

U.S. Department of Labor

Office of Inspector General—Office of Audit

OFFICE OF JOB CORPS



PERFORMANCE AUDIT OF APPLIED TECHNOLOGY SYSTEMS, INCORPORATED (ATSI) JOB CORPS CENTERS

Date: September 30, 2008
Number: 26-08-005-01-370

**U.S. Department of Labor
Office of Inspector General
Office of Audit**

BRIEFLY...

Highlights of Report Number 26-08-005-01-370, Performance Audit of Applied Technology Systems, Incorporated (ATSI) Job Corps Centers to the National Director, Office of Job Corps.

WHY READ THE REPORT

This report discusses weaknesses in controls over financial management and performance reporting at two Job Corps centers operated by ATSI.

WHY OIG CONDUCTED THE AUDIT

Our audit objectives were to answer the following three questions:

1. Did ATSI ensure compliance with Job Corps requirements for managing and reporting financial activity?
2. Did ATSI ensure compliance with Job Corps requirements for reporting performance?
3. Was a hotline complaint alleging irregularities in payroll, General Education Development (GED) testing, and plumbing maintenance at ATSI's Detroit Job Corps Center valid?

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/2008/26-08-005-01-370.pdf>

WHAT OIG FOUND

ATSI did not ensure compliance with Job Corps requirements for reporting financial activities and performance for the Cleveland Job Corps Center (Cleveland) in Cleveland, Ohio and Detroit Job Corps Center (Detroit) in Detroit, Michigan.

Detroit did not have required supporting documentation or center management approvals

September 2008

PERFORMANCE AUDIT OF APPLIED TECHNOLOGY SYSTEMS, INCORPORATED (ATSI) JOB CORPS CENTERS

for \$158,754 in billed expenses; and Detroit and Cleveland did not ensure expense reports agreed with amounts billed to Job Corps. Additionally, Detroit did not follow Federal procurement requirements for full and open competition when awarding 10 of the 11 subcontracts reviewed. The 10 subcontracts awarded without competition totaled \$519,889. As such, Detroit could not provide assurance that contracted goods and services were obtained at costs most favorable to Job Corps.

Our review of attendance records for 45 judgmentally selected students separated from Detroit during July 2005 through August 2006 showed that 8 students (18 percent) were not recorded as Absent Without Leave (AWOL) as required; and did not document staff attempts to contact the AWOL students to facilitate their return to the center. Detroit also overstated Student On-Board Strength (OBS), a measure of a center's ability to operate at full capacity. Three (7 percent) of the 45 students reviewed were not separated on the correct date and were incorrectly reported in the center's OBS calculation.

In regards to the hotline complaint, we concluded that the three allegations did not have merit.

WHAT OIG RECOMMENDED

We made seven recommendations to the National Director, Office of Job Corps. In summary, our recommendations were to require ATSI to provide support for unsupported costs billed to Job Corps and recover any amount determined to be unsupported; and direct ATSI to develop and implement procedures to ensure its centers comply with Job Corps and contract requirements for journal entries, expense reports and billings, subcontracting, and AWOL.

HOW AUDITEE RESPONDED

The National Director, Office of Job Corps concurred with the report's findings and recommendations for improvement.

ATSI's Three Job Corps Center Locations (2008)



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Executive Summary

The Office of Inspector General (OIG) conducted a performance audit of Applied Technology Systems, Incorporated (ATSI). ATSI is under contract with Job Corps to operate three Job Corps centers for the Department of Labor. In addition, in response to a hotline complaint, we added an objective to determine the validity of allegations that Detroit Job Corps Center officials improperly reported payroll expenses, improperly conducted GED testing, and did not address plumbing deficiencies.

The audit objectives were to answer the following questions:

1. Did ATSI ensure compliance with Job Corps requirements for managing and reporting financial activity?
2. Did ATSI ensure compliance with Job Corps requirements for reporting performance?
3. Was a hotline complaint alleging irregularities in payroll, General Education Development (GED) testing, and plumbing maintenance at ATSI's Detroit Job Corps Center valid?

This report includes the results of our audit of the ATSI operation of the Cleveland Job Corps Center (Cleveland) in Cleveland, Ohio; (Report No. 26-07-003-01-370); and the Detroit Job Corps Center (Detroit) in Detroit, Michigan.

Results

ATSI did not ensure compliance with Job Corps requirements for managing and reporting financial activity. Detroit did not have required supporting documentation or center management approvals for \$158,754 in billed expenses; and Detroit and Cleveland did not ensure expense reports agreed with amounts billed to Job Corps. Additionally, Detroit did not follow Federal procurement requirements for full and open competition when awarding 10 of the 11 subcontracts reviewed. The 10 subcontracts awarded without competition totaled \$519,889. As such, Detroit could not provide assurance that contracted goods and services were obtained at costs most favorable to Job Corps.

