U.S. Department of Labor

Office of Inspector General—Office of Audit

EMPLOYMENT AND TRAINING ADMINISTRATION

THE U.S. DEPARTMENT OF LABOR'S EMPLOYMENT AND TRAINING ADMINISTRATION NEEDS TO STRENGTHEN CONTROLS OVER JOB CORPS FUNDS

This report was prepared by KPMG LLP, under contract to the U.S. Department of Labor, Office of Inspector General, and by acceptance, it becomes a report of the Office of Inspector General.

Elliot P. Lewis

U.S. Department of Labor
Assistant Inspector General for Audit

Date Issued: **May 31, 2013**
Report Number: **22-13-015-03-370**

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BRIEFLY…

Highlights of Report Number 22-13-015-03-370 issued to the Acting Secretary and Deputy Secretary of Labor, and the Assistant Secretary for Employment and Training.

WHY READ THE REPORT

In June 2012, the Secretary of Labor notified the U.S. Department of Labor (DOL) Office of Inspector General (OIG) of insufficient funding in the Job Corps Program Year (PY) 2011 Operations appropriations. As a result of this insufficient funding, the Employment and Training Administration's (ETA) Office of Job Corps (OJC) froze student enrollment, and DOL requested that the Office of Management and Budget transfer $26.2 million from OJC Construction, Acquisition and Rehabilitation (CRA) funds to its operations account to close this funding gap in PY 2011.

WHY KPMG CONDUCTED THE AUDIT

In response to aforementioned notification, the Secretary of Labor requested the OIG to perform a review of the internal controls currently in place over decentralized contract operations, both in the regions and at Headquarters, including preventative and detective controls, and that the OIG provide a report of findings with any appropriate recommendations.

In response to this request, the DOL OIG engaged KPMG to conduct a performance audit of Job Corps funds and expenditures, including contracting activities. Our testwork was performed from November 26, 2012, through April 19, 2013. Our scope period for testing was Job Corps PY 2011 (July 1, 2011, through June 30, 2012) and the first five months of PY 2012 (July 1, 2012 through November 30, 2012).

The objectives of this performance audit were to:

1. Determine the root cause of the PY 2011 funding shortfall which necessitated the $26.2 million budget transfer request during PY 2011; and
2. Determine if management had implemented a properly designed system of internal controls over Job Corps funds and expenditures, including contracting activities, during the first five months of PY 2012 covering July 1, 2012 through November 30, 2012.

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/2013/22-13-015-03-370.pdf.

May 2013

THE U.S. DEPARTMENT OF LABOR'S EMPLOYMENT AND TRAINING ADMINISTRATION NEEDS TO STRENGTHEN CONTROLS OVER JOB CORPS FUNDS

WHAT KPMG FOUND

KPMG found that the root cause of the PY 2011 funding shortfall which necessitated the $26.2 million budget transfer request during PY 2011 was a combination of untimely communications of projected costs in excess of total appropriations; initially planning for costs, based on contract values and program commitments required to meet Job Corps goals, in excess of appropriations; inaccurate inputs into cost projections; and a lack of consistent cost monitoring throughout the PY.

KPMG reported that for the period July 1, 2012, through November 30, 2012 internal control deficiencies existed in the areas of: budget execution; data supporting spending projections and monitoring; monitoring of projected to actual costs; and policies, procedures, and communication of information that could adversely affect Job Corps funds and expenditures, including contracting activities.

WHAT KPMG RECOMMENDED

This audit resulted in 11 findings and 6 recommendations related to Job Corps funds and expenditures. In summary, KPMG recommended that the Assistant Secretary for Employment and Training: (1) establish necessary criteria and thresholds for detecting potential financial and program risks to be routinely documented and communicated, and identify the appropriate personnel within DOL to receive this periodic information; (2) develop and implement certain formal policies and procedures or enhance certain existing policies and procedures in various areas; (3) conduct a formal assessment of human capital resources needed for processes and internal controls over Job Corps funds; (4) periodically review and update the cost model policy to incorporate the use of more current guidance and assumptions; (5) formally reconcile data on a routine basis between Job Corps-related systems; and (6) evaluate the cost-benefit of creating system interfaces between Job Corps-related systems.

ETA agreed with KPMG's findings and recommendations and planned corrective actions to address all recommendations.

