U.S. Department of Labor

Office of Inspector General—Office of Audit

EMPLOYMENT AND TRAINING ADMINISTRATION

# PERFORMANCE AUDIT OF JOB CORPS CENTER OPERATING COSTS

## For the period October 1, 2003 – March 31, 2004

This report was prepared by M.D. Oppenheim & Company, P.C., under contract to the U.S. Department of Labor, Office of Inspector General, and by acceptance, it becomes a report of the Office of Inspector General.

Elliot P. Lewis
Assistant Inspector General for Audit

**Date Issued: March 31, 2005**
**Final Report Number: 03-05-004-03-370**

**Department of Labor**
**Office of Inspector General**
**Office of Audit**

# BRIEFLY...

Highlights of Report Number: 03-05-004-03-370 to the Assistant Secretary, Employment and Training. March 31, 2005.

## WHY READ THE REPORT

There are currently 90 contractor-operated Job Corps centers run by 28 for-profit corporations or nonprofit organizations. Center operating costs are reported to the Office of Job Corps monthly on Form ETA-2110, Job Corps Center Financial Report, and include direct center expenses such as center staff salaries, student food, student clothing, utilities, medical, and dental expenses, as well as indirect costs such as contractor fees and general and administrative expenses.

## WHY OIG DID THE AUDIT

The Office of Inspector General contracted with M.D. Oppenheim & Company to conduct a performance audit of Job Corps Center (JCC) operating costs at 12 contractor-operated centers for the period October 1, 2003 through March 31, 2004. The audit was performed in conjunction with the audit of the U.S. Department of Labor's Consolidated Financial Statements for Fiscal Year 2004.

The audit was conducted to answer the following question:

Are Job Corps contractors complying with laws, regulations, and Job Corps policies and procedures related to center operating costs?

## READ THE FULL REPORT

To view the report, including the scope, methodology, and full agency response, go to: http://www.oig.dol.gov/public reports/oa/2005/03-05-004-03-370.pdf.

MARCH 2005

Performance Audit of
Job Corps Center Operating Costs

## WHAT OIG FOUND

The audit found that, overall, Job Corps contractors are complying with laws, regulations, and Job Corps policies and procedures related to center operating costs. However, the auditors did identify three areas of noncompliance that related to specific contractor operations (1) inadequate accounting systems, (2) discrepancies between the ETA-2110 and Public Voucher, and (3) compensation in excess of statutory limitations. The auditors also found one area of noncompliance that was a cross-cutting issue found at several centers - journal entries not authorized, not adequately supported, or incorrectly recorded.

## WHAT OIG RECOMMENDED

We recommended that the Assistant Secretary for Employment and Training direct Job Corps to:

Require the contractor for the North Texas JCC (1) refund $786,977 because the contractor did not substantiate that these costs were reasonable and allowable; (2) use a current cost method to prepare the ETA-2110 financial report; and (3) take the necessary steps to ensure there is support for the amounts reported on the ETA-2110.

Ensure that final financial reports and billings by the former contractor for the Homestead JCC are accurate and complete, that Homestead JCC staff receive training on how to accurately prepare the monthly ETA-2110, and that controls are implemented to ensure all future submissions are properly reconciled to the Public Voucher and the books of account.

Require that the contractor for the Treasure Island JCC, refund $38,235 paid in excess of Executive Level II compensation limits.

Ensure that each center has written policies and procedures related to the preparation, documentation, recording, and approval of all journal entries made to the centers' books of account and that corrective actions are taken by the five JCCs to address the deficiencies reported.

The Assistant Secretary for Employment and Training agreed with our recommendations.

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# Executive Summary

M.D. Oppenheim & Company, under contract to the U.S. Department of Labor, Office of Inspector General, conducted a performance audit of Job Corps Center (JCC) operating costs at 12 contractor-operated centers for the period October 2003 through March 2004. Center operating costs are reported to the Office of Job Corps monthly on Form ETA-2110, *Job Corps Center Financial Report*, and include direct center expenses such as center staff salaries, student food, student clothing, utilities, medical, and dental expenses, as well as indirect costs such as contractor fees and general and administrative expenses. The audit was performed in conjunction with the audit of the U.S. Department of Labor's Consolidated Financial Statements for Fiscal Year 2004.

The audit was conducted to answer the following question:

> Are Job Corps contractors complying with laws, regulations, and Job Corps policies and procedures for center operating costs?

