U.S. Department of Labor

Office of Inspector General—Office of Audit

EMPLOYMENT AND TRAINING ADMINISTRATION

SUMMARY REPORT OF SUB-CONTRACTING AT SIX PRIVATELY OPERATED JOB CORPS CENTERS

Date Issued:	**November 8, 2012**
Report Number:	**26-13-001-03-370**

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

BRIEFLY…

Highlights of Report Number 26-13-001-03-370, issued to the Assistant Secretary for Employment and Training.

WHY READ THE REPORT

From March 31, 2011, through June 22, 2012, we issued a series of performance audit reports on sub-contracting for six Job Corps centers operated by private contractors. This report summarizes our findings, recommendations, and the corrective actions the Employment and Training Administration (ETA) is making to improve guidance and oversight.

Job Corps is a residential training program for disadvantaged youth where employability skills are developed. Its training activities and living facilities are housed within 125 centers throughout the country. The Job Corps program is administered by the Employment and Training Administration (ETA). Job Corps' annual program budget is about $1.7 billion.

Job Corps' 125 centers are operated for the U.S. Department of Labor by private companies through competitive contracting processes, and by other Federal agencies through interagency agreements.

WHY OIG CONDUCTED THE AUDIT

Our six audits addressed the following question:

> Did the centers and respective center operators ensure best value to the Federal government when awarding sub-contracts and claiming 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/2013/26-13-001-03-370.pdf.

NOVEMBER 2012

SUMMARY REPORT OF SUB-CONTRACTING AT SIX PRIVATELY OPERATED JOB CORPS CENTERS

WHAT OIG FOUND

All six centers audited and their respective center operators – Los Angeles (Young Women's Christian Association of Greater Los Angeles); Red Rock (Adams and Associates, Inc.); Turner and Oneonta (Education and Training Resources, Inc.); and Clearfield and Paul Simon (Management and Training Corporation, Inc.) – did not always ensure best value to the Federal government when awarding sub-contracts and purchase orders. Additionally, two centers (Clearfield and Paul Simon) did not support claimed costs by consistently obtaining required documentation. In aggregate, we identified $8.7 million in questioned costs – the total value of the sub-contracts and purchase orders awarded without ensuring best value.

These conditions occurred because the center operators were not aware of the Federal and contractual requirements applicable to their procurement activities and did not establish the necessary controls to ensure compliance with their own procurement standard operating procedures. Additionally, ETA did not effectively enforce the center operators' adherence to the procurement requirements for Job Corps centers and did not provide adequate oversight of their sub-contracting practices.

WHAT OIG RECOMMENDED

We recommended ETA and the center operators both improve guidance and oversight over center sub-contracting to ensure best value to the government. Furthermore, we recommended ETA recover any monetary differences between the fair value of the services received and our questioned costs. The center operators audited generally did not agree they had to comply with Federal procurement requirements because they were private contractors.

ETA generally agreed with our findings and recommendations and indicated it has made programmatic changes to improve its own guidance and oversight over center sub-contracting.

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U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210

November 8, 2012

Assistant Inspector General's Report

Ms. Jane Oates
Assistant Secretary
for Employment and Training
200 Constitution Avenue, NW
Washington, DC 20210

From March 31, 2011, through June 22, 2012, we issued a series of performance audit reports for six Job Corps centers operated by private contractors that addressed the following question:

> Did the centers and respective center operators ensure best value to the Federal government when awarding sub-contracts and claiming costs?

This report summarizes our findings, recommendations, and the corrective actions the Employment and Training Administration (ETA) is making to improve guidance and oversight.

Job Corps is a residential training program for disadvantaged youth where employability skills are developed. Its training activities and living facilities are housed within 125 centers throughout the country. The Job Corps program is administered by ETA per the Department of Labor's (DOL) authorization provided by the Workforce Investment Act of 1998 (WIA). Within ETA, the program is managed by the Office of Job Corps (Job Corps), which consists of a national office and six regional offices. ETA's Office of Contracts Management assumed responsibility for Job Corps' contracting, including oversight of sub-contracting by the private center operators, from the Office of the Assistant Secretary for Administration and Management in October 2010. Job Corps' annual program budget is about $1.7 billion.