ATSI also did not ensure compliance with Job Corps requirements for performance reporting was always followed. Our review of attendance records for 45 judgmentally selected students separated from Detroit during July 2005 through August 2006 showed that 8 students (18 percent) were not recorded as Absent Without Leave (AWOL) as required. Detroit also did not document staff attempts to contact the AWOL students to facilitate their return to the center. Detroit also overstated Student On-Board Strength (OBS), a measure of a center's ability to operate at full capacity. Three (7 percent) of the 45 students

reviewed were not separated on the correct date and were incorrectly reported in the center's OBS calculation.

These conditions occurred because ATSI's controls over center financial management and financial and performance reporting need management attention. We attributed weaknesses to not following established center procedures, lack of training, and an ineffective ATSI quality assurance reviews. The lack of controls in financial management and performance reporting undermines the programs integrity and accountability in ensuring that Job Corps meets its objectives. Inaccurate financial and performance data impacts operational and funding decisions made by ATSI, Job Corps, and Congress.

In regards to the hotline complaint, we concluded that the three allegations did not have merit.

Recommendations

Our report contains seven recommendations to the National Director, Office of Job Corps. The recommendations are summarized as follows:

- Request ATSI provide support for unsupported costs billed to Job Corps and based on a review of the support, recover any amount determined to be unsupported.
- Direct ATSI to develop and implement procedures to ensure its centers comply with Job Corps and contract requirements in the following areas:
 - Journal Entries, Expense Reports, and Billings.
 - Competition in Subcontracting.
 - Temporary Duty Status Classifications.
 - Contacting AWOL Students.

Job Corps Response

The National Office of Job Corps concurred with the reported findings and recommendations. The Job Corps Regional Office, Chicago, Region V will coordinate with ATSI to request their written concurrence, nonoccurrence, or concurrence in part to the reported findings and recommendations as related to Cleveland and Detroit. Further, the Job Corps Regional Office will provide a plan of action and milestones for completing the planned ATSI actions to address the reported recommendations. In the interim, Job Corps Regional Offices will stay in communication with ATSI to coordinate a written response including a plan of action and milestone(s), which should be forwarded to the OIG no later than October 17, 2008.

The Office of Job Corps, Regional Office, in coordination with the Regional Contracting Officer, will recover any dollar amount determined to be unsupported or overpaid;

provide support for the \$158,754 in unsupported journal entries and reconcile the expense reports submitted under ATSI contract to the billed amounts, assess whether best value was obtained for the sole-source purchases noted in this report; and review the overstated On-Board Strengths at Detroit in regards to assessing liquidated damages to determine if this action is cost effective.

OIG Conclusion

The OIG agrees that the Job Corps planned corrective actions were appropriate to our recommendations. Job Corps will coordinate with the ATSI to obtain a plan of action and milestones for each of our seven recommendations. At this time, we consider those recommendations as **unresolved**. We will resolve the recommendations after the Office of Job Corps provides documentation showing the ATSI has developed a plan of corrective actions and milestones. To close these recommendations, the Office of Job Corps needs to provide documentation showing Job Corps and ATSI's planned corrective actions have been completed.

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U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210



September 30, 2008

Assistant Inspector General's Report

Dr. Esther R. Johnson
National Director
Office of Job Corps
US Department of Labor
200 Constitution Avenue, N.W
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The Office of Inspector General (OIG) conducted a performance audit of Job Corps centers operated by Applied Technology Systems, Incorporated (ATSI). ATSI is a privately held Corporation under contract to operate three Job Corps centers for the Department of Labor. Job Corps requires center operators to establish procedures and conduct periodic center audits to ensure data integrity, accountability, and prevention of fraud and program abuse.

Our audit objectives were to answer three questions:

1. Did ATSI ensure compliance with Job Corps requirements for managing and reporting financial activity?
2. Did ATSI ensure compliance with Job Corps requirements for reporting performance?
3. Was a hotline complaint alleging irregularities in payroll, General Education Development (GED) testing, and plumbing maintenance at ATSI's Detroit Job Corps Center valid?

Results and Findings

ATSI needs to improve corporate oversight of its centers. Centers did not comply with Job Corps requirements for managing and reporting financial activity and for reporting performance. The lack of controls in financial management and performance reporting undermines the programs integrity and accountability in ensuring that Job Corps meets its objectives. Inaccurate financial and performance data impacts management decision making, reimbursed operating expenses, bonus and incentive payments, and option years awarded to contracted center operators. Regarding the hotline complaint, we concluded the three allegations did not have merit.

This report reflects the audit work conducted at ATSI's headquarters in Cleveland, Ohio, and at two Job Corps Centers operated by ATSI (Cleveland, Ohio and Detroit Michigan). We reviewed financial and performance data for the period July 1, 2004, through August 31, 2006, except where noted in the report.

We previously issued a report concerning our work at the Cleveland Job Corps Center (Report No. 26-07-003-01-370, dated September 28, 2007). That report discussed financial issues and contained six recommendations to the National Director of Job Corps for corrective action. The National Director concurred with our finding and recommendations.

Additional background information is contained in Appendix A.

