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MEMORANDUM FOR ELLIOT P. LEWIS  
Assistant Inspector General for Audit

FROM: JANE OATES  
Assistant Secretary for Employment and Training

JAMES L. TAYLOR  
Chief Financial Officer

SUBJECT: The U.S. Department of Labor's Employment  
and Training Administration Needs to Strengthen Controls Over  
Job Corps Funds Draft Report No. 22-13-015-03-370

We thank you for the opportunity to review the audit on financial controls within the Job Corps program and to provide a response to the findings and recommendations included in the audit. The Department of Labor takes the issues facing the Office of Job Corps (OJC) seriously, and we have already taken many steps towards strengthening the financial management of the Job Corps program. The guidance provided in the IG report allows us to further enhance internal financial controls to ensure the efficient administration and fiscal stability of the Job Corps program.

At a time when Job Corps faced growth in student-related costs, the weaknesses of its program monitoring tools and protocols, and its heavy reliance on cost-reimbursement contracts, contributed to Job Corps' budgetary challenges in Program Year (PY) 2011. In PY 2012, we continued to face difficulties remaining within appropriated levels notwithstanding our efforts to identify and implement comprehensive cost-savings measures throughout the program year.

Recognizing a need for an independent analysis, in June 2012 former Secretary Hilda L. Solis requested that the Inspector General perform a comprehensive review of the Job Corps financial control system. This report was commissioned to assist the Department in identifying what caused the funding issues within Job Corps, and, more importantly, what processes and procedures needed to be implemented or improved to ensure that these issues do not arise again. We appreciate the Office of Inspector General (OIG) and audit firm KPMG's work to fulfill that request and to provide objective observations and insight to ETA and department management.

We concur with the report's findings and recommendations and offer in our response further information and clarification. As the following response shows, ETA and the Department have implemented strong oversight and cost-saving measures since this issue was initially brought to management's attention to ensure that the Job Corps program would remain solvent and be able to deliver education and vocational services to our enrollees. To that extent, as soon as the Department's senior officials were notified by ETA, a management oversight process was instituted to provide advice on short-term and long-term operational planning. Regular participants included executive management and representatives from the Office of Chief

Financial Officer, the Office of the Assistant Secretary for Administration and Management, the Office of the Solicitor, and other departmental offices. In August 2012, ETA also established the Office of Financial Administration (OFA), led by a Senior Executive Service (SES) level Comptroller. OFA instituted several initiatives to strengthen and coordinate existing controls and create new controls to ensure that obligations stayed within budget and to track contractor expenditures against their submitted spend plans. Working closely with ETA's Office of Contracts Management (OCM), which was created in 2010 as a SES-led office to consolidate all ETA contracting in the national and regional offices, OFA ensures that Job Corps accounts in a more timely and accurate way for costs incurred in its cost-reimbursement contracts. The added cooperation between OFA and OCM has resulted in significant improvements in the financial oversight of Job Corps. In addition, we have set aside funds to integrate the Job Corps program's financial reporting systems with those of ETA to further this critical coordination. Finally, we have provided additional training to staff members who monitor Job Corps contracts to improve their skills and enable them to provide better oversight.

ETA currently is refining the process for OJC planning, requirements determination, budgeting, and evaluation in order to enhance internal controls even beyond the actions we have already taken. This effort will lay out a more defined process for all aspects of OJC activity, financial and contractual, for a program year well in advance of the start of the year and allow for a more rapid response to OJC budget changes. A key aspect will be the formalization of significantly enhanced communications among ETA offices, its leadership, and the Department.

We look forward to working with the OIG to implement the recommendations for improved oversight and controls to ensure that Job Corps can continue to provide critical training services to our enrollees.

Our detailed responses are as follows:

**Finding 1 — Lack of Retention of Documentation of the Program Year 2011 Operations Spending Plan**

ETA agrees that document retention is an important internal control that must be improved and we are currently working to address the issue. While inadequate records of the initial PY 2011 spending plan did not “hinder[ed] management’s ability to properly and consistently monitor actual costs in comparison to planned costs”, we recognize the lack of information flow to ETA management did result in the issue not being fully addressed until May 2012. At that time, many controls and processes were instituted to ensure that Job Corps ended the program year (on June 30, 2012) within its appropriation; however, they were designed for immediate close-out purposes and are not sustainable as a regular course of business. To further address this issue, throughout the course of PY 2012, ETA and the Department have instituted new controls and processes to monitor actual expenses against the available appropriation to more quickly inform management of any potential issues in future years.