Job Corps' 125 centers are operated for DOL by private companies through competitive contracting processes, and by other Federal agencies through interagency agreements. When sub-contracting for goods and services, the contracted center operators are required to comply with the Job Corps' Policy and Requirements Handbook (PRH) and center operator contracts, which require compliance with applicable procurement regulations, including those contained in the Federal Acquisition Regulation (FAR).

Table 1 below describes the centers and the respective center operators we audited:

Table 1: Job Corps Centers Audited

No.	Date Report Issued	Center Name (Location)	Private Center Operator Contractor
1	03/31/11	Los Angeles (California)	Young Women's Christian Association of Greater Los Angeles (YWCA)
2	09/30/11	Red Rock (Pennsylvania)	Adams and Associates, Incorporated (Adams)
3	09/30/11	Turner (Georgia)	Education and Training Resources, Incorporated (ETR)
4	06/22/12	Oneonta (New York)	ETR
5	03/30/12	Clearfield (Utah)	Management and Training Corporation, Incorporated (MTC)
6	03/30/12	Paul Simon (Illinois)	MTC

Source: Issued OIG audit reports.

We interviewed ETA, center operator, and Job Corps staff; reviewed criteria for center procurement activities, including Job Corps' PRH and Procurement Compendium, the FAR, center operator and center standard operating procedures (SOPs), and center operator and Job Corps' Regional Offices' assessments of center operations; reviewed applicable processes and controls; analyzed sub-contracts, expenses, and related supporting documentation; and performed process walkthroughs with key center operator staff.

The six audits covered sub-contracts managed and expenditures incurred by the respective centers and center operators from October 1, 2009, to March 31, 2011, including:

- All sub-contracts (and their related invoice payments) more than $25,000 managed by these center operators and centers during this period, which amounted to 44 sub-contracts totaling $17.4 million;

- A statistical sample of 341 of 1,038 expenditures more than $3,000 from the 44 center sub-contracts we reviewed, representing $3.3 million (or 41 percent of aggregate expenditures);

- 10 judgmentally selected expenditures totaling approximately $144,000; and

- 4 strategic agreements (sub-contracts) awarded by a corporate office, which resulted in costs claimed by 2 of the 6 centers audited.

This work covered ETA's oversight of center operator sub-contracting through June 2012.

We conducted these six performance audits in accordance with generally accepted 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 reasonable basis for our findings and conclusions based on our audit objectives. Our objective, scope, methodology and criteria are detailed in Appendix B.

SUMMARY OF RESULTS

All six centers audited and their respective center operators – Los Angeles (YWCA), Red Rock (Adams), Turner (ETR), Oneonta (ETR), Clearfield (MTC), and Paul Simon (MTC) – did not always ensure best value to the Federal government when awarding sub-contracts and purchase orders. Additionally, two centers (Clearfield and Paul Simon) did not support claimed costs by consistently obtaining required documentation. In aggregate, we identified $8.7 million in questioned costs – the total value of the sub-contracts and purchase orders awarded without ensuring best value. Based on our testing, these questioned costs may be as high as $11.5 million.[1]

These conditions occurred because the center operators were not aware of the Federal and contractual requirements applicable to their procurement activities and did not establish the necessary controls to ensure compliance with their own procurement SOPs. Additionally, ETA did not effectively enforce the center operators' adherence to the related procurement requirements for Job Corps centers and did not provide adequate oversight of their sub-contracting practices.

We recommended ETA and the center operators both improve guidance and oversight over center sub-contracting to ensure best value to the government. Furthermore, we recommended ETA recover any monetary differences between the fair value of the services received and our questioned costs. We acknowledge that the government received services relating to these sub-contracts and recognize that in situations where the difference is undeterminable, no cost recoveries will occur. ETA generally agreed with our findings and recommendations and indicated it has made programmatic changes to improve the center operators' and its own guidance and oversight over center sub-contracting.