We conducted this performance audit in accordance with the Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a sufficient basis for our findings and conclusions based on our audit objectives. Our audit scope, methodology, and criteria are detailed in Appendix B.

Objective 1 - Did ATSI ensure compliance with Job Corps requirements for managing and reporting financial activity?

Finding 1 – ATSI did not ensure compliance with Job Corps requirements for managing and reporting financial activity.

Financial management and reporting for Detroit and Cleveland were inadequate. Detroit did not have required supporting documentation or center management approvals for \$158,754 in billed expenses; and Detroit and Cleveland did not ensure expense reports agreed with amounts billed to Job Corps. Additionally, Detroit did not follow Federal procurement requirements for full and open competition when awarding 10 of the 11 subcontracts we reviewed. The 10 subcontracts awarded without competition totaled \$519,889. As such, Detroit could not provide assurance that contracted goods and services were obtained at costs most favorable to Job Corps.

These conditions occurred because ATSI's controls over financial management and reporting need management attention. We attributed weaknesses to not following established procedures, lack of training, and inadequate oversight.

Billed Expenses Were Not Supported

We questioned \$158,754 in costs for journal entries in Detroit's General Ledger that did not have supporting documentation or approvals by center management. We tested a non-statistical sample of 15 journal entries from Detroit's General Ledger Detail Reports for three months (July 2005, January 2006, and August 2006). None of the 15 Journal

Entries were supported by documentation explaining the reason for the entry nor was there evidence of approval by center management. For example, on August 31, 2006, ATSI made a \$37,129 adjusting journal entry in the account for Social Skills Personnel. This adjustment increased the expense reported for Detroit by \$37,129. However, ATSI provided no documentation to support the adjustment. The net effect of the unsupported journal entries resulted in questionable costs of \$158,754.

The total value for all journal entries for the three months we reviewed totaled \$2.3 million. The 15 journal entries tested may have had offsetting journal entries. However, we were unable to perform additional tests to verify this. Despite numerous requests, ATSI did not provide us with the additional information needed to complete the testing. Without assurance that journal entries are valid, Job Corps may have paid ATSI more than necessary for services provided at Detroit.

The lack of supporting documentation and management approvals occurred because ATSI did not place sufficient emphasis on compliance with its own policies and procedures. Detroit's Standing Operating Procedure (SOP 570.4) requires that all records of entry in the Corporate Financial System must have support documents, which adequately describe the expenditure or receipt for such entries and bear the required approval signatures. The SOP also requires that files will be maintained and designed for timely retrieval of all documents to support financial transactions. Additionally, support and approval for journal entries was not covered in ATSI's Quality Assurance and Compliance (QAC) policy, nor was it included as part of ATSI's corporate reviews.

Detroit and Cleveland Did Not Ensure Expense Reports Agreed to Billings

Detroit and Cleveland also did not ensure expense reports agreed with the amounts billed to Job Corps. The Job Corps Policy and Requirements Handbook (PRH), Chapter 5, Appendix 502 states that vouchers submitted for payment by contractors must include only those amounts actually paid by the Job Corps center and amounts earned by and due to the contractor. The PRH further states that the amounts reported as Vouchered Reimbursable Expenses on the expense reports must agree with the month-end vouchers.

We reviewed the controls used by each center to ensure accurate expense reports and billings and found that the expense reports and billed amounts were not reconciled. As such, the centers could not provide reasonable assurance that expense reports were accurate and Job Corps was not overbilled. The reconciliations should also be performed timely because monies overpaid, if recovered too late, may not be used by the Job Corps Program, but instead must be deposited into the US Treasury General Collection Account.

In our report on Cleveland, we discussed the weaknesses as to why the expense reports and billings were not reconciled. Primarily, we found weakness in training regarding monitoring costs and other financial-related activities. We made

recommendations for Job Corps to take corrective action and to have ATSI reimburse Job Corps for any overpayment. Job Corps needs to take similar action pertaining to any overpayment for Detroit.

Ten Subcontracts Were Awarded Without Competition Totaling \$519,889

ATSI did not comply with Federal Acquisition Regulation (FAR) requirements regarding the promotion of competition in subcontracts it awarded for Detroit, totaling \$519,889. The FAR requires all government agencies to solicit bids for planned purchases over \$2,500. The government agencies are then required to select the lowest bid from a qualified vendor or justify selecting a higher bid. Additionally, Detroit's SOP for Health Administration – Staffing (Serial No. 6120.1, Section B) requires that all subcontracted health staff be approved by the Job Corps Regional Office prior to implementation of the subcontract for services.

We reviewed procurement files for 11 subcontracts for compliance with the FAR and SOP for Health Administration – Staffing. Five of the subcontracts, totaling \$62,517, were for medical and dental services for the period January 23 through June 30, 2007. We also judgmentally selected six subcontracts for construction and other services, totaling \$461,973, from ATSI's Purchase by Account Report, which were awarded during the period July 1, 2004, thru August 31, 2006. The Purchases by Account Report contained 8,503 transactions with a total cost of \$6,519,022 during this period.

