

**AUDIT OF HUBERT H. HUMPHREY  
JOB CORPS CENTER EXPENSES**

**CONTRACT NUMBER 5-JC-767-27**

**MAY 31, 2000**

**HARPER, RAINS, STOKES & KNIGHT, P.A.  
CERTIFIED PUBLIC ACCOUNTANTS**

RIDGELAND, MISSISSIPPI

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

FROM: JOHN J. GETEK  
Assistant Inspector General  
for Audit

SUBJECT: Hubert H. Humphrey Center Expenses  
For the period June 1, 1999 through May 31, 2000  
Final Audit Report No. 02-01-205-03-370

The attached final report is submitted for your resolution action. We request a response to this report within 60 days. It is your office's responsibility to transmit a copy of this report to Vinnell Corporation officials. However, we are providing a courtesy copy directly to them. If you have any questions concerning this report, please contact Richard H. Brooks, Regional Inspector General for Audit, at (212) 337-2566.

Attachment

cc: Richard Trigg, Job Corps  
Brian Colan, Vinnell Corporation

**AUDIT OF  
HUBERT H. HUMPHREY  
JOB CORPS CENTER EXPENSES**

**CONTRACT NUMBER 5-JC-767-27  
JUNE 1, 1999 THROUGH MAY 31, 2000**

**FINAL REPORT**

**This audit was performed by Harper, Rains, Stokes & Knight, P.A., CPAs, under contract to the Office of Inspector General, and by acceptance, it becomes a report of the Office of Inspector General.**

---

**Assistant Inspector General for Audit**

**REPORT NO: 02-01-205-03-370  
DATE ISSUED: MARCH 22, 2001**

## TABLE OF CONTENTS

ACRONYMS .....	i
EXECUTIVE SUMMARY .....	1
INTRODUCTION:	
BACKGROUND .....	2
AUDIT OBJECTIVE .....	2
AUDIT SCOPE AND METHODOLOGY .....	2
INDEPENDENT AUDITORS' REPORT .....	4
FINDINGS AND RECOMMENDATION	
I    FINANCIAL REPORTING .....	6
II   COST OVERRUN - \$86,683 .....	7
EXHIBIT	
CONSOLIDATED SCHEDULE OF NET CENTER OPERATION EXPENSE CATEGORIES - JUNE 1, 1999 THROUGH MAY 31, 2000 .....	8
APPENDIX	
VINNELL RESPONSE TO DRAFT REPORT .....	9

## ACRONYMS

DOL	U. S. Department of Labor
ETA	Employment and Training Administration
FAR	Federal Acquisition Regulation
FY	Fiscal Year
HJCC	Hubert H. Humphrey Job Corps Center
OIG	Office of Inspector General
PRH	Job Corps Policy and Requirements Handbook
VINNELL	Vinnell Corporation a TRW Company

---

## EXECUTIVE SUMMARY

---

Harper, Rains, Stokes & Knight, P.A., under contract to the Department of Labor (DOL), Office of Inspector General (OIG), performed a financial audit, as requested by Office of Job Corps, of expenses claimed by Vinnell Corporation (Vinnell) to operate the Hubert H. Humphrey Job Corps Center (HJCC) under contract number 5-JC-767-27 for the period June 1, 1999 through May 31, 2000. Our audit objective was to determine if the *Consolidated Schedule of Net Center Operation Expense Categories* reported by Vinnell for HJCC was presented fairly in accordance with Federal requirements. A sub-objective of the audit was to determine the reason for the reported cost overrun of \$86,683.

Vinnell is a for-profit corporation located in Fairfax, Virginia. The education and training group operates eight Job Corps centers located throughout the United States. DOL awarded Vinnell a two-year contract with provisions for three additional option years to operate HJCC, located in St. Paul, Minnesota, for a total of \$26,453,032 covering the period of June 1, 1996 through May 31, 2001.

### **Audit Results**

In our opinion, the *Consolidated Schedule of Net Center Operation Expense Categories* (Exhibit A) presented fairly, the results of HJCC's operations in accordance with applicable laws and regulations for the period June 1, 1999 through May 31, 2000. Expenses of \$5,917,520 claimed by Vinnell were reasonable, allocable, and allowable. However, we noted a reportable condition for accurate reporting of monthly expenses on Form 2110.