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U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210

May 31, 2013

MEMORANDUM FOR: JANE OATES
Assistant Secretary
for Employment and Training

JAMES L. TAYLOR
Chief Financial Officer

Elliot P. Lewis

FROM: ELLIOT P. LEWIS
Assistant Inspector General
for Audit

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

Please find attached the final report of the performance audit over Job Corps funds and expenditures, including contracting activities. In June 2012, the OIG was notified by the Secretary of Labor of insufficient funding in the Office of Job Corps (OJC) Program Year (PY) 2011 appropriations. The Secretary requested the OIG perform a review of internal controls in place over Job Corps' decentralized contract operations, both in the regions and at Headquarters, including preventative and detective controls, and to provide a report of findings from the review with any appropriate recommendations. Subsequently, we received several congressional requests to review this matter. We contracted with the independent public accounting firm of KPMG LLP (KPMG) to conduct the audit.[1]

Summary of Audit Findings

The auditors determined the cause of the $19.4 million PY 2011 funding shortfall was due to a number of programmatic, budgetary, and managerial factors.[2] Specifically, at the beginning of PY 2011, Job Corps projected its operating costs could exceed the appropriations it received in its Operations funds, and planned to make up any potential shortfall by using PY 2010 surpluses and other amounts transferred from its PY 2011 Construction, Rehabilitation, and

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[1] KPMG is responsible for the attached report and the findings and results expressed in the report. In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review disclosed no instances where KPMG did not comply, in all material respects, with GAGAS. The contract required that the audit be conducted in accordance with *Generally Accepted Government Auditing Standards* (GAGAS).

[2] ETA transferred $26.2 million from Job Corps Construction, Rehabilitation, and Acquisition funds to Job Corps Operations funds as well as $2.2 million from other ETA funds. However, by the end of PY 2011, OJC only needed $19.4 million to cover its funding shortfall, leaving $9 million of the transfers unexpended which could be used to cover any possible overruns in the cost-reimbursable center operations contracts.

Acquisition (CRA) fund to its Operations fund.[3] However, the auditors were unable to determine which management personnel may have known about the shortfall prior to April 2012. Furthermore, the Department did not have established criteria and policy requiring notification of such matters to appropriate management, including to the agency head and the Chief Financial Officer, to allow senior management maximum flexibility and options to address such matters. As PY 2011 progressed, the PY 2010 surpluses did not materialize and projected operating costs significantly increased because Job Corps had erroneously excluded three center contracts totaling $18 million from its initial projected costs. In April 2012, an ETA budget analyst identified this problem, triggering communication within OJC and ultimately to the ETA Assistant Secretary. The Secretary of Labor was notified in May 2012. However, because the PY ended June 30, the options for addressing the matter were more limited.

In identifying the events that unfolded regarding the PY 2011 funding shortfall, the auditors identified weaknesses in OJC's spending plan. Specifically, OJC could not demonstrate they established a sound budget or spending plan, and they did not reconcile all Job Corps financial systems to ensure financial data was complete and accurate. Additionally, OJC did not routinely monitor budgeted costs to actual costs nor did they communicate the status of the budget execution to the appropriate officials, including the CFO.

Once it became aware of the PY 2011 funding shortfall, ETA implemented a number of oversight and cost-savings measures, including instituting a management oversight process to provide advice on short-term and long-term planning. ETA also established the Office of Financial Administration (OFA) which was tasked to strengthen and coordinate existing internal controls and to create new controls to monitor budgeted costs to actual costs. Additionally, OFA, in coordination with ETA's Office of Contracts Management, was tasked to ensure that Job Corps more timely and accurately accounts for costs incurred in its cost-reimbursement contracts.

Despite the Department's efforts to increase oversight and implement cost-savings measures, the auditors found that internal control deficiencies continued to exist over Job Corps funds and expenditures for the first five months of PY 2012. In fact, they identified similar control weaknesses that caused the previous year's shortfall in the following areas: policies, procedures, and communication of information related to financial and program risks; budget execution; data supporting spending projections; and monitoring of projected to actual costs. Specifically, management lacked procedures to formally communicate financial and program risks, including funding shortfalls; ensure operating costs were projected accurately and reviewed by appropriate officials prior to the beginning of the PY to allow for timely identification and implementation of cost savings measures; and monitor projected to actual costs on Job Corps contracts. The auditors also noted inadequate controls over the development of independent government cost estimates used in soliciting and evaluating contractor proposals. These control weaknesses, if not adequately addressed, could lead to further funding shortfalls that could necessitate actions such as another moratorium on student enrollments.