## Results

The audit found that, overall, Job Corps contractors are complying with laws, regulations, and Job Corps policies and procedures related to center operating costs. However, the auditors did identify three areas of noncompliance that related to specific contractor operations and one area of noncompliance that was a cross-cutting issue found at several centers, as noted in the following findings and recommendations:

- inadequate accounting system;
- discrepancies between the ETA-2110 and Public Voucher;
- compensation in excess of statutory limitations; and
- journal entries not approved, not adequately supported, or incorrectly recorded.

Instances of noncompliance such as these can result in overbilling to the government and an increased possibility of fraud through the manipulation of accounting records.

## Recommendations

We recommend that the Assistant Secretary for Employment and Training:

1. Require that Cube Corporation, the contractor for the North Texas JCC, refund $786,977 because the documentation maintained by the contractor did not substantiate that these costs were reasonable and allowable costs incurred in accordance with the Job Corps contract and applicable laws and regulations.

2. Require that Cube Corporation use a current cost method to prepare the ETA-2110 financial report.

3. Require that Cube Corporation take the necessary steps to ensure that adequate records are maintained in support of the amounts reported on the ETA-2110.

4. Ensure that all final contract financial reports and billings submitted by the Vinnell Corporation are accurate and complete and that all costs billed on the Public Voucher are supported by the ETA-2110 and the books of account.

5. Require that the Office of Job Corps provide training to center staff at the Homestead JCC on how to accurately prepare the monthly ETA-2110.

6. Require that the Homestead JCC implement controls to ensure all future submissions are properly reconciled to the Public Voucher and the books of account.

7. Require that ResCare, Inc., the contractor for the Treasure Island JCC, refund $38,235 paid in excess of Executive Level II compensation limits.

8. Require that each center has written policies and procedures for the preparation, documentation, recording, and approval of all journal entries made to the centers' books of account and that corrective actions are taken by the five JCCs to address the deficiencies reported.

## Agency Response

The Assistant Secretary for Employment and Training responded that the report recommendations will be very helpful in the ongoing effort to improve the Job Corps program's performance. The response provided the specific corrective action planned for each recommendation.

## OIG Conclusion

Overall we agree with ETA's planned corrective action. The recommendations related to Cube Corporation and ResCare, Inc., are unresolved pending the issuance of the Contracting Officer's final determination and the establishment of accounts receivables for the collection of the amount of questioned costs that the Contracting Officer disallows. The remaining recommendations will be resolved when ETA provides milestone dates for implementing the planned corrective action.

## Independent Auditors' Report

Mr. Elliot P. Lewis
Assistant Inspector General
for Audit
200 Constitution Avenue, Suite S-5512
Washington D.C. 20210

We conducted a performance audit of Job Corps Center (JCC) operating costs at 12 contractor-operated centers for the period October 2003 through March 2004. (See Exhibit A for locations.) Center operating costs are reported to the Office of Job Corps monthly on Form ETA-2110, *Job Corps Center Financial Report*, and include direct center expenses such as center staff salaries, student food, student clothing, utilities, medical, and dental expenses, as well as indirect costs such as contractor fees and general and administrative expenses.

We conducted the audit to answer the following question:

- Are Job Corps contractors complying with laws, regulations, and Job Corps policies and procedures for center operating costs?

We conducted the audit in accordance with *Government Auditing Standards* for performance audits. Our audit scope, methodology, and criteria are detailed in Appendices B and C.

Our audit found that, overall, Job Corps contractors are complying with laws, regulations, and Job Corps policies and procedures related to center operating costs. However, we did identify three areas of noncompliance that related to specific contractor operations and one area of noncompliance that was a cross-cutting issue found at several centers, as noted in the attached findings and recommendations.

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## Objective – Are Job Corps contractors complying with laws, regulations, and Job Corps policies and procedures for center operating costs?

### Finding 1 – Lack of an Adequate Accounting System at the North Texas Job Corps Center Resulted in Questioned Costs of $786,977

The monthly ETA-2110 reports prepared by the North Texas JCC for the period October 2003 to March 2004 could not be reconciled to the books of account without substantial efforts on the part of both the center and corporate staff. The contractor finally provided the auditors with a reconciliation of the ETA-2110 for each month, which included numerous off-ledger adjustments involving most line items.

These reconciling adjustments, totaling $786,977 for the 6-month period, were not adequately documented or explained. As a result, the books of account did not adequately support the center's financial reports.

