive indirect costs charged to Job Corps. The Nation is incorrect in its assumption that we unfairly compared its IDC rate to that of for-profit contractors. We compared the Nation's IDC rate to the average rate charged by other Region VI Job Corps contractors, both for-profit and nonprofit. We specifically reviewed negotiated IDC rates ranging from 4 to 5 percent charged by a nonprofit contractor operating two Job Corps centers in Region VI. Further, because we recognize that a high IDC rate is often associated with low direct costs, we analyzed the administrative overhead costs charged directly to TLJCC and found that they were also far above the average charged by other contractors. Therefore, our recommendations remain unchanged.

## 2. TLJCC Overcharged Expenses to the Program by Making Duplicate Payments.

TLJCC charged the Job Corps program $9,557 for duplicate payments resulting from internal control weaknesses. Accordingly, these costs are questioned. We also question an additional $1,176 of applicable indirect costs, which represents 12.3 percent of the direct cost questioned.

To test for duplicate payments, we sorted the database of general ledger transactions to isolate those expenditures where two or more were (1) of the same amount, (2) to the same vendor/payee, and (3) dated within the same 90-day period. We identified 1,005 expenditures totaling $297,539, that met all 3 criteria and selected for review 204 expenditure transactions that appeared most likely to be duplicate payments.

Of the 204 expenditure transactions reviewed, 50 transactions ( 24.5 percent) resulted in 24 duplicate payments -- 22 invoices paid twice; 2 invoices paid 3 times. TLJCC accountants had already detected and corrected one of these duplicate payments of $24.50. For the remaining 23 invoices, the overpayments totaled $9,557.

The duplicate payments occurred because TLJCC staff circumvented two internal controls designed to prevent duplicate payments. First, the Nation's American FundWare (AFW) accounting system flags payments with identical invoice numbers. Second, purchase orders (POs) should be issued only after receiving original approved supply requests.

These two controls were rendered ineffective in February 1997 when TLJCC began preparing its own POs. At that time, the Nation's accounting department requested that TLJCC append its own PO numbers to vendor invoice numbers on check requests to identify POs issued outside the Nation's procurement system. This attaching of TLJCC's PO number to a vendor's invoice number on a check request voided the integrity of the invoice number because it was no longer unique; that is, a single vendor invoice may get two numbers -- the original number and the newly created invoice number (invoice number/PO number). Therefore, the AFW system would not recognize it as a duplicate payment and a second, or sometimes third check was issued for the same purchase. To further complicate the process, TLJCC procurement staff sometimes issued multiple POs for the same purchase because POs were not always supported by original approved supply requests.

The cost principles applicable to the Job Corps contract state that, to be allowable, costs must:

> *Be necessary and reasonable for proper and efficient performance and administration of Federal awards.* (OMB Circular A-87, Attachment A, §C1a, May 17, 1995 revision)

The administrative requirements applicable to the Job Corps contract provide:

> *Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.*
> (29 CFR Part 97.20(b)(3))

Because these duplicate payments do no represent program costs, they are unallowable. Accordingly, we questioned $10,733 in direct and indirect costs related to these erroneous duplicate payments.

We discussed our findings with TLJCC's assistant director of finance and administration who agreed that the payments were in error. Her staff prepared adjusting journal entries and reversed the $9,557 direct expenses in the general ledger. This reversal was reflected in TLJCC's final ETA 2110 Report submitted in April 1999, for the month ending June 30, 1998. Further, reducing direct costs by $9,557 automatically reduced indirect costs by $1,176, because the 12.3 percent indirect cost rate is applied against direct costs. These reductions of direct and indirect costs were a direct result of our audit and, therefore, represent a recovery of questioned costs in the total amount of $10,733.

TLJCC staff stated that they will discontinue the practice of attaching PO numbers to the invoice number and will strictly enforce the practice of issuing POs only after receiving original approved supply requests. As an additional measure, the TLJCC's finance department will review and analyze all vendor payments on a quarterly basis for possible duplicate payments. They are confident that these corrective actions will prevent and/or detect the occurrence of duplicate payments.

**Recommendations:**

We recommend that the Assistant Secretary for Employment and Training direct the Director, Office of Job Corps:

! Ensure that TLJCC implements internal controls to prevent and detect the occurrence of duplicate payments.