Summary of Audit Recommendations

To improve the internal control process over Job Corps funds and expenditures, the auditors recommended ETA: (1) establish criteria and thresholds for detecting potential financial and program risks to be routinely documented and communicated; (2) develop and implement

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[3] Public Law 112-10, Department of Defense and Full-Year Continuing Appropriations Act, 2011, allows DOL to make funding transfers.

formal policies and procedures or enhance existing policies and procedures in various areas; (3) conduct a formal assessment of human capital resource needs for processes and internal controls over Job Corps funds; (4) periodically review and update the policy for independent government cost estimates used in Job Corps center contracting activities; (5) formally reconcile data on a routine basis; and (6) evaluate the cost-benefit of creating system interfaces for three information systems primarily used in supporting Job Corps operations.

Agency Response

ETA concurred with the report's findings, stating that a number of measures have already been taken to address the recommendations and that it is refining the process for OJC planning, requirements determination, budgeting, and evaluation in order to enhance internal controls. This effort is intended to lay out a more defined process for all aspects of OJC activity, financial and contractual, for a program year in advance of the start of the year to allow for a more rapid response to OJC budget changes. ETA points out that a key aspect will be the formalization of significantly enhanced communications now occurring among ETA offices, its leadership and the Department.

In accordance with DLMS 8 – Chapter 500, paragraph 533, which details the Department's responsibilities for resolution action, you should provide a written response within 60 days indicating your agency's agreement or disagreement with each recommendation contained in the attached final report. If you agree with a recommendation, your response should explain the planned corrective actions, identify officials responsible for such actions, and provide dates by which the actions will be taken and full implementation achieved. If you disagree with a recommendation, your response should fully explain the reasons for disagreement.

Lastly, we appreciate the cooperation and courtesies you and your staff have extended to the contractor and OIG staff. If you have any questions, please contact Joseph L. Donovan, Jr., Audit Director, at (202) 693-5248.

Attachment

cc: Robert Pitulej, OJC Acting National Director
Linda Marshall, OJC Audit Liaison
William W. Thompson, ETA Administrator of the Office of Management and Administrative Services
Kevin Brumback, ETA Audit Liaison
Gary Maupin, ETA OFA Administrator (Comptroller)
Robert Balin, OCFO Audit Liaison

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Washington, DC 20006

Mr. Seth D. Harris, Acting Secretary and Deputy Secretary of Labor
Ms. Jane Oates, Assistant Secretary for Employment and Training
Mr. Elliot P. Lewis, Assistant Inspector General for Audit
U.S. Department of Labor
Washington, DC 20210

Mr. Harris, Ms. Oates, and Mr. Lewis,

In June 2012, the Secretary of Labor notified the U.S. Department of Labor (DOL) Office of Inspector General (OIG) of insufficient funding in the Job Corps Program Year (PY) 2011 Operations appropriations. As a result of this insufficient funding, the Employment and Training Administration's (ETA) Office of Job Corps (OJC) froze student enrollment, and DOL requested that the Office of Management and Budget (OMB) transfer $26.2 million from OJC Construction, Acquisition and Rehabilitation (CRA) funds to its operations account to close this funding gap in PY 2011.

In this notification, the Secretary of Labor requested the OIG to perform a review of the internal controls currently in place over decentralized contract operations, both in the regions and at Headquarters, including preventative and detective controls, and that the OIG provide a report of findings with any appropriate recommendations.

In response to this request, the DOL OIG engaged us to conduct a performance audit of Job Corps funds and expenditures, including contracting activities. Our testwork was performed from November 26, 2012, through April 19, 2013. Our scope period for testing was Job Corps PY 2011 (July 1, 2011 through June 30, 2012) and the first five months of PY 2012 (July 1 through November 30, 2012).

We conducted this audit in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate audit 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 objectives. Criteria used for this audit is defined in the Government Accountability Office's *Standards on Internal Control in the Federal Government.*

The objectives of our audit of Job Corps funds and expenditures, including contracting activities, were to:

1. Determine the root cause of the PY 2011 funding shortfall which necessitated the $26.2 million budget transfer request during PY 2011; and

2. Determine if management had implemented a properly designed system of internal controls over Job Corps funds and expenditures, including contracting activities, during the first five months of PY 2012 covering July 1, 2012 through November 30, 2012.