Center Operator Procurement Policies and Procedures Should be Consistent with the FAR

According to Job Corps' policy, center operators are contractually required to procure goods and services on behalf of the program in conformance with its contract provisions and the FAR principles.[2] The FAR allows for the approval of purchasing systems that

[1]In our six reports, we identified $8.7 million in total questioned costs – $7.5 million relating to the improperly awarded sub-contracts plus statistical sample results of $1.2 million. See Tables 2 and 3 for details. As such, the aggregate questioned costs could be as high as $11.5 million ($7.5 million plus our $4.0 million upper limit projection).
[2]Job Corps' Procurement Compendium, Section 4.9.

demonstrate compliance with FAR principles after a rigorous review of the contractor's policies, procedures, and performance under that system. According to the FAR, these reviews, known as Contractor Purchasing System Reviews (CPSR), should give special attention to 13 attributes including:[3]

- Results of market research accomplished;
- Degree of price competition obtained;
- Pricing policies and techniques, including methods of obtaining certified cost or pricing data;
- Methods of evaluating sub-contractor responsibility;
- Planning, award, and post-award management of major sub-contract programs; and
- Appropriateness of types of contracts used.

Because many Job Corps' contractors operate multiple contracts and perform services in several different Job Corps regions, Job Corps determined it is in the Government's interest to perform CPSRs to evaluate the efficiency and effectiveness with which these contracted center operators spend Government funds and comply with Government policy when contracting.[4] Consequently, center operators are responsible for establishing procurement policies and procedures that are consistent with the FAR.

<u>Non-Compliance with Sub-Contracts Greater than $25,000 Resulted in $7.5 Million in Questioned Costs</u>

In aggregate, we reviewed 44 sub-contracts (and their related invoice payments) more than $25,000 managed by the center operators during this period, totaling $17.4 million, and determined whether: (1) sub-contracts were awarded based on fair and open competition; (2) cost or price analysis was performed and documented; (3) responsibility checks were executed to determine the sub-contractors' ability to satisfactorily perform the contract;[5] and (4) documentation was maintained to support claimed costs. We found 30 of the 44 sub-contracts awarded during the period reviewed were awarded without ensuring the government received the best value and the sub-contractor could satisfactorily complete the sub-contract because the center did not assess past performance and technical skills and did not perform cost or price analysis. Twenty-one of these sub-contracts were for physician services, including mental health and dental care. As such, it was critical for the centers to ensure their students received adequate care by evaluating the bids based on the quality of services to be provided as well as cost. Responsibility checks that could have been considered for physician services included past performance providing services to a diverse student population, ages 16-24; completing similar type contracts; writing and supervising treatment plans; and providing individual and group therapy and training. Additionally, six sub-contracts were awarded without adequate sole-source justification and four corporate sub-contracts

[3]FAR Subparts 44.202-2 and 44.301-303.
[4]Job Corps' Procurement Compendium, Section 4.9.
[5]Responsibility checks are defined in FAR Subpart 9.104-1 and include evaluating past performance, technical requirements, and ability to comply with proposed performance and delivery schedules.

were awarded without proper responsibility checks.

Table 2 shows the types of non-compliance and the number of sub-contracts and questioned costs for each center audited.

Table 2: Instances of Non-Compliance for Sub-Contract Awards Greater than $25,000 Resulting In Questioned Costs

Non-Compliance	Center Name	(Operator)	Instances of Non-Compliance and Questioned Costs	
Sub-contract award not based on proper evaluation/responsibility checks	Los Angeles	(YWCA)	7	$ 2,402,596
	Red Rock	(Adams)	2	216,780
	Turner	(ETR)	3	467,640
	Oneonta	(ETR)	6	474,900
	Clearfield	(MTC)	4	429,608
	Paul Simon	(MTC)	8	1,101,414
		Sub-total:	**30**	**$ 5,092,938**
Inadequate sole-source justification	Clearfield	(MTC)	6	$ 2,384,165
		Sub-total:	**6**	**$ 2,384,165**
Corporate contract award not based on proper evaluation/responsibility checks	Oneonta	(ETR)	2	$ 40,643
	Turner	(ETR)	2	10,803
		Sub-total:	**4**	**$ 51,446**
		Total:	**40**	**$ 7,528,549**

Source: OIG analysis of Job Corps' data.