! Add procedures to annual Job Corps reviews to test for the presence of duplicate payments from Job Corps funds.

**Nation's Response to Draft Report:**

The Nation concurred with the finding and indicated controls are in place to prevent such duplicate payments from happening in the future.

**Auditor's Conclusion:**

It appears that the Nation has taken corrective actions to eliminate the problem of having two different invoice numbers for the same invoice. However, the problem of issuing purchase orders without approved supply requests was not addressed. This issue should be addressed in developing policies and procedures as recommended in finding 5. Our recommendations remain unchanged.

## 3. TLJCC's Property Management System Was Not Adequate to Safeguard and Account for Job Corps Assets.

We determined that TLJCC's property management system was not adequate to safeguard and account for Job Corps assets because:

A. A substantial amount of the furniture and equipment purchased was not included on the Contractor Property Management System (CPMS).

B. Job Corps' equipment was missing, and TLJCC's inventory was inaccurate, incomplete, and outdated.

Accordingly, we question $27,520 for the total value of the missing equipment.

### A. A substantial amount of the furniture and equipment purchased was not included on the CPMS.

TLJCC charged the Job Corps program $208,450 for purchases of furniture and equipment during our 3-year audit period. We reviewed a sample of purchase transactions to determine whether they were valid and properly recorded on the CPMS.

We judgmentally selected a sample of 17 (12.06 percent) high-dollar transactions from a universe of 141 purchase transactions of furniture and/or equipment during PYs 95, 96 and 97. The 17 transactions included the purchase of 52 items (or groups of items) with a total value of $106,537, or 51.11 percent of the value of the 141 transactions. We reviewed documentation to support each of the 17 transactions and determined that the 52 items purchased were valid purchases; that is, the items

were actually ordered, paid for, and located onsite. However, 6 (11.54 percent) of the 52 items were not recorded on the CPMS. These six items totaled $26,042, or 24.44 percent of the $106,537 total value of the sample. After discussing this deficiency with TLJCC staff, we verified that TLJCC staff properly completed ETA forms
3-28 for each of the six items to ensure they would be added to the CPMS.

Tracing items purchased to the CPMS was very difficult and time-consuming because the CPMS did not include purchase order numbers or any other readily traceable data elements in common with accounting records.

The administrative requirements applicable to the Job Corps contract provide:

> *A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. . . .* (29 CFR Part 97.32(d)(3))
>
> *Property records must be maintained that include a description of the property, a serial number or other identification number, . . . the location, use and condition of the property. . . .* (29 CFR 97.32(d)(1))

Chapter 10, §6.3.2-3 of the Job Corps PRH provides:

> *A Form ETA 3-28, Inventory Transcription Sheet must be prepared within 10 days of a property transaction. A completed ETA 3-28 must be submitted to the appropriate Job Corps Property Officer (JCPO) for inclusion on the CPMS. . . . Property must be assigned to property custodians who will be individually accountable for and will ensure that items are properly used, secured and controlled.*

Although the center was able to locate the six items, the fact that they had not been properly inventoried demonstrates that property controls were weak. One of the six items was purchased in April 1996, four in September 1996, and one in June 1997. It should not take up to 2 years to add purchases to the CPMS. Without accountability, the likelihood increases that furniture and equipment purchased with Job Corps funds will not be used properly.

### B. Job Corps' equipment was missing, and TLJCC's inventory was inaccurate, incomplete, and outdated.

During our audit, MACI, a DOL contractor responsible for maintaining the CPMS, conducted the Annual Job Corps Property Review as part of the 1999 Regional Office Annual Review. The purposes of the property review were to:

- verify compliance with DOL property regulations,
- perform inventory control review, and
- provide technical assistance as required.