Section 638.808 of CFR 20, Center Financial Management and Reporting, states:

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

The North Texas JCC is operating under a mentor/protégé program that is designed to provide for a smooth transition when center contractors are changed. This is accomplished, in part, by both contractors jointly participating in running the center for a period of time. The Cube Corporation (Cube) assumed responsibilities as the prime contractor in August 2002, with Vinnell Corporation (Vinnell) continuing in its role as the 'mentor' contractor. Vinnell had prepared the ETA-2110 reports on a current monthly expense basis when operating as the prime contractor. After the transition, Cube assumed responsibility for preparing these monthly reports. However, we found that Cube had prepared these reports on a cumulative cost basis rather than a current monthly expense basis. Cube staff stated this change was made for two reasons: (1) there were two sets of books involved, and (2) it was believed that the cumulative cost method would reliably capture all costs.

Total costs reported on the ETA-2110s were $8,219,219 for the period October 2003 through March 2004. Of this amount, $4,114,398 was attributable to Vinnell. We were able to reconcile the Vinnell costs to their general ledger without exception.

The balance of the ETA-2110 costs incurred by Cube totaled $4,104,821 for the same period. Financial reports provided from Cube's accounting system were at a summary level for direct costs only. We were unable to obtain detailed account information below the summary level in order to test the propriety of these amounts, and as a result were only able to perform limited testing of staff payroll costs and certain other direct costs. In addition, no general ledger linkage report or other reconciliation was available to support the amounts reported on the ETA-2110s. As previously stated, it required substantial efforts on the part of both the center and corporate staff to subsequently prepare the reconciliations that included unsupported off-ledger adjustments totaling $786,977.

Management acknowledged that the current reconciliation is cumbersome and difficult for an outside party to audit. Accordingly, they immediately plan to prepare the ETA-2110 using a simpler current cost format. They also plan to continue to prepare cumulative cost reconciliations and reconcile them to the current cost format to ensure the integrity of both methods.

As a result, we were unable to determine if the costs incurred by the Cube Corporation were reasonable or allowable in accordance with the applicable regulations.

## Recommendations 1, 2, 3

We recommend that the Assistant Secretary for Employment and Training require that Cube Corporation:

**1.** refund $786,977 because the documentation maintained by the contractor did not substantiate that these costs were reasonable and allowable costs incurred in accordance with the Job Corps contract and applicable laws and regulations;

**2.** use a current cost method to prepare the ETA-2110 financial report; and

**3.** take the necessary steps to ensure that adequate records are maintained in support of the amounts reported on the ETA-2110.

## Agency's Response

In response to our draft report, the Assistant Secretary for Employment and Training stated that the Contracting Officer for the North Texas JCC will follow-up with Cube regarding the $786,977 of unsubstantiated costs. The Contracting Officer will also require Cube to use a current cost method to prepare the ETA-2110 financial reports and will require Cube to take the necessary steps to ensure that adequate records are maintained in support of those financial reports.

## Auditor's Conclusion

We agree with the planned corrective action. Recommendations remain unresolved pending the issuance of the Contracting Officer's final determination and the establishment of an accounts receivable for the collection of the amount of questioned costs that the Contracting Officer disallows.

## Finding 2 – Discrepancies Found In Homestead Job Corps Center's ETA-2110 and Public Voucher

The ETA-2110, prepared by the Homestead JCC for the month of February 2004, does not agree to the amount billed to the government on the SF-1034, *Public Voucher for Purchases and Services Other Than Personal,* or to the books of account. After submitting the March Public Voucher for payment, the center contractor, the Vinnell Corporation, discovered the errors in the ETA-2110 and rescinded the Public Voucher in order to address the problem.

Job Corps' Policy and Requirements Handbook (PRH) Chapter 5: Financial Management Appendix 502 states that the amounts reported as Vouchered Reimbursable Expense on the ETA-2110 must agree with the month-end vouchers.

Auditors found an $82,255 discrepancy (see chart below) in the ETA-2110 and Public Voucher that the Homestead JCC submitted for February 2004. (March submissions were not available for review.)

| Form Submitted | Cumulative Costs Reported |
|---|---|
| SF-1034 (Public Voucher) | $44,397,661 |
| ETA-2110 | $44,315,406 |
| Discrepancy | $82,255 |

Auditors also found a difference of $16,686 for the 5-month period between the ETA-2110 ($4,468,845) and the books of account ($4,452,159).