Invoice Payments for Sub-contracts at Two Centers Lacked Required Supporting Documentation

Two centers operated by MTC – Clearfield and Paul Simon – did not obtain and review documentation supporting the validity of claimed costs for six sub-contracts we reviewed (three each). For Clearfield, the center did not obtain and review supporting documentation prior to payment for two physician contracts totaling $162,297 and for a third sub-contract where $2,844 was paid for pharmaceutical supplies that were not received (based on our review of receiving reports and related invoices). For Paul Simon, required documentation to support billed hours for three physician sub-contracts was not obtained and reviewed prior to payment. The three doctors billed $214,019 in unsupported hours. For the two centers, a total of $379,160 in payments lacked adequate supporting documentation. These costs were already included in the amounts we questioned because the sub-contracts were improperly awarded.

Purchase Orders for Expenditures Greater than $3,000 Not Awarded as Required Resulted in $1.2 Million in Questioned Costs

We similarly reviewed a statistical sample of 341 of 1,038 expenditures more than $3,000 from the 44 center sub-contracts (totaling $3.3 million or 41 percent of aggregate expenditures) and 10 judgmentally selected expenditures (totaling $144,428) to determine whether (1) the related purchase orders were awarded based on fair and open competition; (2) cost or price analysis was performed and documented; and (3) documentation was maintained to support claimed costs. In aggregate, we questioned $1.2 million in costs related to 126 expenditures that lacked evidence of competitive bidding or justification for sole source purchases. See Table 3 for the number of expenditures and questioned costs for each center audited.

Table 3: Instances of Non-Compliance for Expenditures Greater than $3,000 Resulting In Questioned Costs

Non-Compliance	Center Name (Operator)		Instances of Non-Compliance and Questioned Costs	
Inadequate sole-source justification	Los Angeles	(YWCA)	8	$ 44,077
	Red Rock	(Adams)	2	20,697
	Turner	(ETR)	4	61,800
	Oneonta	(ETR)	5	21,864
	Clearfield	(MTC)	16	77,866
	Paul Simon	(MTC)	23	224,198
		Sub-total:	**58**	**$ 450,502**
Circumvented competitive bidding	Los Angeles	(YWCA)	7	$ 28,787
	Turner	(ETR)	14	164,829
		Sub-total:	**21**	**$ 193,616**
Expenditures not supported by properly awarded Blank Purchase Agreement	Red Rock	(Adams)	11	$ 97,198
	Turner	(ETR)	26	324,342
		Sub-total:	**37**	**$ 421,540**
Expenditures made without a Purchase order or sub-contract	Clearfield	(MTC)	10	$ 144,428[6]
		Sub-total:	**10**	**$ 144,428**
		Total:	**126**	**$ 1,210,086**

Source: OIG analysis of Job Corps' data.

Projecting these statistical sample results to the total population of expenditures more than $3,000, we are 95 percent confident there were between $2.8 million and $4.0 million in questioned costs.[7] The midpoint estimate is $3.4 million.

[6]These 10 expenditures were judgmentally selected and were not included in our statistical projections.
[7]Ibid.

Best Value Not Ensured Due to Weak Control Environment

These conditions generally occurred because the center operators and centers did not always follow their procurement SOPs; lacked adequate training and oversight; and did not have the necessary controls in place. Moreover, ETR had not established effective controls even though the results of DOL and internal reviews identified procurement deficiencies and lack of management controls during calendar years 2008-2010. Procurement deficiencies similar to our results were reported for each review, including ETR centers' non-compliance with SOPs, not advertising publicly, not obtaining three bids, and not performing cost or price analysis. Consequently, DOL contracting officials did not approve ETR's procurement system. In addition, as a result of the procurement deficiencies identified during this series of audits, Job Corps fully withdrew its approval of the YWCA and partially withdrew its approval of MTC's procurement system. These center operators and centers can improve their procurement SOPs to include requiring adequate documentation, evaluator signatures, and the specific steps to ensure all sub-contracts and expenditures are advertised, evaluated, and costs supported. For example, specific guidance for justifying sole-source procurement should result in more effective efforts to solicit multiple sources (such as market research and direct solicitations) and improved documentation. As such, these center operators and centers did not establish the necessary controls, including procedures and oversight, to ensure compliance and best value to the government.