Because this was a comprehensive DOL review, we relied on the work performed by MACI for our inventory review rather than duplicate their procedures. MACI conducted a physical inventory of a judgmentally selected sample of 434 (31.59 percent) of 1,374 items included on TLJCC's CPMS inventory. The following excerpts are from MACI's report:

> *Of the 434 items listed, 343 were in their location as assigned on CPMS. There were an additional 20 items found in various locations other than where they were assigned. Of the 434 items listed from the selective sampling, 71 items valued at $27,520 were not found. If the property is not located within 30 days, Center staff was instructed to report the missing items to the local police and FBI, as outlined in ETA Handbook 359, chapter 7, paragraph 6. In addition, the Center must explain the circumstance surrounding the losses and formally request relief of accountability, unless the Contractor decides to voluntarily reimburse the Department of Labor for the full replacement cost of the property.*
>
> *The Center annual inventory certification is past due since June 1996.*
>
> *The custodial staff was not consistently using hand receipts for the temporary transfer of equipment.*

Chapter 10, §6.3.4-6 of the Job Corps PRH provides:

> *Transfer documents must be processed when property is moved from one location to another, even for temporary transfers. An internal hand receipt system may be used for temporary transfers. However, permanent transfers must be noted on the CPMS through an ETA 3-28.*
>
> *Inventories must be taken promptly when the custodian terminates and/or a new custodian is assigned and kept for audit purposes.*
>
> *A complete physical inventory must be taken annually and at contract end for the purpose of certifying to the JCPO the accuracy of the CPMS. Form ETA 3-94, Contractor's Inventory Certificate, must be used to certify the CPMS annually.*

We discussed these problems with TLJCC's assistant director, Finance and Administration. She stated that the center completed its annual inventory certification in March 1999, but they were still researching the items missing from the center. The center has not yet requested relief of accountability or reimbursed DOL for the cost of the property. Accordingly, we question the $27,520 for the 71 items not found.

These problems in the TLJCC's property management system occurred because TLJCC did not develop or implement adequate internal controls related to Job Corps' purchases and inventory. Specifically: (1) property records could not be readily traced to and were not periodically balanced to accounting records and (2) physical inventories were not reconciled to property records and were not performed every year, as required. We discussed these control weaknesses with TLJCC managers who assured us that they are updating policies and procedures to correct the problems we identified. Further, they continue to search for the equipment that could not be located.

**Recommendations:**

We recommend that the Assistant Secretary for Employment and Training direct the Director, Office of Job Corps:

- Disallow $27,520 for the 71 missing items unless the center completes all required procedures and formally requests relief of accountability.

- Ensure that the TLJCC develops and implements internal controls adequate to safeguard and account for Job Corps' property.

**Nation's Response to Draft Report:**

The Nation indicated that 43 of the 71 missing items have been located and the Office of Job Corps has approved additional time to locate the other 28 items. Furthermore, the Nation indicated that property management standards and procedures have been implemented to improve the TLJCC's accountability for property.

**Auditor's Conclusion:**

Since finding 3B relating to missing property was based on the results of the annual Job Corps' property review conducted by MACI, a DOL contractor, we will defer our determination regarding the acceptability of the Nation's response regarding the missing property. That determination will be made by the Office of Job Corps. Consequently, the costs are still questioned pending Job Corps' determination.

Regarding its property management procedures, the TLJCC should ensure that its inventory procedures not only locate property recorded in the inventory, but also trace purchases of property to the inventory and then physically locate the property.

Our recommendations remain unchanged.

## 4. TLJCC's Financial Reports Did Not Provide Reliable, Timely Information Preventing their Usefulness as a Management Tool.

TLJCC's monthly financial reports were often late and contained material errors and inconsistencies that prevented their use as an effective management tool. In April 1999, 10 months after its contract ended, TLJCC submitted a final cost report that reconciled to amounts recorded in the general ledger. However, in the last 2 years of the contract, ending June 30, 1998, the monthly cost reports (ETA 2110s) and vouchers (invoices) could not be relied upon because they contained so many errors and inconsistencies that they were almost meaningless. Specifically, we identified the following problems with TLJCC's monthly financial reports:

A. Monthly 2110s contained numerous inconsistencies and mathematical errors.

B. Vouchers often did not agree with monthly 2110s.

C. Financial reports were often late or not submitted.

D. Certain expenses were misclassified.

E. TLJCC made journal entries to the general ledger to force the general ledger to agree with reported costs.

Some of these problems stemmed from the Nation's new accounting system, American FundWare (AFW), which has undergone substantial improvements since our audit period. However, the majority of problems occurred because TLJCC's staff who prepares financial reports needs training and technical assistance. Therefore, corrective actions are needed immediately to prevent and detect similar problems in reports submitted for the new TLJCC contract.