The ETA-2110 is used by Job Corps to analyze cost trends and cost effectiveness in center operations. It is part of a financial management system designed to provide Job Corps program managers with important information for managing resources and efficient allocation of funds. If the ETA-2110 is unreliable, the Office of Job Corps loses its ability to effectively monitor center operating costs, increasing the risk of non-compliance with the contract and the center's budget.

The contractor indicated that Homestead JCC staff prepared the ETA-2110, and the corporate headquarters prepared the Public Voucher. To ensure that these monthly submissions agreed, a corporate staff person was responsible for ensuring the accuracy of these reports. However, when the Vinnell Corporation Job Corps contract was not renewed and the individual left the company, this function was not reassigned. Because reconciliation problems were found in more than one month, an extensive reconciliation of costs may be required in order to ensure the accuracy of the ETA-2110 as of March 2004, the contract expiration date.

## Recommendations 4, 5, 6

We recommend that the Assistant Secretary for Employment and Training:

**4.** ensure that all final contract financial reports and billings submitted by the Vinnell Corporation are accurate and complete and that all costs billed on the Public Voucher are supported by the ETA-2110 and the books of account;

**5.** require that the Office of Job Corps provide training to center staff at the Homestead JCC on how to accurately prepare the monthly ETA-2110; and

**6.** require that the Homestead JCC implement controls to ensure all future submissions are properly reconciled to the Public Voucher and the books of account.

## Agency's Response

In response to our draft report, the Assistant Secretary for Employment and Training stated that the National Office will work with its contractor for contract close-out activities to ensure that all final contract financial reports and billings submitted by the Vinnell Corporation are accurate and complete and that all costs billed are supported by the ETA-2110s and books of account. The Contracting Officer for the Homestead JCC will require that they implement controls to ensure all future submissions are properly reconciled to the Public Vouchers and books of account. In addition, the Office of Job Corps is currently developing on-line and video training for all center operators to utilize with staff on financial reporting and there will be special emphasis to make sure the Homestead JCC takes part in the training.

## Auditor's Conclusion

We agree with the planned corrective action. The recommendations will be resolved when ETA provides milestone dates for implementing the planned corrective action.

## Finding 3 – Compensation in Excess of Statutory Limitations Resulted In Questioned Costs of $38,235 at Treasure Island Job Corps Center

The Center Director at the Treasure Island JCC, an employee of ResCare, Inc. (the center contractor), was compensated $218,741 for the year ended December 31, 2003, as reported on Federal Form W-2, which is $64,041 over the maximum amount allowed by Federal law. The Job Corps appropriation limits compensation to Job Corps employees, including Center Directors, to Executive Level II. The Office of Personnel Management set Executive Level II compensation at $154,700 for the year ended December 31, 2003.

The Department of Labor Appropriations Act, 2003 states:

> None of the funds appropriated in the title for the Job Corps shall be used to pay the compensation of an individual, either as direct costs or any proration as an indirect cost, at a rate in excess of Executive Level II.

In April 2004 (the month subsequent to our audit period) the contractor transferred $25,806 of compensation costs from the JCC general ledger to the contractor's general operations costs. This transfer (a reduction of center costs) still left the total compensation of the Center Director to be in excess of the maximum allowed by $38,235.

Management at ResCare, Inc., stated that the reason compensation exceeded Federal limitations was that they were having difficulty filling the Center Director's position with a qualified candidate at that compensation level.

## Recommendation 7

**7.** We recommend that the Assistant Secretary for Employment and Training require that ResCare, Inc., refund $38,235 paid in excess of Executive Level II compensation limits.

## Agency's Response

In response to our draft report, the Assistant Secretary for Employment and Training stated that ResCare, Inc. will be required to refund the $38,235 paid to the Center Director in excess of Executive Level II compensation limits.

## Auditor's Conclusion

We agree with the planned corrective action. Recommendations remain unresolved pending the issuance of the Contracting Officer's final determination and the establishment of an accounts receivable for the collection of the amount of questioned costs that the Contracting Officer disallows.

## Finding 4 – Journal Entries Were Not Approved, Lacked Adequate Support, or Were Incorrectly Recorded at Five Centers

At 5 of the 12 JCCs audited, we noted that journal entries were not properly approved, lacked detailed documentation to support the propriety of the journal entries, or were incorrectly recorded. Strong internal controls over the journal entry process are important to ensure the accuracy of the financial records and to reduce the potential for fraud due to the manipulation of accounting information.