As stated earlier, center operators are required to adhere to certain aspects of the FAR by their contracts and Job Corps' PRH. The procurement and property management sections of those contracts provide:

> *The center shall establish systems to procure property, services, and supplies in a cost-efficient and environmentally-friendly manner in accordance with government policies. The contractor shall also establish systems to provide procedures for receipt and accountability of government-owned property, material, and supplies, in accordance with PRH 5.6.*

Further, Job Corps' PRH, section 5.6, R1 indicated that center operators and Outreach and Admissions/Career Transition Services contractors shall follow all applicable procurement regulations, to include those contained in the FAR.

At the start of our six audits, ETA agreed in part that center operators were required by their contracts and Job Corps' PRH to comply with the FAR procurement requirements, but did not cite the specific requirements. However, ETR, Adams, and MTC disagreed they had to comply with all of the FAR procurement requirements, including the specific requirements for Federal agencies, because they were private contractors and these requirements only applied to Federal agencies. This occurred even though MTC initially agreed with our conclusions for those sub-contracts that required ETA's consent;[8] and ETR's SOPs specifically required compliance with the FAR sections they later stated were not applicable. In general. the center operators audited did not agree with our findings and questioned costs. Regardless of the FAR sections that were applicable, they believed their sub-contracting resulted in fair and open competition and ensured the best value to the government.

In August 2011, ETA clarified its position that contracted center operators were not required to comply with the FAR in its entirety and indicated that only the following sections of the FAR were applicable:

- Part 52, *Solicitation Provisions and Contract Clauses*
- Subpart 52.244-5, *Competition in Subcontracting*
- Subpart 52.216-7, *Allowable Cost and Payment*
- Part 44, *Subcontracting Policies and Procedures*
- Part 9, *Responsible Prospective Contractors*

These sections of the FAR, while not requiring direct compliance with all aspects of the FAR, required center operators to establish procurement policies and procedures that are consistent with the FAR.

In September 2011, ETA informed us that the DOL's Office of the Solicitor (Solicitor) agreed with ETA's position that center operators were not required to comply with the FAR in its entirety. Based on feedback provided by ETA and the Solicitor, and information provided to us by the center operators in response to our reports, we concurred. However, we affirm that the FAR principles applied and the center operators were required to establish and comply with procurement procedures that were consistent with the FAR. This included ensuring sub-contract and purchase order awards were based on proper evaluation/responsibility checks and sole-source justification and claimed amounts were adequately supported. As such, we maintain the exceptions described in each of our six reports and summarized in this report.

ETA also did not provide adequate oversight of the contracted center operators to determine whether their centers' use of competition and best value were achieved in their sub-contracting. Additionally, sub-contracting was not reviewed during on-site center assessments performed by Job Corps; and sub-contracts submitted to ETA contracting officials for consent prior to award were not consistently reviewed for compliance. Furthermore, the procurement systems for contracted center operators were reviewed by Job Corps only once every three years. Center operators with approved procurement systems received less oversight, including limiting the subcontracts submitted to ETA for consent. These reviews did not effectively ensure compliance with center operator and center SOPs and the FAR at the six centers we audited. For example, MTC's Clearfield received a CPSR in 2005. The CPSR identified procurement deficiencies and weak management controls relating to sole-source procurement and the lack of documentation

[8] Center operators with an approved CPSR are required to obtain ETA consent for only health related sub-contracts. Center operators without an approved CPSR are required to obtain ETA consent for all sub-contracts.

for cost or price analysis. Although MTC prepared a corrective action plan for these findings, Clearfield still had problems justifying sole-source procurement and conducting cost or price analysis in 2011. ETA also did not effectively enforce the center operators' adherence to the related procurement requirements for Job Corps centers and provide adequate oversight of their sub-contracting practices, which contributed to these conditions.