### A. Monthly 2110s contained numerous inconsistencies and mathematical errors.

Monthly 2110 reports were consistently incorrect, especially in the presentation of cumulative costs to date. We found material inconsistencies and mathematical errors in the PYs 96 and 97 reports, with the majority being in PY 97, the last year of the contract. Most errors were corrected 10 months after the contract ended when TLJCC submitted its Final Revised 2110 Expense Report on April 26, 1999. However, on a month-to-month and annual bases, the reports did not provide reliable information.

The Job Corps Policy Requirements Handbook (PRH) provides:

> *Each center operator and each subcontractor must maintain a financial management system that will provide accurate, current and complete disclosures of the financial results of Job Corps operations, by contract line item and cost category which will provide sufficient data for effective evaluation of program activities*. (PRH, Chapter 9, §1.3.2.2)

> *Any adjustments made to correct erroneous information on past reports (contract to date adjustments)* ***<u>must be included in the current month's</u>*** *expenses and the adjustment must be explained on the Variance Exceptions/Comments section. It is not permitted to simply adjust the Contract to Date Actual totals. The total of all monthly reports must agree with the Contract to Date Actual*. (PRH Appendix 901, §D.6)

TLJCC's monthly reports were not accurate, current, or complete, and correcting adjustments were not explained, as required. The following examples demonstrate some of the errors and inconsistencies we identified:

- TLJCC staff told us that spreadsheet formula errors caused numerous mathematical errors in reports before November 1997. They insisted that the formulas and errors were corrected at that time. To show that the errors continued after that time, we recalculated PY 97 year-to-date (YTD) costs beginning with the cumulative YTD numbers reported on the November 1997 2110. To the November YTD totals, we added monthly costs for each of the remaining 7 months left in PY 97. We found numerous errors ranging from $(372) to $46,171. The original June 1998 2110 that was submitted in July 1998 was understated by $46,171 (net) in cumulative errors based on the 7-month period recalculated.

- We recalculated contract-to-date (CTD) costs for PYs 93 through 97 by summing YTD totals from June (end of program year) reports. We identified numerous errors in year-to-year accumulated total costs. Errors in total CTD costs for the 5-year contract ranged from $(19,351) to $791,321. The original June 1998 2110 that was submitted in July 1998 was understated by $62,270 (net) in cumulative errors based on the 5-year period recalculated.

- Detailed “Outreach/Admissions/Placement Financial Reports” (OAPs) were attached to the back of the 24 monthly 2110 reports for July 1996 through June 98 to support recruitment costs on the 2110. “Current **Contract Year-To-Date** Actual” Recruitment Costs reported on line 39 of the 2110s did not agree with the OAP in 20 of the 24 months.

- Reported **monthly** costs for recruitment did not agree with the OAPs in six of the monthly 2110s (August 1996, September 1996, December 1996, August 1997, December 1997, and April 1998).

- On two occasions (July and September 1997), monthly costs for recruitment reported on line 39 of the 2110 were not included in the "Grand Total" reported on line 41, thus making the reports understated by the amount omitted. Recruitment costs for the 2 months were included on the monthly vouchers.

### B. Vouchers often did not agree with monthly 2110s.

We determined that TLJCC's monthly vouchers and 2110's agreed from July 1993 through December 1996. However, from January 1997 through June 1998, monthly vouchers and 2110s routinely varied by material amounts on a month-to-month basis. In PY 96, **2110s exceeded vouchers** by $71,181. In PY 97, **vouchers exceeded 2110s** by $53,170. The **net** effect, therefore, was that total 2110s exceeded total vouchered amounts by $18,011.

The $71,181 difference between PY 96 vouchers and 2110s occurred because TLJCC made various reporting errors. In November 1997, TLJCC resubmitted eight vouchers due to errors detected in expenses reported on 2110s for October 1996 through May 1997. However, those 2110s for the same months were not corrected or resubmitted. Instead, TLJCC adjusted the November 1997 2110 to reflect the corrections.

The $53,170 difference between PY 97 vouchers and 2110s also occurred because of TLJCC reporting errors. We determined that

- March through June 1998 vouchers were $57,676 less than the 2110s for those 4 months. According to TLJCC management, OAP expenses exceeded the approved budget and were, therefore, reported on the 2110s but not vouched for payment.