Our performance audit scope included factors related to the Job Corps PY 2011 funding shortfall and processes and internal controls related to Job Corps funds management, contracting activities, and payments/expenditures during the first five months of PY 2012. To determine the root cause of the PY 2011 funding shortfall, we conducted interviews with key management personnel and reviewed documentation. During our work over the first five months of PY 2012, we reviewed existing policies and procedures, performed walkthroughs at the National Office and one of six Regional Offices, and selected nonstatistical samples for testing, to assess DOL's design and implementation of internal controls over Job Corps funds and expenditures using the Government Accountability Office's (GAO) *Standards on Internal Control in the Federal Government* as criteria.

RESULTS IN BRIEF

Based upon the performance audit procedures conducted and the evidence obtained, we have met our audit objective #1. The root cause of the PY 2011 funding shortfall which necessitated the $26.2 million budget transfer request during PY 2011 was a combination of untimely communications of projected costs in excess of total appropriations; initially planning for costs, based on contract values and program commitments required to meet Job Corps goals, in excess of appropriations; inaccurate inputs into cost projections; and a lack of consistent cost monitoring throughout the PY.

At the beginning of Job Corps PY 2011, OJC projected costs greater than appropriations in its Operations funds. To cover the potential PY 2011 shortfall, OJC planned to use certain anticipated PY 2010 surpluses and amounts available in the PY 2011 appropriations act[1] to be transferred from its CRA funds to its Operations fund. As the PY progressed, the anticipated PY 2010 surpluses did not materialize, and projected Operations costs increased primarily because of an erroneous exclusion of certain Job Corps center contracts from initial projected costs. In April 2012, an ETA

[1] Public Law 112-10, Department of Defense and Full-Year Continuing Appropriations Act, 2011

budget analyst recognized that insufficient funding existed to cover expected obligations for the last quarter of the PY. The issue was communicated to and within OJC and then communicated to the Assistant Secretary for Employment and Training in April 2012 and to the Secretary of Labor in May 2012. Subsequently, DOL transferred allowable amounts from the CRA fund to the Operations fund in the amount of $26.2 million, transferred reprogrammed amounts from the ETA Training and Employment Services appropriation of $2.2 million, and implemented cost-saving measures to close the funding gap in PY 2011.

Based upon the performance audit procedures conducted and the evidence obtained, we have met our audit objective #2. We conclude that for the period July 1, 2012 through November 30, 2012 (i.e., the first five months of PY 2012) internal control deficiencies existed in the areas of policies, procedures, and communication of information; budget execution; data supporting spending projections and monitoring; and monitoring of projected to actual costs that could adversely affect Job Corps funds and expenditures, including contracting activities.

Our audit resulted in 11 findings and 6 recommendations related to Job Corps funds and expenditures. Sections *Objective 1, Objective 2,* and *Recommendations* present the details that support these findings and recommendations. In summary, we recommend that the Assistant Secretary for Employment and Training Administration (1) establish necessary criteria and thresholds for detecting potential financial and program risks to be routinely documented and communicated, and identify the appropriate personnel within DOL to receive this periodic information; (2) develop and implement certain formal policies and procedures or enhance certain existing policies and procedures in various areas; (3) conduct a formal assessment of human capital resources needed for processes and internal controls over Job Corps funds; (4) periodically review and update the cost model policy to incorporate the use of more current guidance and assumptions; (5) formally reconcile data on a routine basis between Job Corps-related systems; and (6) evaluate the cost-benefit of creating system interfaces between Job Corps-related systems.

DOL's responses to the recommendations are included as an appendix within the final report (Appendix D). DOL concurred with all recommendations.

This performance audit did not constitute an audit of the DOL's financial statements in accordance with *Government Auditing Standards.* KPMG was not engaged to, and did not render an opinion on the DOL's internal controls over financial reporting or over financial management systems (for purposes of the OMB's Circular No. A-127, *Financial Management Systems*, July 23, 1993, as revised). KPMG cautions that projecting the results of this audit to future periods is subject to the risks that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

Very truly yours,

KPMG LLP

May 24, 2013

RESULTS AND FINDINGS

Objective 1 — Determine the Root Cause of the Program Year 2011 Funding Shortfall

Based on the evidence we obtained during our performance audit, the root cause of the Department of Labor's (DOL) need for the $26.2 million budget transfer request during Job Corps program year (PY) 2011 was a number of programmatic, budgetary, and managerial factors. These factors resulted in the execution of a program, which without modifying the program or requesting budget transfers, would have exceeded its enacted appropriation level. Specifically, the need for the PY 2011 budget transfer request was a combination of: untimely communications of projected costs in excess of total appropriations; initially planning for costs, based on contract values and program commitments required to meet Job Corps goals, in excess of appropriations; inaccurate inputs into cost projections; and a lack of consistent cost monitoring throughout the PY, as discussed below.