Questioned Costs Could Be as High as $11.5 million

In our six reports, we identified $8.7 million in total questioned costs – the total value of the sub-contracts and purchase orders awarded without ensuring best value. Specifically, this amount was the sum of $7.5 million relating to the improperly awarded sub-contracts and our statistical sample results of $1.2 million relating to expenditures more than $3,000. As such, the aggregate questioned costs could be as high as $11.5 million ($7.5 million plus our $4.0 million upper limit projection). However, we acknowledge that the government received services relating to these sub-contracts and recognize that in situations where the difference is undeterminable, no cost recoveries will occur.

RECOMMENDATIONS AND AGENCY RESPONSE

The recommendations for each of our six audits were similar. In summary, we recommended the Assistant Secretary for Employment and Training recover the questioned costs we identified, taking into account the amount of excess funds paid by the contractors while recognizing the value of the goods and services received. Furthermore, we recommended the Assistant Secretary direct the center operators to establish procedures, training, and oversight to ensure compliance with the applicable sections of the FAR; and direct ETA contract personnel and Job Corps' regional staff to review all future sub-contracts submitted by the six centers for FAR compliance and consent prior to award and during on-site assessments conducted at the centers.

ETA generally agreed with our findings and recommendations and indicated it has made programmatic changes to improve guidance and oversight over center sub-contracting. These changes include:

- Job Corps updating its PRH to address sub-contracting responsibilities and procedures.

- ETA updating its policies and procedures for administration of cost reimbursable contracts and their associated sub-contracts with emphasis on cost or price analyses to ensure (1) fair and reasonable pricing, (2) price competition, (3) market research, and (4) sub-contractor responsibilities.

- ETA providing guidance and training to its contracting officers on proper oversight and monitoring of contractors purchasing systems, including ensuring contractors are held accountable for managing sub-contracts in compliance with the FAR.

- Job Corps conducting financial reviews during center assessments and monitoring visits, including reviewing sub-contracts for FAR compliance.

- ETA withdrawing the approval of contracting purchasing systems as appropriate and in accordance with the FAR; and requiring the contractors to furnish corrective action plans to qualify the system for approval.

If ETA's corrective actions effectively address the recommendations cited in our reports, oversight of center subcontracting by the center operators and ETA will improve and ensure best value to the government. ETA's written response to this summary report is included in its entirety in Appendix D.

We appreciate the cooperation and courtesies ETA and the center operators extended to the Office of Inspector General during our audits. OIG personnel who made major contributions to this report are listed in Appendix E.

Elliot P. Lewis

Elliot P. Lewis
Assistant Inspector General
for Audit

Appendices

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Appendix A

Background

Job Corps is authorized by Title I-C of the WIA and is administered by ETA's Office of Job Corps under the leadership of the National Director and supported by a National Office staff and a field network of 6 regional offices.

The purpose of Job Corps is to assist disadvantaged youth ages 16 through 24 who need and can benefit from a comprehensive program, operated primarily in the residential setting of a Job Corps center, to become more responsible, employable, and productive citizens by developing employability skills. Its training activities and living facilities are housed within 125 centers throughout the country.

The six centers audited, the respective center operators, locations, audit scope, contract dates, and contract amounts are detailed below:

Center Name	Private Center Operator Contractor	Location	Audit Scope	Contract Dates	Contract Amount
Los Angeles	YWCA	California	10/1/2009 - 9/30/2010	5/1/2006 - 4/30/2011	$88 Million
Red Rock	Adams	Pennsylvania	5/1/2010 - 12/31/2010	5/1/2010 – 4/30/2015	$49 Million
Turner	ETR	Georgia	1/1/2010 - 12/31/2010	7/1/2005 – 6/30/2010	$107 Million
Oneonta	ETR	New York	4/1/2010 – 3/31/2011	7/1/2009 – 6/30/2014	$48 Million
Clearfield	MTC	Utah	4/1/2010 – 3/31/2011	4/1/2010 – 3/31/2015	$146 Million
Paul Simon	MTC	Illinois	4/1/2010 – 3/31/2011	8/1/2008 – 7/31/2013	$49 Million

Source: Issued OIG audit reports.