- Recruitment costs were omitted from the 2110s for July and September 1997, but included in vouchers for the same months. In August 1997, recruitment costs were misreported on both the 2110 and the voucher.

During the 18-month period from January 1997 through June 1998, the only month in which cumulative 2110s and vouchers agreed was November 1997.

The Job Corps Policy Requirements Handbook (PRH) provides:

> *The amounts reported as Total Vouchered Reimbursable Expenses, in the Full Contract Basis Section, Line 60* [of the Center Financial Report (ETA 2110)], *must agree with the month-end voucher submitted for reimbursement*. (PRH, Chapter 9, §1.3.2.5.b)

Because the 2110s and vouchers were frequently corrected, adjusted, and/or revised, we reconciled Federal drawdowns, 2110s, vouchers, and amounts supported by the general ledger for the 5-year contract to facilitate the contract closeout process. Federal drawdowns are not directly reconcilable because TLJCC prepares and submits the 2110's and vouchers on a monthly basis, while the contractor (Cherokee Nation) draws down cash from Treasury several times per month based on expenses entered in the general ledger. We determined the following:

- The grand total on line 41 of the final 2110 for the 5-year contract ended June 30, 1998, should be $22,340,360 for cumulative contract-to-date expenses. Line 41 of the "final" 2110 submitted in April 1999 was correct for YTD expenses, but CTD expenses were reported as $22,359,827, an overstatement of $19,468 that occurred because recruitment costs (line 39) brought forward from the prior year was overstated by that amount.

- As of April 1999, the Nation's general ledger supported the $22,340,360 discussed above plus an additional $57,667 for recruitment costs not reported because it exceeded the approved budget by that amount.

- The sum of vouchers 1-60 for the 60 months in the 5-year contract totaled $22,302,821. This amount agreed, within $1, to the cumulative total reported on voucher 60 for June 1998. Therefore, the final voucher should be $37,539, the difference between the $22,340,360 total costs and the $22,302,821 total vouchered. The final voucher (no. 61) submitted by TLJCC in April 1999 contained numerous errors and should be resubmitted.

- Federal drawdowns for the 5-year period, PYs 93 through 97, total $22,239,542. Therefore, the Nation should be entitled to draw down an additional $100,818 after the final voucher is corrected, subject to the disposition of the questioned costs in this report.

## C. Financial reports were often late or not submitted.

TLJCC often did not comply with requirements for submitting financial reports in a timely manner. The Job Corps Policy Requirements Handbook (PRH) provides:

> *The center operator must establish a reports control system to ensure that all reports are submitted as required. . . .* (PRH, Chapter 8, §1.3.3.2)
>
> *The report* [Center Financial Report (ETA 2110)] *must be mailed no later than the 20th of the month following reported month.* (PRH, Chapter 9, §1.3.2.5.c)

We determined that 7 of the 36 monthly 2110 reports submitted for July 1995 through June 1998 were late, ranging from 2 to 62 days late. Further, TLJCC did not file monthly 2110s after the contract ended in June 1998. Instead, they waited until April 1999 to file a final "revised" 2110 for the month of June 1998. The original 2110 for June 98 that was submitted in July 1998 should not have been revised. Rather, monthly 2110s should have continued until all financial activity ceased for that contract, as required by the Job Corps Policy Requirements Handbook (PRH):

> *When a contract expires, the monthly reporting requirement continues, <u>even if the contractor no longer operates the center</u>, until all undelivered commitments and unvouchered accounts payable are liquidated. A separate set of reports is to be submitted for each center operations contract until all financial activity ceases. . . . The 'Period Ending' will always be shown as the current reporting month, not the month in which the contract expired. After liquidation of all obligations no further reports are required on an expired contract until close out. This last report should be marked 'FINAL.' If there are adjustments at close out, a report must be submitted for that month reflecting any changes to costs.* (PRH Appendix 901, §D.4)

## D. Certain expenses were misclassified.

We determined that "GSA Vehicle Rentals" (line 34 on the 2110) was incorrectly classified as "Motor Vehicle Expense" (line 26 on the 2110) for the 5-month period November 1997 through March 1998. GSA Vehicle Rental expense totaled $16,240 for the 5-month period. Amounts recorded on lines 1 through 30 on the 2110 are subject to indirect costs, whereas amounts recorded on lines 31 through 41 are not. Therefore, care should be taken in classifying expenses so that they are presented properly, and the amount subject to indirect costs can be calculated correctly.