The reported cost overrun of \$86,683 for the year ended May 31, 2000, was caused by an increase in personnel expenses. Due to employee turnover and difficulty in attracting new employees, HJCC had to increase salary levels to attract new employees.

### **Recommendation**

We recommend that the Assistant Secretary for Employment and Training ensure HJCC develops controls to ensure all center expenses are reported accurately.

### **Vinnell Response**

The Vice President and CFO responded to our draft report on March 12, 2001. He concurred with our findings and stated that controls were implemented to ensure costs will be reported in a timely and accurate manner. The response has been incorporated in the report and is also included in its entirety as an Appendix.

---

# INTRODUCTION

---

---

## BACKGROUND

---

Job Corps was established in 1964 and is presently authorized under Title I, Subtitle C of the Workforce Investment Act of 1998. The overall purpose of the program is to provide economically disadvantaged youth aged 16 to 24 with the opportunity to become more responsible, employable citizens. With annual funding over \$1 billion, Job Corps is the largest Federal youth employment and training program. Job Corps provides total support for participants including basic education and vocational classes; dental, medical and eye care; social skills training; meals; recreational activities; counseling; student leadership activities; and job placement services.

Vinnell is a for-profit corporation located in Fairfax, Virginia. The education and training group operates eight Job Corps centers located throughout the United States. DOL awarded Vinnell a two-year contract with provisions for three additional option years to operate HJCC, located in St. Paul, Minnesota, for a total of \$26,453,032 for the five years covering the period June 1, 1996 through May 31, 2001.

---

## AUDIT OBJECTIVE

---

The objective was to determine if the *Consolidated Schedule of Net Center Operation Expense Categories* reported by Vinnell for HJCC was presented fairly in accordance with Federal requirements. A sub-objective of the audit was to determine the reason for the reported cost overrun of \$86,683 for the period June 1, 1999 through May 31, 2000.

---

## AUDIT SCOPE AND METHODOLOGY

---

We audited expenses of \$5,917,520 claimed under contract number 5-JC-767-27 for the period June 1, 1999 through May 31, 2000.

We obtained an understanding of HJCC's internal controls through inquiries with appropriate personnel, inspection of relevant documentation, and observation of HJCC operations. The nature and extent of our testing were based on the risk assessment.

We examined center operation expenses, public vouchers, general ledgers and supporting documentation including vouchers and invoices. We used monetary unit sampling techniques to test individual account transactions. Testing was expanded in accounts when errors exceeded the expected error rate. We audited \$797,665 or 13 percent of reported expenses of \$5,917,520. Using a

combination of monetary unit sampling and judgmental sampling techniques, we examined \$620,359 or 29 percent of reported non-personnel expenses which totaled \$2,122,145. In addition, using primarily monetary unit sampling, we examined \$177,306 or 5 percent of reported personnel expenses totaling \$3,795,375. We did not audit performance measurements of HJCC.

The audit was performed using criteria we considered relevant. Criteria included the Code of Federal Regulations Title 20, the Federal contract cost principles set forth in the Federal Acquisition Regulation, Part 31, and Job Corps Policy and Requirements Handbook (PRH). Also, all other requirements in the current contract were used as criteria in evaluating the allowability of expenses claimed.

We conducted our audit in accordance with generally accepted auditing standards and standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted fieldwork from October 2, 2000 to December 21, 2000, at Vinnell Corporation's headquarters located in Fairfax, VA. We held an exit conference with Vinnell management on December 21, 2000.



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

## **INDEPENDENT AUDITORS' REPORT**

We audited the *Consolidated Schedule of Net Center Operation Expense Categories* (Exhibit) for the period June 1, 1999 through May 31, 2000, under DOL contract number 5-JC-767-27. The expenses claimed are the responsibility of Vinnell Corporation management. Our responsibility is to express an opinion on the reported expenses based on our audit.