The Office of Job Corps (OJC) is located within DOL's Employment and Training Administration (ETA). As such, the National Director of Job Corps has a direct reporting line to the Deputy Assistant Secretary for Employment and Training. In PY 2011, Job Corps program, budget, and accounting functions were included within OJC and reported to the National Director of Job Corps.

Job Corps Operations funds were initially appropriated $1.572 billion for Job Corps PY 2011, and a subsequent appropriations act allowed for the transfer and obligation of $26.2 million of Construction, Acquisition and Rehabilitation (CRA) funds for Operations activities, if necessary[2]. In addition, OJC indicated that it had anticipated using certain PY 2010 surpluses for PY 2011; however, those surpluses did not materialize because of increased Operations costs.

At the beginning of Job Corps PY 2011, total Operations fund costs were projected at $1.610 billion[3], which was higher than Operations funds appropriations by approximately $38 million, according to one of two Job Corps PY 2011 spending plans provided during our audit. Of the total Operations funds costs, Job Corps center planned costs were $1.037 billion[3]. This spending plan included only amounts appropriated to the Operations funds and did not account for the $26.2 million of CRA funds which could be transferred and obligated for Operations activities. The other spending plan provided included total projected Operations funds costs at $1.572 billion, which agreed to appropriated levels; the amounts in this spending plan's cost categories agreed with the other spending plan except that Job Corps center planned costs were $1.001 billion instead of $1.037 billion per the other spending plan. However, of the two

[2] Source: Public Law 112-10, Department of Defense and Full-Year Continuing Appropriations Act, 2011, dated April 15, 2011.
[3] Source: report dated July 29, 2011 from the Job Corps Funds Allocation System (JFAS).

spending plans provided, neither ETA nor OJC was able to confirm if either plan was the initial PY 2011 operations spending plan which included the initial projection of Operations funds costs.

During PY 2011, projected Operations costs rose to approximately $50 million above appropriated levels as of October 2011, including planned Job Corps center costs of $1.050 billion[4]. This increase primarily resulted from $18 million of estimated costs for three Job Corps center contracts which were erroneously excluded from initial projected costs because they were not manually recorded within Job Corps Fund Allocation System (JFAS) before the program year began[5].

By January 2012, the amount of the projected Operations costs overrun was reduced to $41 million. This reduction was primarily caused by a downward adjustment of one Job Corps center's planned Operations costs in the amount of $12 million[5].

In April 2012, an ETA budget analyst who was responsible for Job Corps funds apportionments recognized that insufficient funding existed to continue Job Corps operations based on remaining funding available and expected obligations for the last quarter of the program year. This issue was communicated to and within OJC and eventually communicated to the Assistant Secretary for Employment and Training in April 2012 and to the Secretary of Labor in May 2012. Although we inquired about earlier communications external to OJC related to this issue, DOL was unable to provide evidence as to which management personnel knew about which shortfall amounts noted above prior to April 2012.

In June 2012, ETA transferred $26.2 million from Job Corps CRA funds to the Operations funds and transferred $2.2 million of a $6.6 million reprogramming request submitted by the DOL from the ETA Training and Employment Services appropriation. In addition, OJC initiated cost savings by freezing new enrollments for the month of June 2012. In June 2012, ETA began drafting a memorandum highlighting potential cost savings measures for PY 2012, which was finalized in September 2012.

See Figure 1 below for a summary of the PY 2011 appropriations, projected operating costs, and amounts of projected operating costs in excess of appropriations.

[4] Source: JFAS report dated October 3, 2011.
[5] Source: JFAS report dated March 27, 2013 that showed the adjustments to planned Job Corps center costs.

Figure 1 *(dollars in millions)*

PY 2011 Period	PY 2011 Appropriations	Total Projected Operating Costs	Job Corps Center Contract Projected Costs[6]	Excess of Total Projected Operating Costs over/(under) Appropriations
Spend Plan #1	$1,572	$1,610	$1,037	$38
Spend Plan #2	1,572	1,572	1,001	0
October	1,572	1,622	1,050	50
January	1,572	1,613	1,038	41
June Final[7]	1,600	1,591	Information not available	(9)

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

During our procedures to determine the root cause of the PY 2011 funding shortfall, we requested that ETA provide to us the initial PY 2011 operations spending plan and all updates to the plan during the program year. However, as noted above, ETA was unable to identify for us the initial PY 2011 operations spending plan. To partially address our request, ETA provided two PY 2011 operations spending plans and documentation from June 2012 which noted available funds and projected expenditures.