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Appendix B

Objectives, Scope, Methodology, and Criteria

Objective

From March 31, 2011, through June 22, 2012, we issued a series of reports for our performance audits of six Job Corps centers operated by private contractors that addressed the following question:

> Did the centers and respective center operators ensure best value to the Federal government when awarding sub-contracts and claiming costs?

Scope

The six audits covered sub-contracts managed and expenditures incurred by Los Angeles (YWCA), Red Rock (Adams), Turner (ETR), Oneonta (ETR), Clearfield (MTC), and Paul Simon (MTC) from October 1, 2009, to March 31, 2011. See Appendix A for details.

We reviewed all sub-contracts (and their related invoice payments) more than $25,000 managed by the center operators and centers during this period, which amounted to 44 sub-contracts totaling $17.4 million; and 4 strategic agreements (sub-contracts) awarded by a corporate office. We also reviewed a statistical sample of 341 of 1,038 expenditures more than $3,000 from the 44 center sub-contracts we reviewed, representing $3.3 million (or 41 percent of aggregate expenditures), and 10 judgmentally selected expenditures totaling approximately $144,000. These expenditures were generally initiated by purchase orders and were separate items from the 44 sub-contracts we reviewed. The center operator contracts to operate their centers were not included in our audits because they were awarded by ETA. No center sub-contracts were awarded by ETA. We performed on-site work at these six centers and ETA and Job Corps' headquarters in Washington, DC.

We conducted these six performance audits in accordance with generally accepted 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 reasonable basis for our findings and conclusions based on our audit objectives.

Methodology

In general, we interviewed ETA, center operator, and Job Corps staff; compared criteria to center procurement activities, including Job Corps' PRH and Procurement Compendium, the FAR, center operator and center SOPs, center operators' contracts, and center operator and Job Corps' Regional Offices' assessments of center operations; reviewed applicable processes and controls; analyzed sub-contracts, expenses, and related supporting documentation; and performed process walkthroughs with key center operator staff.

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 evaluated the centers' internal controls for reasonable assurance that the awarding of sub-contracts and payment of invoices were done according to Federal and Job Corps requirements. Our consideration of these controls would not necessarily disclose all matters that might be reportable conditions. In addition, inherent limitations of internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected.

We also relied on the computer-processed data contained in the check registers. We assessed the reliability of the data by (1) performing various tests of required data elements; and (2) interviewing ETA, Job Corps, and center operator staff knowledgeable of the data. Based on these tests and assessments, we concluded the data was sufficiently reliable to address our audit objective.

In aggregate, our testing universe consisted of 44 sub-contracts (and their related invoice payments) and 1,038 expenditures. We tested all 44 sub-contracts and stratified the universe of expenditures into strata based on the dollar amounts. We reviewed the subcontracts and their related invoice payments for compliance with select FAR principles and center operator and center SOPs, including awarding sub-contracts based on fair and open competition, cost or price analysis, and responsibility checks (FAR Subpart 44.202-2); evaluating bids based on factors contained in the solicitation (FAR Subpart 44.202-2); obtaining bids from multiple sources (FAR Subpart 13.104); documenting justification for sole-source procurement or why a lowest bidder was not selected (FAR Subpart 44.202-2 and Subpart 52.244-5); and adequate supporting documentation for payments, such as detailed invoices (FAR Subpart 52.216-7). We obtained the contract files and reviewed all supporting documentation provided by the centers to assess compliance regarding the award of sub-contracts. We also tested the check registers for completeness by verifying issuance dates, check numbers for numerical sequence, and missing checks had been appropriately voided.