20 CFR 638.808, *Center Financial Management and Reporting*, states:

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

In addition, Statement on Auditing Standard No. 99, *Consideration of Fraud in a Financial Statement Audit,* states that material misstatements of financial information often involve the manipulation of the financial reporting process by (a) recording inappropriate or unauthorized journal entries, or (b) making adjustments to amounts through consolidating adjustments and reclassifications.

We noted that the controls over the process of documenting, recording, and approving journal entries made to the centers' books of account vary by contractor. Some contractors provided strong oversight over the process, while others had no independent review of the journal entries made. Specifically, we noted the following:

| **Name of Job Corps Center** | **Explanation of Errors Noted** |
|---|---|
| Atterbury | Three of the seven journal entries tested were either not approved or approved by the same individual that prepared the entry.<br><br>For two of the seven journal entries tested, the documentation was not adequate and lacked sufficient detail to support the propriety of the journal entry amounts. These two entries involved the accrual of accounts payable in the amount of \$420,745 and the posting of a government receipt of \$613,688. |
| Homestead | All five journal entries examined were not approved. |
| Iroquois | All five journal entries examined were approved by the same person that prepared the entry. In addition, the entries themselves did not have any descriptions for the purpose of the entry. |

| Name of Job Corps Center | Explanation of Errors Noted |
|---|---|
| Laredo | One journal entry to record the accrual of staff salaries and wages and associated benefits was not correctly calculated, resulting in an over-accrual of $33,502. This was the only journal entry tested at Laredo JCC. |
| Penobscot | While reconciling the center's general ledger to the ETA-2110, we found that the center had reclassified certain expenses via a journal entry in March 2004 totaling $17,837, and these expenses were not reported on the ETA-2110. At the time the entry was posted, the fiscal personnel at the center established a new general ledger account entitled "Temporary Drivers" which was not properly linked to center's reporting module. This resulted in an underbilling by the contractor. |

## Recommendation 8

**8.** We recommend that the Assistant Secretary for Employment and Training require that each center has written policies and procedures for the preparation, documentation, recording, and approval of all journal entries made to the centers' books of account and that corrective actions are taken by the five JCCs to address the deficiencies reported.

## Agency's Response

In response to our draft report, the Assistant Secretary for Employment and Training stated that the Regional Contracting Officers and Project Managers for the five JCCs noted will require that the centers have written policies and procedures for the preparation, documentation, recording, and approval of all journal entries made to the centers' books of account and that corrective actions are taken.

## Auditor's Conclusion

We agree with the planned corrective action. The recommendations will be resolved when ETA provides milestone dates for implementing the planned corrective action.

M.D. Oppenheim & Company, P.C.

August 19, 2004

# Exhibits

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**EXHIBIT A**

# Job Corps Centers Tested

| Job Corps Center | | Location | Contractor |
|---|---|---|---|
| 1. | Albuquerque | Albuquerque, New Mexico | Del-Jen, Inc. |
| 2. | Atterbury | Edinburgh, Indiana | Management and Training Corporation |
| 3. | Earle C. Clements | Morganfield, Kentucky | Career Systems Development / Del-Jen, Inc. (A) |
| 4. | Gary | San Marcos, Texas | Management and Training Corporation |
| 5. | Homestead | Homestead, Florida | Vinnell Corporation |
| 6. | Iroquois | Medina, New York | Satellite Services |
| 7. | Laredo | Laredo, Texas | Vinnell Corporation |
| 8. | North Texas | McKinney, Texas | Cube Corporation / Vinnell Corporation (A) |
| 9. | Penobscot | Bangor, Maine | Training and Development Corporation |
| 10. | Sierra Nevada | Reno, Nevada | Management and Training Corporation |
| 11. | Treasure Island | San Francisco, California | ResCare, Inc. |
| 12. | Turner | Albany, Georgia | Education Training Resources / Career Systems Development (A) |

(A) Joint ventures as centers transition from one contractor to another.

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# Appendices

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**APPENDIX A**

## Background

The Job Corps program was established under Title I, Subtitle C of the Workforce Investment Act of 1998. The Office of Job Corps, a component of the Employment and Training Administration of the U.S. Department of Labor (DOL), administers the program.

The Job Corps program is a highly intensive, primarily residential training program for severely disadvantaged youth ages 16 through 24. The program provides skills and academic training, social education, and other support to over 70,000 participants at approximately 120 centers.