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

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

### **Opinion on Financial Statement**

In our opinion, the *Consolidated Schedule of Net Center Operation Expense Categories* presents fairly, in all material respects, the results of the HJCC's operations in accordance with applicable laws and regulations for the period June 1, 1999 through May 31, 2000.

### **Report on Internal Control**

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

However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Vinnell Corporation's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the Findings and Recommendation section of this report.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we believe that the reportable conditions described in the Findings and Recommendation section of this report are not material weaknesses.

### **Report on Compliance with Laws and Regulations**

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

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

December 21, 2000

---

## FINDINGS AND RECOMMENDATION

---

### **I. Financial Reporting**

HJCC understated payroll expenses by \$277,000 for the month of January 2000. The error was made because HJCC accrued payroll expenses of \$112,846 in December 1999 and reversed the accrual in January 2000, for \$389,846. As a result, payroll expenses of \$37,000 were reported for the month of January 2000, when payroll expenses generally average \$300,000 per month. This error was subsequently detected by Vinnell personnel and cumulatively corrected on the April 2000 submission to Job Corps.

Job Corps Policy and Requirements Handbook, Chapter 9: Financial Management; Appendix 901, Section B, Item 3, states:

*Contract centers are required to report actual expenses on a monthly basis. For center financial management and Job Corps monitoring purposes it is important that analysis be performed on data that is as current as possible. Moreover, the availability of monthly cost data allows an analysis of trends which could not be identified through less frequent reporting.*

### **Recommendation**

We recommend that the Assistant Secretary for Employment and Training ensure HJCC develop controls to ensure all center expenses are reported accurately.

### **Vinnell Response**

*Vinnell Corporation concurs with this finding and accepts full responsibility for these errors. It is, however, important to note that during the time frame in which these errors occurred the 2110 review function was in the process of being transitioned within our corporate office from one department to another. A newly created Job Corps finance position now performs this function. . . .*

*Vinnell has implemented the following processes to ensure costs are reported in a timely and accurate manner:*

- a. A checklist was created. This requires centers to verify that costs reported on their 2110 matches the amounts recorded at the corporate office. . . .*
- b. A designated member of the corporate finance department reviews the completed checklist that is provided with the copy of the 2110 to the corporate office at the same time the report is submitted to DOL. . . .*

- c. *Each center submits a report of current period costs and a month-to-month cost comparison to Vinnell's corporate office by the 15<sup>th</sup> of the month. . . .*

**II. Other Matter-Cost  
Overrun of \$86,683**

As requested by the Office of Job Corps, we examined the reason for the reported cost overrun of \$86,683 for HJCC for the year ended May 31, 2000. The reported cost overrun of \$86,683 was caused by personnel expenses which were in excess of the budget by \$171,169 and offset by other costs which were under budget by \$84,486.

Due to employee turnover and difficulty in attracting new employees, HJCC increased salary levels to attract new employees. Generally, new position starting salaries were forecasted at or near the lower level of the salary grade. Our testing of personnel expenses revealed that new hires were hired at starting salaries at a higher level.

**Hubert H. Humphrey Job Corps Center  
Consolidated Schedule of Net Center Operation Expense Categories  
June 1, 1999 To May 31, 2000**

<u>Center Operation Expense Categories</u>	<u>Reported Expenses</u>
Education Personnel	\$346,897
Other Education	45,835
Vocational Personnel	463,887
Other Vocational	145,918
Social Skills Personnel	1,148,632
Other Social Skills	99,409
Food	343,803
Clothing	80,295
Support Service Personnel	268,363
Other Support Services	113,672
Medical/Dental Personnel	301,466
Other Medical/Dental	33,149
Administrative Personnel	660,170
Other Administration	249,289
Contractor's G&A	296,595
Facility Maintenance Personnel	230,267
Other Facility Maintenance	161,382
Security Personnel	375,694
Other Security	7,988
Communications	51,188
Utilities and Fuel	169,568
Insurance	7,072
Motor Vehicle	29,560
Travel and Training	44,366
Contractor's Fee	<u>243,055</u>
Net Center Operations	<u>\$5,917,520</u>