For purchase orders issued by the six centers, we obtained the check registers for the audit periods and removed checks related to payroll, checks less than $3,000, payments related to the 44 sub-contracts reviewed, and payments for utilities. This left a universe of 1,038 expenditures. We used statistical sampling to select a sample of 341 expenditures and determined whether the expenditures complied with the center operators and centers' SOPs and select aspects of the FAR with regards to sole-source justification, competitive bidding, blank purchase agreements, and purchase orders or sub-contracts.

Criteria

We used the following criteria to perform this audit:

- FAR
- Job Corps' PRH
- Job Corps' Procurement Compendium
- Center Operator and Center SOPs
- Center Operator Contracts

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Appendix C

Acronyms

Adams	Adams and Associates, Incorporated
DOL	U.S. Department of Labor
CPSR	Center Procurement System Reviews
ETA	Employment and Training Administration
ETR	Education and Training Resources, Incorporated
FAR	Federal Acquisition Regulations
MTC	Management and Training Corporation, Incorporated
OIG	Office of Inspector General
PRH	Policy and Requirements Handbook
SOP	Standard Operating Procedures
Solicitor	Office of the Solicitor
WIA	Workforce Investment Act of 1998
YWCA	Young Women's Christian Association of Greater Los Angeles

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Appendix D

ETA Response

U.S. Department of Labor

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

OCT 9 - 2012

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

FROM: JANE OATES
Assistant Secretary

SUBJECT: Response to the Summary Report of Sub-contracting at Six Privately Operated Job Corps Centers; Report No. 26-12-009-03-370 [9]

This memorandum responds to the subject audit summary report, dated September 27, 2012, Office of the Inspector General's (OIG) Audit Report No. 26-12-009-03-370, *"Summary Report of Sub-contracting at Six Privately Operated Job Corps Centers."* [9]

Audit Summary:

The OIG conducted a series of performance audits on the sub-contracting practices of six Job Corps centers operated by private contractors. This subject report is a summary of the OIG's findings, recommendations, and the corrective actions the Employment and Training Administration (ETA) is taking to improve guidance and oversight. The OIG's audit in each instance was to determine if the operators ensured best value to the Federal government when awarding subcontracts.

The OIG found that the operators, Young Women's Christian Association of Greater Los Angeles (Los Angeles Job Corps Center), Adams and Associates, Inc. (Red Rock Job Corps Center), Education and Training Resources, Inc. (Turner and Oneonta Job Corps Centers), and Management and Training Corporation (Paul Simon and Clearfield Job Corps Centers) did not always ensure best value to the Federal government when awarding subcontracts and purchase orders. The OIG also found that two Management and Training Corporation contracts did not support claimed costs by consistently obtaining required documentation. Overall, the OIG identified approximately $8.7 million in questioned costs.

The OIG recommended ETA and the center operators both improve guidance and oversight over center sub-contracting to ensure best value to the government. The OIG also recommended ETA recover any monetary differences between the fair value of the services received and the OIG's questioned costs.

[9] Report number changed to 26-13-001-03-370.

ETA Response:

ETA concurs with the OIG's summary findings and the summary of recommendations. While the recommendations for each of the six audits were similar, ETA has taken corrective action as appropriate and as indicated in the individual OIG Audit Reports responses.

If you have questions concerning this response, please contact Linda K. Heartley, ETA's Head of the Contracting Activity, Office of Contracts Management at (202) 693-3404.

Attachment

cc:
Edna Primrose, Job Corps
Brinda Ruggles, ETA Audit Liaison

Appendix E

Acknowledgements

Key contributors to this report were Ray Armada (Audit Director); Alvin Edwards, Michael Elliott, and Jon K. Ling (Audit Managers); Renee Harrison-Womack, Patrick Trager, and Dr. James Turkvant (Lead Auditors); Nicholas Cumby, Norma Estrada, Miguel Hughes, Ronald Larry, Stephen Lawrence, Sheila Lay, Daniel Rhodes, Lorenzo Thornton, and Travis Williams (Auditors); and Steven Witherspoon (Reviewer). Additional assistance in preparing this report was provided by Catherine Christian and Alexander Budge (Auditors).

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