## E. TLJCC made journal entries to the general ledger to force the general ledger to agree with reported costs.

We could not reconcile most line item totals on the PY 96 year-end ETA 2110 reports to the Nation's general ledger account balances for PY 96, ending June 30, 1997. Further, we could not reconcile the PY 97 reports until April 1999, almost 10 months after the contract terminated, when TLJCC submitted its final (revised) 2110 cost report for June 1998.

After the June 1997 2110 was submitted on July 18, 1997, the general ledger remained open for retroactive journal entries. Since numerous journal entries were added, the final PY 96 general ledger differed substantially from the program year-end 2110 submitted months earlier. For example, line 27 (Travel and Training) on the June 1997 monthly 2110 was understated by 28 percent and line 35 (Vocational Skills Training projects) was overstated by 33 percent. Only four line items were accurately reported. All other line items were either under- or overstated, but to lesser degrees. TLJCC made numerous general ledger adjustments to force the data to match the report. The **net value** of the adjustments was **$11,654**. However, the **absolute value** of the adjustments was **$199,678**. These adjustments were all reversed the following year (PY 97).

Two mandatory grantee financial management systems standards are:

> *Financial reporting.* *Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.*
> (29 CFR 97.20(b)(1))
>
> *Accounting records.* *Grantees and subgrantees must maintain records which adequately identify the source and application of funds. . . .*
> (29 CFR Part 97.20(b)(2))

Further, the Job Corps Policy Requirements Handbook (PRH) provides:

> *Contract centers must submit a Center Financial Report each month. . . . All costs must be reported for a calendar month and on an accrual basis*. (PRH, Chapter 9, §1.3.2.5.a)

Making unsupported adjustments to accounting records just so they will reconcile to a report is not an acceptable accounting practice.

In summary, the Job Corps' financial reports are meant to be used as planning, budgeting, and monitoring tools for both the Job Corps Center and the Job Corps Regional and National Offices. However, the reports were often late and consistently incorrect month-to-month, especially in the presentation of cumulative costs-to-date. As a result, the reports did not provide users with timely, reliable financial information as intended.

The Job Corps Policy Requirements Handbook states:

> *The Job Corps Center Financial Report, form 2110, is used by operators of contract centers to report accrued expenses and other pertinent data necessary to analyze cost trends and cost effectiveness in center operations. . . .* (PRH Appendix 901, §D.1)
>
> *Since reports are used by Job Corps both to monitor the progress of center contracts and to accumulate needed historical data for required reporting, it is essential that all computations are checked to assure 100% accuracy before submission. Use of electronic spreadsheets or other ADP tools can all but eliminate simple math errors. If reports are incomplete or errors are found, centers and/or contractors will be notified to resubmit.* (PRH Appendix 901, §D.8)

The majority of the errors we identified in TLJCC's reports were simple, mathematical errors that were easily detected by a cursory review. We detected the errors by performing simple footing and cross-footing of line and column totals and by comparing amounts reported from one month to the next. We concluded, therefore, that TLJCC managers did not perform adequate reviews of monthly financial reports before submitting them to the Region VI Job Corps Office. Further, the center's staff appears to be undertrained and are using outdated systems to prepare monthly reports.

**Recommendations:**

We recommend the Assistant Secretary for Employment and Training direct the Director, Office of Job Corps:

- Require the Nation and TLJCC to maintain sufficient, auditable, and otherwise adequate records to support the expenditure of all Job Corps funds.
- Require that TLJCC's financial/accounting staff receive training related to Job Corps report preparation; applicable cost principles, and PRH provisions.

Furthermore, the Office of Job Corps should provide technical assistance and guidance to TLJCC to ensure that the center's financial reports are accurate, supported, and timely.

**Nation's Response to Draft Report:**

The Nation responded that training is currently coordinated with the Office of Job Corps and Management Training Corporation. The training will be conducted for finance reporting staff and any new staff.

Furthermore, (1) a special report is being developed to more fully automate the financial reporting process to greatly reduce the occurrence of human error in data reported, and (2) decentralization of the reporting function to TLJCC should contribute to the timeliness and accuracy of the reports.