We determined that full and open competition was not provided for 10 of the 11 subcontracts reviewed. Only one subcontract met the FAR requirements regarding sole source justification and full and open competition. In addition, 5 of the 11 subcontracts were for medical services. Job Corps approval was not obtained for 3 of the 5 subcontracts. Without adequate competition, there was no assurance that ATSI obtained subcontracted goods and services at the costs most favorable to Job Corps.

We believe that a lack of adequate oversight and training contributed to the lack of competition in ATSI's subcontracting. ATSI's Procurement Specialist for Detroit could not explain the reasons for the lack of documentation in the procurement files. The Procurement Specialist informed us that she had not received any formal training in the FAR. Instead, her knowledge of procurement procedures was obtained through On-the-job training provided by the Financial Manager. Additionally, ATSI's QAC policy, Section 2.2 Financial Data Integrity, requires the Finance Manager at each ATSI - operated center to provide regular, documented auditing in collaboration with the Corporate Director of Finance and Administration to ensure compliance with the FAR, including purchasing policies and the competitive bid process. However, the Finance Manager at Detroit informed us that he had not performed reviews of the procurement area as required by the QAC Policy. Further, ATSI's corporate assessment of the Detroit Center done in March 2007 did not provide any indication that the area of competition in subcontracting was reviewed to ensure compliance with the FAR.

Recommendations

We recommend the National Director, Office of Job Corps, require ATSI to:

1. Provide support for the \$158,754 in unsupported journal entries and reconcile the expense reports submitted under the current ATSI contract to the billed amounts. Based on a review of the support provided, Job Corps should recover any amount determined to be unsupported or overpaid.
2. Reimburse the government as appropriate for the \$519,889 in subcontracts awarded without full and open competition. Also, Job Corps needs to assess whether best value was obtained for the sole-source purchases noted in this report.
3. Establish controls to require journal entries are approved and supported by appropriate documentation and expense reports and billings are reconciled. These controls should include reviewing these areas as part of ATSI's Quality Assurance and Compliance (QAC) reviews and corporate audits.
4. Establish controls to require contracts for goods and services are awarded according to FAR requirements. These controls should ensure staff are adequately trained and procurement is included as part of ATSI's QAC reviews and corporate audits.

Job Corps Response

The National Office of Job Corps concurs with recommendations 1, 2, 3, and 4. The Job Corps Regional Office, Chicago, Region V will coordinate with ATSI to request their written concurrence, non-concurrence, or concurrence in-part to the reported findings and recommendations as related to Cleveland and Detroit. Further, the Job Corps Regional Office will provide a plan of action and milestones for completing the planned ATSI actions to address the reported recommendations. In the interim, Job Corps Regional Offices will stay in communication with ATSI to coordinate a written response including a plan of action and milestone(s) which should be forwarded to the OIG no later than October 17, 2008.

The Office of Job Corps, Regional Office, in coordination with the Regional Contracting Officer, will recover any dollar amount determined to be unsupported or overpaid; provide support for the \$158,754 in unsupported journal entries and reconcile the expense reports submitted under ATSI contract to the billed amounts; and assess whether best value was obtained for the sole-source purchases noted in this report.

OIG Conclusion

The OIG agrees that the Job Corps planned corrective actions were appropriate to our recommendations. Job Corps will coordinate with the ATSI to obtain a plan of action and milestones for recommendations 1 through 4. At this time, we consider those

recommendations as unresolved. We will resolve the recommendations after the Office of Job Corps provides documentation showing the ATSI has developed a plan of corrective actions and milestones. To close the recommendations, the Office of Job Corps needs to provide documentation showing Job Corps and ATSI's planned corrective actions have been completed.

Objective 2 – Did ATSI ensure compliance with Job Corps requirements for reporting performance?

Finding 2 - ATSI did not ensure compliance with Job Corps requirements for recording and reporting student attendance.

Detroit did not comply with Job Corps requirements for recording and reporting student attendance. Detroit improperly used a temporary duty status not recognized by Job Corps to classify students as present when in fact there was no assurance the students actually were present. As a result, On-Board Strength (OBS) was overstated, which resulted in liquidated damages of \$1,455. In addition, Detroit did not have any documentation to show that it attempted to contact students who were Absent Without Official Leave (AWOL). Such a situation could prevent the center from reducing future AWOL occurrences.

These conditions occurred because ATSI's controls over performance reporting need management attention. We attribute weaknesses to not following established center procedures, lack of training, and an ineffective ATSI quality assurance reviews.

Detroit Improperly Used a Temporary Duty Status Not Recognized by Job Corps

The Detroit Center used a temporary duty status—Temporarily Unaccounted For (TUF)—to permanently record students as present for duty, even though there was no documentation to show the student were actually present for duty.