Job Corps operates two types of facilities: (1) contractor-operated centers, and (2) Civilian Conservation Centers. There are currently 90 contractor-operated centers run by 28 for-profit corporations or non-profit organizations. There are 28 Civilian Conservation Centers that are operated by either the U.S. Department of Agriculture's Forest Service or the U.S. Department of Interior's National Park Service or Bureau of Reclamation.

Job Corps is financed through annual congressional appropriations that are divided into three components: (1) operating costs; (2) facility construction, rehabilitation, and acquisition (CRA) expenses for existing facilities; and (3) capital facility funds for the construction of newly approved centers. Operating costs are appropriated with 1-year obligational availability, while capital facility and CRA expenses are appropriated with 3-year obligational authority. Annual funding for operating expenses normally represents roughly 90 percent of the total Job Corps appropriation, with CRA expenses normally comprising 10 percent. Total Fiscal Year (FY) 2004 Job Corps funding is $1,541,151,338 comprised of $1,411,113,612 for operations and $130,037,726 for CRA expenses.

This audit is performed annually in conjunction with the audit of the DOL's Consolidated Financial Statements, and the results will be incorporated into the FY 2004 DOL's Performance and Accountability Report.

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**APPENDIX B**

## Scope and Methodology

We conducted a performance audit of 12 contractor-operated JCCs for the period October 2003 through March 2004 in order to determine whether Job Corps contractor-operated centers are complying with laws, regulations, and Job Corps policies and procedures for the reporting of operating costs and the safeguarding of accountable personal property.

A performance audit includes obtaining an understanding of internal controls considered significant to the audit objectives and testing compliance with significant laws, regulations, and other compliance requirements. In order to plan our performance audit, we considered whether internal controls considered significant to the audit were properly designed and placed in operation.

The scope of the audit consisted of evaluating center costs, as reported on Form ETA - 2110, *Job Corps Center Financial Report*, for compliance with applicable laws, regulations, and Job Corps policies and procedures for the period October 2003 through March 2004. Specific areas evaluated at each center included general financial procedures, center staff payroll costs, non-personnel costs, and accountable non-capitalized personal property.

We conducted fieldwork from May 2004 to August 2004 at the 12 JCCs listed in Exhibit A.

### Internal Controls

Our work on established internal controls included reviewing policies and procedures and center contract documents, as well as interviewing key personnel. We gained an understanding of the data flows in each audit area and documented a description of the controls. Our testing of internal controls was focused only on the controls related to the audit objective and was not intended to form an opinion on the adequacy of internal controls overall, and we do not render such an opinion. Weaknesses noted in the testing are discussed in Findings 1, 2, and 4 of this report.

### Compliance with Laws and Regulations

We performed attribute testing at each JCC visited using both statistical and non-statistical sampling. In order to determine compliance with the laws and regulations cited in Appendix C of the report, we performed detailed tests of transactions that included both analytical review and substantive tests of accounts.

Our testing related to compliance with laws and regulations was focused only on the laws and regulations relevant to the audit objective and was not intended to form an opinion on compliance with laws and regulations as a whole, and we do not render such an opinion. Instances of noncompliance are discussed in Findings 2 and 3.

## Sampling

The total universe of costs for our audit was $439,663,591, which consisted of center operating costs reported on the ETA-2110 for the 90 contractor-operated JCCs during the period October 2003 through March 2004. The 12 JCCs we visited accounted for $99,059,043 of the universe of costs for our audit. Costs excluded from our audit were costs associated with: the 28 Civilian Conservation Centers; student pay and allowances, capital facility cost for existing and new centers, and contractor costs for student outreach, admissions and placement.

To test the reliability of the costs in our audit, we employed a two-tiered sampling methodology. First, a statistical sample of 12 JCCs was randomly selected as part of a 5-year audit plan, developed in conjunction with the audit of DOL's Consolidated Financial Statements. Second, statistical samples of financial transactions were selected for substantive and compliance testing. Sample items were selected randomly from ETA-2110 line items for all months during the audit period. In addition, non-statistical sampling techniques were utilized for certain phases of testing. We reviewed supporting documentation such as time sheets, time cards, invoices, vouchers, purchase orders, and receipts. We found no errors in the samples selected for our center staff payroll and non-personnel expense substantive testing.

## Auditing Standards

Our audit was conducted in accordance with *Government Auditing Standards* for performance audits issued by the Comptroller General of the United States. Those standards require that in planning and performing a performance audit, we use an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of contractor-operated JCCs.