**Auditor's Conclusion:**

Our recommendations remain unchanged.

## 5. Weaknesses in TLJCC's Internal Control and Financial Management Systems Contributed to Other Findings.

In addition to those internal control and financial management weaknesses discussed in findings 1 through 4, we identified other internal control and financial management weaknesses that, in our opinion, helped contribute to those conditions.

A. TLJCC did not have any written policies and procedures other than Job Corps' Policy Requirements Handbook (PRH) and did not have a Center Operating Plan (COP).

B. TLJCC operated the entire PY 1996 without an approved budget.

### A. TLJCC did not have any written policies and procedures other than Job Corps Policy Requirements Handbook and did not have a Center Operating Plan.

During our audit period, TLJCC relied solely on the PRH for its internal policies and procedures. The Office of Job Corps developed the PRH to include all mandatory program requirements in one document. However, the PRH is no substitute for written internal policies and procedures. For example, the contract specifically requires the contractor to establish a reports control system; to develop procedures affecting all aspects of center financial operations; and to establish budget and cost controls. We requested these and other written policies and procedures, but TLJCC staff was unable to locate any such documents.

Furthermore, TLCC's contract states:

> *The contractor shall submit a center operating plan within 90 days after the effective date of this contract. It will incorporate changes in the contractor's proposal discussed during negotiations. The contractor's plan, except for personnel and procurement policies which must be approved by the contracting officer, must have written approval of the GAR* [government authorized representative] *within 60 days of submission. . . .* (§C.I.I.1.b)

The contract requires the COP to include, but is not limited to, sections on administrative procedures, staff training plan, procurement and property management plan, and reports control system.

We requested a copy of TLJCC's COP from TLJCC staff, the Nation, and the Job Corps Regional GAR; no COP could be located.

The contract states that, pending approval of the COP, the contractor must adhere to the relevant sections of its proposal. Because the COP was not available, we requested a copy of TLJCC's contract proposal. The Nation provided us a copy of the 1993 contract pricing proposal, but the technical section of the proposal was missing. We concluded that even if a COP or a similar set of guidelines did exist, it was not being used for operating or monitoring purposes, since neither TLJCC nor the GAR knew anything about it.

## B. TLJCC operated the entire PY 96 without an approved budget.

The TLJCC operated without an approved budget during the entire PY 1996 even though Job Corps' PRH provides:

> *Each contract center must submit a correctly completed Center Operations Budget (ETA 2181) to the Regional Office for approval within 10 days of the beginning of the contract period and within 30 days of the beginning of each succeeding year of the contract. . . .* (PRH, Chapter 9, §1.3.2.3)
>
> *. . . The Regional Office and the contractor should schedule this process to ensure that an approved 2181 budget is available in time for use in the first monthly cost report due for the option year. At the outside, the reconciled 2181 budget for the option year, along with any necessary contract modification in the estimated cost clause, must be available to the contractor by the 15th day of the second calendar month of the option year. . . .*
> (PRH, Appendix 901, §F.5.c)

TLJCC did not comply with this PRH requirement in PY 96. TLJCC submitted a center operations budget (ETA 2181) for PY 95 on August 1, 1995 (budget submission no. 6). The Job Corps' regional office approved budget no. 6 between August 28 and September 19, 1995, in time for the second PY 95 monthly cost report, but not the first report. TLJCC submitted budget no. 7 as a PY 95 revision on April 9, 1996; however, that budget was never approved.
The Job Corps regional office told TLJCC that it had no record of receiving it. TLJCC continued to operate under budget no. 6 until July 1997, the first month of PY 97.

An April 1997 memorandum from the Job Corps national office to TLJCC states:

> *Reports are being prepared utilizing Budget #6 which provides no basis for reasonable analysis or control of available contract funds. . . . It makes no sense to prepare reports which report meaningless amounts. . . . There was no budget submission at the end of year 3 (6/30/96) which would provide the required year-end reconciliation. The center is currently operating with a budget that is below both the contract Estimated Cost and the AAPP because the reconciliation was not performed and costs are reported incorrectly.*

Grantee financial management systems standards provide:

> *Budget control.* *Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. . . .* (29 CFR Part 97.20(b)(4))

If these internal control and financial management system weaknesses are not corrected, TLJCC's fiscal problems will continue and DOL funds will remain at risk. Without written policies and procedures specific to the center, individual employees tend to develop their own informal systems and procedures to accomplish daily tasks. This condition almost guarantees that accounting transactions will not be treated consistently over time. Further, without meaningful budgets, DOL has no control over expenditures at the center level.