The PRH Chapter 6 (Administrative Support), Section 6.1 (Student Attendance, Leave, and Absences), Requirement R.3. (Unauthorized Absences) requires Job Corps Centers to identify and report as AWOL:

- Any residential student who has failed to report for two consecutive daily morning attendance checks.
- Any nonresidential student who misses one morning attendance check and fails to sign in during the training day, or make contact with the center to explain the absence.

Further, the Detroit Center's SOP requires that if a student fails to sign the morning attendance report, but the student is present on the center; he or she must sign the morning attendance report on the following morning to establish him/her present for duty. If student fails to sign in the second day, the student will be AWOL effective their first TUF day.

Our review of student files for 45 students who had separated from the Detroit Center during the period July 1, 2005, to August 31, 2006 and had 5 or more occurrences of being AWOL showed that 8 students were classified as TUF on at least one occurrence and some students were classified as TUF on several occasions. Even though the name implies that this was a temporary classification, none of the temporary classifications were changed to a permanent status.

The Detroit Center did not have any supporting documentation to show that the 8 students were actually present. We attempted to verify whether the students were actually present for duty on the day the student was reported as TUF (and also the following day) by reviewing available documentation. None of the documents verified that the students were present for either the TUF status day or the following day. In fact, most documentation that should have been available was not. The Detroit Center's Records Supervisor told us that an overflow of raw sewage/water within the building had destroyed most of the documentation needed to determine whether or not the students were actually present. The Records Supervisor and the Administrative Director further told us that at the time of the overflow, the documents were stored in boxes on pallets on the floor in the center's Records Archive Room. Without documentation to show the students present, we considered the students to have been AWOL when they were recorded as TUF and AWOL on the succeeding training day.

Misreporting of duty status can result in inaccurate reporting in the CIS and can result in over-inflated OBS reporting. The PRH, Chapter 6 Administrative Support dated June 26, 2006, pg. 6.4-3 Section 6.4 (Student Enrollment Requirement, R.4 Separations) requires Job Corps Centers to separate students when a student exceeds 6 consecutive AWOL days, or exceeds 12 AWOL training days within a 180-day period, as applicable.

For 3 of the 8 students that had a TUF duty status, we determined that adding the TUF days to the AWOL days resulted in the 3 students being included in Center's onboard strength beyond the dates that the students should have been separated. The 3 students were extended for 28, 29, and 70 days beyond the date they should have been AWOL separated.

Under the terms of the contract (Contract Number 5-JC-984-26, Section G.6--Liquidated Damages for Failure to Comply with Regulations for Separating Students), ATSI is required to provide a refund to the Government for each day a student is retained in violation of Job Corps requirements. The amount of refund is determined by dividing the total contract amount for the year (\$7,810,175) by the total planned average on-board strength (280) and that result (\$27,893) is further divided by 365 (\$76.42) and multiplied by 15 percent (\$11.46) to render the daily calculation of liquidated damages. For Detroit, the number of days OBS was overstated for the 3 students totaled 127 days rendering \$1,455 in liquidated damages.

This occurred because ATSI had not established procedures to ensure that students who were classified as TUF were subsequently changed to a permanent duty status, as

evidenced by supporting documentation. Further, review of the TUF status was not included in ATSI's QAC policy, nor was it covered in ATSI's assessment of Detroit.

AWOL Students Were Not Contacted

Detroit could not provide adequate assurance that staff attempted to minimize student AWOL days and separations by contacting AWOL students as required by Job Corps's PRH (Chapter 6, Requirement R3) and ATSI's SOP (Serial No. 610.1). When a student is AWOL, counselors must attempt to locate and contact the student within 24 hours. Counselors must also document attempts to contact students in the student's personnel file.

Detroit either did not make efforts to contact students who were AWOL to determine why the students were AWOL, or if they did make efforts, the efforts were not documented. We used statistical sampling techniques to review 190 student files for students who had separated from the Detroit Center between July 1, 2005, and August 31, 2006. We estimated with 95 percent confidence level that as many as 146 separated students had at least one occurrence where the student was AWOL and counselors either did not attempt to contact students or did not document attempts to contact students. Our estimate was based on randomly selecting 83 student files for students who had separated for review and determining that 64 of the students had at least one occurrence where the student was AWOL and attempts to contact the students were either not made or were not documented.

Detroit did not have a control process to ensure that whenever an AWOL is recorded in CIS, an attempt is made to contact the student (and parent/guardian or probation/parole officer, if applicable), and the attempt is documented in the student's file. Specifically, the Student Records section did not contact counselors to ensure that AWOL Occurrence Reports for AWOL students were recorded in student files.

Further, ATSI did not include verification of attempts to contact AWOL students as part of its data integrity reviews until implementation of its QAC policy, which was effective July 1, 2006. Subsequent to the implementation of this policy, we did not find any evidence to show that reviews were made to ensure that attempts were made to contact AWOL students and the attempts were documented.

Recommendations

We recommend the National Director, Office of Job Corps, require ATSI to:

5. Review the overstated On-Board Strength at the Detroit Job Corps Center and reimburse Job Corps \$1,455 in liquidated damages, if Job Corps determines this action to be cost effective.
6. Develop procedures for students previously classified as Temporarily Unaccounted For (TUF) and change those students to a permanent duty status.