ETA agrees with recommendation 2e that it should retain relevant documentation associated with Job Corps funds’ processes and controls. ETA believes, as discussed in finding 5, it is important

to focus on those documents that are used by management in the decision-making process. As the audit notes, management should not be hindered in its ability to properly and consistently monitor actual costs. ETA also believes that management should understand the assumptions and factors used to develop documents that support its decision-making processes.

**Finding 2 — Lack of Established Indicators Requiring Communication of Financial and Program Risks to Appropriate Personnel**

ETA agrees with recommendation 1, that a documented set of procedures, triggers, and defined communications should be put in place for the purpose of detecting and communicating to management in a timely manner any evidence that a financial problem exists. The oversight and control processes set up by the Department and ETA shortly after the problem was discovered were intended as short-term additional controls to ensure that management had a clear picture of the problem, the possible solutions, and the effect of corrective actions. The Department agrees that properly designed and implemented internal controls will inform reporting and ensure that appropriate personnel are aware of program and budget risks. ETA is engaged in reinforcing existing controls and establishing new controls and reporting that will efficiently and effectively provide management with the information and assurances it needs to properly manage the Job Corps program. ETA will document the design and implementation of the improved system of internal controls.

**Finding 3 — Lack of National Office Standard Operating Procedures (SOPs) and Outdated Regional Office SOPs**

ETA agrees with the finding that there is a lack of national office standard operating procedures (SOPs) and that regional office SOPs are outdated. ETA has been working to develop SOPs that reflect its processes and systems as it addressed the issues related to Job Corps funding. During PY 2012, ETA focused resources on remediating the effects of the PY 2011 funding shortfall and prioritizing PY 2012 cost-saving measures. ETA is already implementing a plan that will serve as the combined operations guide as it works to implement recommendation 2a. As part of that plan, ETA is reviewing existing policies and procedures and developing new SOPs for OJC. ETA will also establish a process to review regional office policies and procedures and improve coordination among the Office of Job Corps (OJC), Office of Contracts Management (OCM) and Office of Financial Administration (OFA).

**Finding 4 — Lack of Formal Assessment of Human Capital Resource Needs for Processes and Controls over Job Corps Funds**

ETA agrees with the finding that a formal assessment of human capital resources is appropriate for OJC, and will implement recommendation 3. Such an assessment will help us make improvements in this complex program with many programmatic requirements and high-dollar transaction streams. This would include the cost-estimating requested in recommendation 4.

ETA and Job Corps were part of a skills assessment of financial management personnel carried out by the department. While this effort was started before the PY 2011 issue became known, the survey results and subsequent training plan to meet the skills gaps identified will be a critical component in ensuring sound financial oversight of OJC activities. The training plan forms the basis for training and education of DOL financial management personnel to improve their knowledge of Federal financial management requirements, best practices and analytic skills.

#### **Finding 5 — Unsupported Assumptions in the Initial PY 2012 Operations Spending Plan**

ETA agrees with the finding that the assumptions in the initial PY 2012 Operations Spending Plan were unsupported when compared to the total contract values that were in existence at that time. It must be noted, however, that the spending plan reviewed by the auditors represents but one part of the Department's overall efforts during this year-long process.

As noted in the audit, the Department was aware of the potential shortfall for PY 2012 prior to the start of the program year. ETA understood at the outset of PY 2012 that many steps needed to be taken to ensure that program obligations remained within Job Corps' appropriated levels. Before the program year started, ETA began to develop a comprehensive plan for cost-cutting measures, which was updated repeatedly throughout the program year. This ongoing effort was informed by a regularly-revised set of financial and budgetary documents which were created specifically to aid management through the decision making process associated with the budget shortfall. Those revised documents superseded the spend plan as a tool for management's decisions about how to reduce the program's contractual obligations to a level within Job Corps' appropriation.

The changes ETA made in establishing a Comptroller's office led to improvements in Job Corps' financial management information that allowed ETA to make better projections earlier in PY 2012 than had been available in prior years. It is clear that ETA management did not act as quickly or decisively as circumstances required and thus reduced the time for cost savings to accrue. The result was lower savings than originally projected. Ultimately, because ETA's original list of cost-saving measures did not reduce Job Corps spending to the requisite level, it became apparent that the solution for PY 2012 had to involve the largest cost driver in Job Corps: the number of students served.

ETA agrees with recommendation 2f as it relates to documents used in management decision making. It is important, as the audit notes, that management has confidence in the projections and assumptions that are used in decision making. As such, ETA has briefed departmental management on the assumptions and data sources used to establish student levels and project contract amounts for PY 2013. Based on this improved management and financial information, Job Corps has negotiated contract modifications with its contractors to re-size the program, so that it will operate within its FY 2013 appropriation. Moving forward, this effort, undertaken

with the cooperation of Job Corps' contractors, will allow us to start the program year with planned obligations that will remain within the appropriated amount. Since the obligations for Job Corps have now been aligned with budget limits, this same information will inform and improve the spend plan for PY 2013.