An audit made in accordance with these standards provides reasonable assurance that its objectives have been achieved; but it does not guarantee the discovery of illegal acts, abuse, or all internal control weaknesses. We believe our audit provides a reasonable basis for the auditors' assessment and conclusions.

The conclusions provided in this report are the result of our performance audit for the period October 2003 through March 2004. Changes in management of the program, including changes in controls or laws, regulations, and other compliance requirements could result in performance that would be different from the performance during that period. This report should not be used to evaluate performance results of future periods.

This performance report is a matter of public record.

**APPENDIX C**

## Criteria

We used the following criteria to perform this audit:

- Center Contracts
- Center Operating Procedures
- 20 CFR 638.800 Program Management
- 20 CFR 638.801 Staff Training
- 20 CFR 638.808 Center Financial Management and Reporting
- 20 CFR 638.810 Reporting Requirements
- PRH – Chapter 5 Management
- PRH – Chapter 5, Appendix 502, Center Financial Management
- 48 CFR Chapter 1 Part 31 Cost Principles for Commercial Organizations
- 48 CFR Chapter 1 Parts 1-18 Federal Acquisitions Regulations
- ETA Property Management Handbook No. 359
- Statement on Auditing Standard No. 99

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**APPENDIX D**

## Acronyms and Abbreviations

| | |
|---|---|
| CFR | – Code of Federal Regulations |
| CRA | – Construction, Rehabilitation, and Acquisitions |
| CUBE | – Cube Corporation |
| DOL | – U.S. Department of Labor |
| ETA | – Employment and Training Administration |
| FY | – Fiscal Year |
| JCC | – Job Corps Center |
| PRH | – Policy and Requirements Handbook |
| VINNELL | – Vinnell Corporation |

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# Agency Response to Draft Report

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## APPENDIX E

**U.S. Department of Labor**

Assistant Secretary for
Employment and Training
Washington, D.C. 20210

MAR 30 2005

MEMORANDUM FOR: ELLIOT P. LEWIS
Assistant Inspector General for Audit

FROM: EMILY STOVER DeROCCO Emily Stover DeRocco

SUBJECT: Performance Audit of Job Corps Center Operating Costs - Draft Report No. 03-05-004-03-370

Thank you for the opportunity to comment on the Draft Report on the Job Corps Center (JCC) Operating Costs. We found the recommendations helpful in the ongoing effort to improve our performance. It was gratifying to see that, overall, our contractors are complying with laws, regulations, and our policies and procedures related to center operating costs.

However, we are concerned about the instances that the auditors found where policies and procedures were not followed or need improvement. Regarding the specific recommendations of the report:

1. The Contracting Officer for the North Texas JCC will follow-up with Cube Corporation regarding the $786,977 of unsubstantiated costs.
2. The Contracting Officer for the North Texas JCC will require that Cube Corporation use a current cost method to prepare the 2110 financial reports.
3. The Contracting Officer for the North Texas JCC will require that Cube Corporation take the necessary steps to ensure that adequate records are maintained in support of the 2110 financial reports.
4. The National Office will work with its contractor for contract close-out activities to ensure that all final contract financial reports and billings submitted by the Vinnell Corporation are accurate and complete and that all costs billed are supported by the 2110 financial reports and books of account.
5. The Office of Job Corps is currently developing online and video training for all center operators to utilize with staff on financial reporting, particularly the 2110 financial reports. There will be special emphasis to make sure that the Homestead JCC takes part in the training.
6. The Contracting Officer for the Homestead JCC will require that it implement controls to ensure all future submissions are properly reconciled to the Public Vouchers and the books of account.
7. ResCare, Inc., will be required to refund the $38,235 paid to the Center Director in excess of Executive Level II compensation limits.

8. The Regional Office Contracting Officers and Project Managers for the five JCCs noted will require that the centers have written policies and procedures for the preparation, documentation, recording, and approval of all journal entries made to the centers' books of account and that corrective actions are taken.

As mentioned in item No. 5 above, we are currently working to develop more extensive training on financial accounting for both our regional project managers and the financial managers at the centers. Through the use of online training and video-conferencing, we feel that the training will be accessible and affordable for all staff, regardless of the size of the company; as a result, we anticipate great improvement in financial performance at our centers. The type of information that you have brought to the surface will be helpful in our identification of areas where training will be particularly useful.