Also, include TUF in ATSI's Quality Assurance and Compliance (QAC) policy when conducting QAC reviews.

7. Establish a control process directing counselors to document attempts to contact students who are AWOL. Also, execute documentation reviews over contacted students who are AWOL when conducting QAC reviews.

Job Corps Response

The National Office of Job Corps concurs with recommendations 5, 6, and 7. The Job Corps Regional Office, Chicago, Region V will coordinate with ATSI to request their written concurrence, nonoccurrence, or concurrence in part to the reported findings and recommendations as related to Detroit. Further, the Job Corps Regional Office will provide a plan of action and milestones for completing the planned ATSI actions to address the reported recommendations. In the interim, the Job Corps Regional Office will stay in communication with ATSI to coordinate a written response including a plan of action and milestone(s) which should be forwarded to the OIG no later than October 17, 2008.

The Office of Job Corps, Regional Office, in coordination with the Regional Contracting Officer, will review the overstated On-Board Strengths at Detroit in regards to assessing liquidated damages to determine if this action is cost effective.

OIG Conclusion

The OIG agrees that the Job Corps planned corrective actions were appropriate to our recommendations. Job Corps will coordinate with the ATSI to obtain a plan of action and milestones for recommendations 5 through 7. At this time, we consider those recommendations as **unresolved**. We will resolve the recommendations after the Office of Job Corps provides documentation showing the ATSI has developed a plan of corrective actions and milestones. To close the recommendations, the Office of Job Corps needs to provide documentation showing Job Corps and ATSI's planned corrective actions have been completed.

Objective 3 – Was a hotline complaint alleging irregularities in payroll, General Education Development (GED) testing, and plumbing maintenance at ATSI's Detroit Job Corps Center valid?

Finding 3 – The allegations contained in the complaint did not have merit.

The hotline complaint alleged that the Detroit Center had not properly reported payroll expenses, had not properly conducted GED testing, and had not addressed plumbing deficiencies at the Center. Our audit showed that the Center properly reported payroll expenses, properly conducted GED testing, and properly followed Department of Labor Procedures in addressing plumbing deficiencies.

Center Officials Properly Reported Payroll Expenses.

We found Center employees' timesheets were properly authorized and the hours worked were reasonable compared to the amount they were paid. In addition, for the employees we tested, we found W-2's agreed with the list of employees for 2004 and 2005. Also, we found that line items reported on the ETA 2110 Reports agreed with the Center's Payroll Direct Labor Distribution reports for various months tested.

Center Officials Properly Conducted GED Testing

We conducted interviews with Center officials and students, toured the GED examination room, and reviewed safeguards for conducting the GED exam outlined in the PRH. We found that controls are adequate to ensure that the GED exams are administered appropriately. In addition we did not find evidence of interference from the Academic Instructor as alleged.

Center Officials Properly Addressed Plumbing Deficiencies.

We found that Center building experienced damage from faulty plumbing in first floor offices, records rooms, and some student dorms. The damage done by plumbing problems affected the carpeting, ceilings, and floors of those areas of the building that were affected. We found that Detroit officials properly reported building plumbing deficiencies on numerous occasions in the 2003 and 2006 building facility reports. However, delays in making repairs occurred due to Job Corps Center building funding priorities maintained by Office of Job Corps on a national level which is based on a determined repair priority. As a result, repairs for plumbing deficiencies took over four years to be addressed by Office of Job Corps. While the Center officials told us Center had received emergency funding on different occasions to fix the faulty piping it was not until 2007 an amount of \$568,400 was approved by Office of Job Corps to permanently address the plumbing repairs.



Elliot P. Lewis

Appendices

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Appendix A

Background

Job Corps is authorized by Title I-C of the Workforce Investment Act (WIA) of 1998 and is administered by the Department of Labor, Office of the Secretary, Office of Job Corps, under the leadership of the National Director, supported by a National Office staff and a field network of Regional Offices of Job Corps.

The purpose of Job Corps is to assist people ages 16 through 24 who need and can benefit from a comprehensive program, operated primarily in the residential setting of a Job Corps Center (JCC), to become more responsible, employable, and productive citizens.

As a national, primarily residential training program, Job Corps' mission is to attract eligible young adults, teach them the skills they need to become employable and independent, and place them in meaningful jobs or further education.

Education, training and support services are provided to students at Job Corps center campuses located throughout the United States and Puerto Rico. Job Corps Centers are operated for the U.S. Department of Labor by private companies through competitive contracting processes, and by other Federal Agencies through inter-agency agreements.

The WIA legislation authorizing Job Corps requires the Secretary of Labor to provide a level of review of contractors and service providers over a three year period. The Code of Federal Regulations (CFR) states all Job Corps centers are to be reviewed over the three year period. The OIG has taken the lead in providing audit coverage of the operators and service providers for the Secretary and is using a statistical selection process of centers to meet the intent of the CFR.