**Recommendations:**

We recommend the Assistant Secretary for Employment and Training direct the Director, Office of Job Corps to require that TLJCC:

- Develop and implement written policies, procedures, and internal controls specific to the center, including compliance with the COP requirement of its contract.

- Ensure that center financial/accounting staff receive training related to Job Corps budget preparation, applicable cost principles, and PRH provisions.

Furthermore, the Assistant Secretary should ensure that Job Corps provides technical assistance and guidance to TLJCC to ensure that the center's financial management problems are corrected.

**Nation’s Response to Draft Report:**

The Nation indicated that two items were referenced in the finding: (1) the absence of a COP for the audit period, and (2) no approved PY 1996 budget.

The Nation indicated (1) it has a current COP for TLJCC, (2) the PY 1996 budget was approved in January 1998, and (3) a budget has been approved for all program years after PY 1996. Furthermore, the Nation indicated TLJCC staff is receiving training and additional training is forthcoming. The Nation is confident that the problems identified in this finding will not be recurring.

**Auditor's Conclusion:**

The finding addressed three, not two issues. The Nation's response did not address the most important issue -- TLJCC's failure to maintain internal policies and procedures for daily operations. In our opinion, the lack of accounting and administrative policies and procedures attributed to other deficiencies identified in other findings in this report, specifically findings 2, 3, and 4.

Furthermore, the approval of the PY 1996 budget 7 months after the program year ended did not provide TLJCC or the Office of Job Corps an opportunity to evaluate expenditures against budget, one of the primary reasons for a budget.

Finally, it is good that the TLJCC staff is receiving training. The Nation should ensure that some of that training involves financial management, internal controls, and reporting requirements.

Our recommendations remain unchanged.

**EXHIBIT A**

**TALKING LEAVES JOB CORPS CENTER**
**STATEMENT OF REPORTED COSTS**
**For the Period July 1, 1993, through June 30, 1998**

| | UNAUDITED | | | AUDITED | | | | |
|---|---|---|---|---|---|---|---|---|
| Expense Category | PY 93 6/30/94 | PY 94 6/30/95 | Total | PY 95 6/30/96 | PY 96 6/30/97 | PY 97 6/30/98 | Total | Contract Total |
| Net Center Operations | $ 3,811,724 | $ 4,077,940 | $ 7,889,664 | $ 3,854,091 | $ 4,037,388 | $ 4,237,995 | $ 12,129,474 | $ 20,019,138 |
| Const/Rehab | | 1,002,818 | 1,002,818 | 51,637 | 65,880 | 55,337 | 172,854 | 1,175,672 |
| Equipment/Furniture | 14,472 | 75,276 | 89,748 | 25,967 | 45,175 | 69,112 | 140,254 | 230,002 |
| GSA Vehicle Rental | 68,293 | 52,356 | 120,649 | 28,404 | 25,732 | 13,996 | 68,132 | 188,781 |
| VST | 6,947 | 8,471 | 15,418 | 2,631 | 33,609 | 38,213 | 74,453 | 89,871 |
| Total Center Costs | $ 3,901,435 | $ 5,216,861 | $ 9,118,296 | $ 3,962,730 | $ 4,207,785 | $ 4,414,653 | $ 12,585,168 | $ 21,703,464 |
| Student Trans/Meal Allowance | | 1,139 | 1,139 | 176 | 142 | 870 | 1,188 | 2,327 |
| Other (Recruitment) | 84,131 | 126,713 | 210,844 | 176,198 | 149,120 | 98,406 | 423,724 | 634,568 |
| Grand Total | $ 3,985,566 | $ 5,344,713 | $ 9,330,279 | $ 4,139,104 | $ 4,357,047 | $ 4,513,929 | $ 13,010,080 | $ 22,340,359 |

# APPENDIX I

## AUDITEE'S RESPONSE TO DRAFT REPORT