**Finding 6 — Insufficient Documentation of Analysis to Support Amounts Requested for Quarterly Apportionments**

ETA provides the documentation required by the Department and OMB to support amounts requested for quarterly apportionments. However, ETA agrees to implement recommendation 2g and will specifically document any additional Job Corps requirements and the operational reason for the quarterly apportionment splits. The Department believes that the quarterly apportionments it requested, and OMB approved, were efficiently allocated throughout PY 2012.

**Finding 7 — Lack of Periodic Review of Cost Policy for the Job Corps Independent Government Cost Estimate**

ETA agrees with the finding that it has not periodically reviewed its cost policy for developing the Independent Government Cost Estimate (IGCE). ETA agrees to implement recommendation 4 and will update the policy for developing cost models applied in determining the IGCE used in Job Corps center contracting activities. ETA will work to include not only more current guidance and assumptions, but it also will review the best practices highlighted by the Government Accountability Office since our policy was issued in 1986. ETA will also establish a formal timeline to periodically review and update the policy so that it will reflect current trends and Job Corps requirements.

**Finding 8 — Lack of Reconciliation Controls Related to Information Systems Used in Job Corps Activities**

ETA agrees with this finding and has already begun work on electronic reconciliations. Subsequent to the completion of the period of this audit, the Acting Secretary approved an initiative to enhance information from these systems and to complete the electronic reconciliation between these systems. ETA views this effort as its initial step in implementing recommendations 5 and 6. While the electronic interface is being developed, ETA is committed to implementing policies and procedures on reconciliation that reduce the risk of human error.

**Finding 9 — Insufficient Monitoring over Job Corps Contract Vouchers**

ETA believes that the failure in invoice processing noted by the IG is not representative of a general failure of Job Corps to pay invoices in a timely manner. The Treasury standard for total penalty interest paid on late invoices is 0.02% of total invoice values. For FY 2012 and FY 2013 (to April 30, 2013), OJC has paid \$34,975.70 and \$8,707.32 in penalty interest on invoice totals of \$1,334,574,948.76 and \$704,189,778.19, or 0.0026 and 0.0012 percent respectively. This

greatly surpasses the government-wide standard. Penalty interest totals at OJC are currently less than 10 percent of the amounts paid five years ago.

**Finding 10 — Lack of Recurring Monitoring over Budget to Actual Job Corps Contract Costs at the National Office**

ETA agrees that we should have formal written policies and procedures that govern how we monitor budgeted cost versus actual contract expenses. ETA agrees with recommendation 2h that budgeted contract costs should be reflective of the actual operating level for the program. However, because total contract values exceeded our appropriated level at the beginning of PY 2012, this monitoring would have been flawed. Beginning in PY 2013, we have negotiated a reduced On-Board Strength (OBS) for each center contract that will ensure that our budgeted contract costs are reflective of the actual operating level for the program and that we operate within our appropriation. ETA will regularly monitor and reconcile the budgeted level to actual expenses to ensure funds are spent as planned.

As noted in the audit report, the projected budgeted costs provided by the contractors were based on contract values that had to change as savings measures were implemented in PY 2012. For this reason, in PY 2012, ETA took actions and implemented cost-savings measures ensuring that the Job Corps contract costs were aligned to the appropriation level. We will operate within our appropriations going forward. In addition, ETA continues to regularly monitor and reconcile budgeted level to actuals to ensure funds are controlled as planned.

As noted above, in August 2012, ETA created the Office of Financial Administration (OFA) and hired new personnel in September 2012. Between August and October 2012, OFA personnel focused on collecting Job Corps' current and historical financial data to perform in-depth analyses of PY 2012 contract value amounts, monitored and tracked actual obligations and expenses. In November 2012, OFA completed a thorough evaluation of the Job Corps contract costs and implemented a robust, continuous action plan for monitoring, analyzing, and reporting all Job Corps financial data. Presently, we continue to monitor on an ongoing basis the actual budget against contract costs as well as analyze all contractor financial reports received by the Job Corps Data Center.

**Finding 11 — Insufficient Monitoring over Job Corps Center Contractors' Cost Reports at the Regional Offices**

ETA agrees that monitoring Job Corps Center contractors' cost reports at the regional offices is a critically important function. ETA will review its policies and ensure that they adequately define the precision of detail required of contractors as called for in recommendation 2b. ETA also will review its policy for requiring an explanation of variances between budget and actual expenses on contractor cost reports to ensure that ETA is able to address them appropriately.