Cleveland and Detroit Job Corps Centers are 2 of the 3 centers operated by ATSI under contract with the Office of Job Corps. The Cleveland Center has an authorized On – Board Strength of 320 students and an annual operating budget of approximately \$9.8 million. The Detroit Center has an authorized On – Board Strength of 280 students and an annual operating budget of approximately \$7.8 million.

OASAM is responsible for the overall implementation of the Department of Labor's procurement program. OASAM provides contracting support to Job Corps and coordinates with Job Corp to ensure contractors comply with the provisions of the contracts.

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Appendix B

Objectives, Scope, Methodology, and Criteria

Objectives

Our audit objectives were to answer three questions:

1. Did ATSI ensure compliance with Job Corps requirements for managing and reporting financial activity?
2. Did ATSI ensure compliance with Job Corps requirements for reporting performance?
3. Was a hotline complaint alleging irregularities in payroll, General Education Development (GED) testing, and plumbing maintenance at ATSI's Detroit Job Corps Center valid?

Scope

Our audit generally covered the financial and performance reporting at the Cleveland and Detroit Job Corps Centers. Our testing was performed at the two Centers and at Applied Technology Systems, Inc. (ATSI), headquarters located in Cleveland, Ohio. In addition, our audit also focused on a complaint against the Detroit Job Corps Center and ATSI, which fell within our audit period of July 1, 2004 through August 31, 2006.

To accomplish our audit, we examined reported financial and performance activity for periods from July 1, 2004, through August 31, 2006. As part of our performance audit for testing of the center's OBS, the center was unable to provide Morning Accountability Reports, Dorm Bed Check Rosters, Serialized Rosters for January 1, 2006 thru August 2006. We requested the information from center officials and they could not provide the documents because of a center flood; some center documents were destroyed. Therefore, we could not determine if some students were actually on center or if they returned to the center prior to and after taken center leave,

We examined the following for compliance with applicable laws, regulations, policies and procedures: financial reporting of center expenses recorded on ETA 2110 reports; student accountability (by examining absent without leave (AWOL) policy and student leave deficiencies); student accomplishments for the performance measures of High School Diplomas/ General Educational Developments (HSD/GED), Vocational Training Completions; and internal controls applicable to center operations.

During our audit, we used financial data obtained from the general ledger of ATSI. The reliability of the ATSI computerized data was determined by comparing data in the general ledger to the 2110 data maintained by the Job Corps Data Center located in Austin, Texas and performing analysis of selected expenditures and obtaining supporting documentation for those expenditures. We used performance and attendance data from the Center Information System (CIS). We examined student

folders to verify that each Centers documentation supported performance and attendance data inputted into the CIS by Center personnel.

We considered the internal control elements of control environment, risk assessment, control activities, information and communication, and monitoring during our planning and substantive audit phases.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Methodology

To accomplish our audit objectives, we reviewed applicable criteria and compared the requirements to the reported financial and performance results.

Financial activity was audited using a combination of analytical procedures, staff and management interviews, and document examinations. We traced selected costs through the operator's general ledger and examined vouchers/supporting documentation to authenticate the recorded transactions. We also examined contract files in determining whether there was competition in contracting. We reviewed procurement files for 11 subcontracts for compliance with the FAR and Detroit's SOP for Health Administration-Staffing. We reviewed procurement files for five medical and dental service subcontracts, which were active during fieldwork. The five subcontracts for services were valued at \$62,516.74 for the period January 23 thru June 30, 2007. We also judgmentally selected six subcontracts for construction and other services valued at \$461,972.63 from ATSI's Purchase by Account Report, which were awarded during the period July 1, 2004 thru August 31, 2006. The Purchases by Account Report contained 8,503 transactions with a total cost of \$6,519,021.88 during this period.

For performance measures, we examined student folders to verify documentation supported student accomplishments recorded in the CIS.

We used a combination of statistical and non-statistical sampling to examine the performance measures of HSD/GED and Vocational Training Completions. At the Cleveland Center, for PY 2005, we judgmentally selected 56 of 195 students for testing. For two months (July and August) of PY 2006, we examined 100 percent of the HSD/GED and Vocational Training Completions reported by the Center. At the Detroit Center, we used statistical sampling techniques to select 82 of 190 HSD/GED students for testing for PY 2005 and 1 HSD student for two months (July & August) of PY2006. In both samples the students were classified as HSD/GED and Vocational Training Completers at the center.

We tested whether each Center’s leave policy resulted in reasonable leave and we used the sample selected for the HSD/GED to perform our testing. We used the assumption that leave would be considered reasonable if the leave was properly supported in accordance with the PRH.

The Detroit Center used a temporary duty status-Temporarily Unaccounted For (TUF)-to permanently record students as present for duty, even though there was no documentation to show the student were actually present for duty. Out of a universe of 190, we selected 45 AWOL students reported on the CIS with an excess of 5 or more missed training days. We reviewed the centers accountability documentation: Morning Accountability Report, Student Profiles, Dorm Bed Check Rosters, etc., and found 8 students who had been placed in TUF status and did not return to the center the following day.

