

BRIEFLY...

Highlights of Report Number 26-10-006-01-370, to the Deputy Assistant Secretary, Office of the Assistant Secretary for Administrative and Management (OASAM), and the Assistant Secretary, Employment and Training Administration (ETA).

WHY READ THE REPORT

This report discusses how Applied Technology Systems Incorporated's (ATSI) failure to comply with Federal Regulations and contract provisions resulted in overcharges to Job Corps of more than \$1.8 million in indirect costs. The report also discusses process improvements ATSI, OASAM, and Job Corps need to make to ensure indirect cost proposals are submitted annually and include only allowable costs as required. During the audit, ATSI was under contract with Job Corps to operate three Job Corps centers and was a subcontractor for two other centers. ATSI was also under contract with Job Corps to provide Career Transition Services (CTS) to Job Corps students in three States, and subsequently, was a subcontractor for two of the three states.

WHY THE OIG CONDUCTED THE AUDIT

Our audit objective was to answer the following question:

- Did ATSI comply with Federal Regulations and ATSI contract provisions for reporting indirect costs?

Our audit work was conducted at ATSI's headquarters in Cleveland, Ohio and at the Division of Cost Determination's (DCD) national office in Washington, D.C.

READ THE FULL REPORT

To view the full report, including the scope, methodology, and full agency response, go to:

<http://www.oig.dol.gov/public/reports/oa/2010/26-10-006-370.pdf>

September 2010

APPLIED TECHNOLOGY SYSTEMS, INC. OVERCHARGED JOB CORPS FOR INDIRECT COSTS

WHAT OIG FOUND

ATSI did not comply with requirements for submitting indirect cost proposals annually or reporting only allowable indirect costs. ATSI used the provisional rates specified in its center/CTS contracts to charge Job Corps \$9.3 million for its estimated indirect costs during CYs 2004-2007. As a result of our audit, OASAM notified ATSI that its cost proposals to determine approved rates based on allowable costs were delinquent. ATSI submitted their cost proposals for CYs 2004-2007 to OASAM in April 2009 and reached agreement with OASAM on approved rates in September 2009.

The indirect cost proposals submitted by ATSI included unallowable or unreasonable indirect costs. Based on our audit, we determined that ATSI's allowable indirect costs for CYs 2004-2007 totaled nearly \$7.5 million, or \$1.8 million less than the \$9.3 million charged to Job Corps.

This occurred because ATSI violated Federal Regulations and its contract provisions by failing to make proper indirect cost proposal submissions to OASAM; and neither OASAM nor Job Corps performed follow up when ATSI failed to submit its indirect cost proposals.

WHAT OIG RECOMMENDED

We make five recommendations. In summary, we recommend that OASAM and ETA recover the more than \$1.8 million that was overcharged and direct ATSI to establish procedures and training to ensure indirect cost proposals are properly submitted. We also recommend that OASAM and Job Corps clarify procedures for monitoring contractor compliance and ensuring contractors reimburse the government for any overcharges.

The Assistant Secretary for ETA and Deputy Assistant Secretary for OASAM accepted our recommendations and will require ATSI to provide supporting documentation for the questioned costs and any costs ATSI cannot support will be assessed as liquidated damages. ATSI expressed concern about the accuracy of our findings and will conduct research to provide additional supporting documentation to OASAM and Job Corps.