In order to test students in AWOL status, we analyzed student accountability documents which were used by the ATSI officials to monitor each Center’s operations. We reviewed each report to identify those students who were shown on the report in violation of the 6-and 12-day AWOL policy without being separated as required by the PRH. For students who were AWOL, we examined student folders to determine if attempts were made to contact the students.

We found that Detroit either did not make efforts to contact students who were AWOL to determine why the students were AWOL, or if they did make efforts, the efforts were not documented. Out of a universe of 190, we randomly selected 83 student files for students who had separated for review and determined that 64 of the students had at least one occurrence where the student AWOL and attempts to contact the student were either not made or were not documented.

In evaluating the complaint against the Detroit Center, we:

- Tested amounts reported on the 2110 reports for Detroit JCC payroll against the Detroit JCC payroll Direct Labor Distribution reports. We also verified timesheets for the tested employees were verified against the Direct Labor Distribution reports to ensure that the employees worked the hours that were claimed, and we verified W-2’s amounts for the tested Detroit JCC employees against the Direct Labor Distribution amounts.
- Conducted interviews with Center officials responsible for the GED exam, and students who had taken the exam. We also toured the facilities where the exam was held and examined controls applicable to GED testing.
- Interviewed officials at the Detroit Center and Office of Job Corps facility officials were concerning plumbing issues, inspected areas of the facility in need of repair, reviewed facility survey reports, and reviewed criteria for requesting funding and reviewed documentation that Detroit Center officials used to request funding for the needed repairs.

In our internal control analysis, we relied on our assessment of the control environment of ATSI management and Center management to determine the reliance we would place on internal control. Based on that assessment, we decided to rely on analytical and document examination using substantive audit procedures rather than testing of controls. Our testing of internal controls was focused only on the controls related to the audit objectives.

Principal Criteria

We used the following criteria to perform this audit:

- Federal Acquisition Regulation
- Job Corps Policy and Requirements Handbook
- ATSI's Quality Assurance and Compliance Policy
- Cleveland and Detroit Job Corps Center Standard Operating Procedures

Appendix C

Acronyms and Abbreviations

ATSI	Applied Technology Systems, Incorporated
AWOL	Absent Without Leave
CFR	Code of Federal Regulations
CIS	Center Information System
COTR	Contracting Officer's Technical Representative
DOL	Department of Labor
FAR	Federal Acquisition Regulation
HSD/GED	High School Diplomas/ General Educational Development
JCC	Job Corps Center
MAC	Morning Accountability Check Report
OA	Office of Audit
OBS	On-board Strength
OIG	Office of Inspector General
QAC	Quality Assurance and Compliance
PRH	Policy and Requirements Handbook
PY	Program Year
SOP	Standard Operating Procedure
TUF	Temporarily Unaccounted For
WIA	Workforce Investment Act

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Appendix D

Job Corps Response to Draft Report

U.S. Department of Labor

Office of Job Corps
Washington, D.C. 20210



SEP 26 2008

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

FROM: ESTHER R. JOHNSON, Ed.D. *Esther R. Johnson*
Administrator
Office of Job Corps

SUBJECT: Response to the Reissued OIG Draft Report on the
Performance Audit of Applied Technology Systems,
Report No. 26-08-005-01-370

Thank you for the opportunity to review the Office of Inspector General (OIG) reissued draft report on the Performance Audit of Applied Technology Systems (ATSI), Report No. 26-08-005-01-370, dated September 25, 2008.

The National Office of Job Corps concurs with the reported findings and recommendations. The Job Corps Office, Chicago, Region V, will coordinate with the ATSI to request their written concurrence, nonconcurrence, or concurrence in part to the reported findings and recommendations as related to the Cleveland and Detroit Job Corps Centers. Further, the Job Corps Regional Offices will provide a plan of action and milestones for completing the planned ATSI actions to the reported recommendations. In the interim, the Job Corps Regional Office will stay in communication with the ATSI to coordinate a written response including a plan of action and milestone(s) which should be forwarded to your office no later than October 24, 2008.

The Office of Job Corps, Regional Office in coordination with the Regional Contracting Officer will recover any dollar amount determined to be unsupported or overpaid; provide support for the \$158,754 in unsupported journal entries and reconcile the expense reports submitted under ATSI contract to the billed amounts; assess whether best value was obtained for the sole-source purchases noted in this report; and review the overstated On-Board Strengths at the Detroit Job Corps Center in regards to assess liquidated damages to determine if this action will be cost effective.

SEP 26 2008

IN ORDER TO REPORT FRAUD, WASTE OR ABUSE, PLEASE CONTACT:

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Email: hotline@oig.dol.gov

Telephone: 1-800-347-3756
202-693-6999

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U.S. Department of Labor
200 Constitution Avenue, N.W.
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