For PY 2011, ETA did not develop and implement policies and procedures that required the retention of all documentation supporting the PY 2011 operations spending plan.

The Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (the Standards) states:

> Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.

[6] These amounts are included within the Total Projected Operating Costs.
[7] Source: New Core Financial Management System report as of June 30, 2012.

The Standards also states:

> Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties.

Inadequate records of the initial PY 2011 spending plan may have hindered management's ability to properly and consistently monitor actual costs in comparison to planned costs because of an inability to determine initial assumptions and factors for planned costs.

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ETA represented to us that the following corrective actions were taken to address the Job Corps programmatic, budgetary, and managerial issues noted in PY 2011:

- Upon notification of the potential funding shortfall in PY 2011, the Secretary of Labor instituted a managerial oversight process. Regular participants in that process included ETA executive management and representatives from the Office of Chief Financial Officer (OCFO), the Office of the Assistant Secretary for Administration and Management (OASAM), the Office of the Solicitor, and other departmental offices. This process resulted in regularly convened meetings in which budget, contracting, and operational issues bearing on the PY 2011 or 2012 shortfalls were addressed – with objectives ranging from short-term cost savings to longer-term structural changes to the program. These meetings were used to regularly brief the Deputy Secretary on all aspects of the OJC funding situation and remediation efforts.
- The oversight committee instituted or reviewed the following process and management improvements:
    - Increased coordination between OJC, ETA, and the oversight committee and its working bodies.
    - Created a weekly process in May 2012 to generate and review analyses of various cost saving measures and/or cost projections based on potential implementation of the measures for PY 2011 and PY 2012.
    - Initiated and reviewed the development of a comprehensive list of possible administrative and programmatic cost savings efforts organized by implementation timeframe for PY 2012 planning purposes.
    - Instituted investigation into the usefulness and availability of Job Corps Data Center (JCDC) information.

- Integrated JCDC information into cost projections for the PY 2012 Spending Plan in November 2012.
- Initiated development of a cost characteristic analysis in preparation of developing a cost prediction model.
- Initiated and reviewed the development of an on-board strength-based cost prediction model for use in budgeting and cost savings planning.
- Re-organized the ETA and OJC financial management function into an integrated unit within ETA, the Office of Financial Administration (OFA), headed by a Senior Executive Service level comptroller in August 2012.
- Conducted and published a skill assessment for all DOL financial personnel in September 2012.

Objective 2 — Has Management Implemented a Properly Designed System of Internal Controls over Job Corps Funds and Expenditures, Including Contracting Activities, for Program Year 2012?

To address this objective, we categorized our testing into the following four key areas: policies, procedures, and communication of information; budget execution; data supporting spending projections and monitoring; and monitoring of projected to actual costs. In each of these areas, we identified internal control deficiencies that could adversely affect Job Corps funds and expenditures, including contracting activities.

Policies, Procedures, and Communication of Information

Per the GAO Standards, in implementing the five standards of internal control, “Management is responsible for developing the detailed policies, procedures, and practices to fit their agency’s operations and to ensure that they are built into and an integral part of operations.”

Additionally, the Standards states, “For an entity to run and control its operations, it must have relevant, reliable, and timely communications relating to internal as well as external events. Information is needed throughout the agency to achieve all of its objectives. Program managers need both operational and financial data to determine whether they are meeting their agencies’ strategic and annual performance plans and meeting their goals for accountability for effective and efficient use of resources…Financial information is needed for both external and internal uses. It is required to develop financial statements for periodic external reporting, and, on a day-to-day basis, to make operating decisions, monitor performance, and allocation resources.”

During our audit, we identified the following specific control deficiencies related to policies, procedures, and communication of information:

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

OJC roles and responsibilities include Job Corps program administration, and prior to August 2012, budget and accounting. In addition to OJC, ETA and the OCFO have responsibilities related to the Job Corps program. ETA administers the Job Corps program through the OJC, and as such, has oversight responsibilities in the performance of the program. Additionally, in August 2012, ETA's OFA was created to segregate the Job Corps budget and accounting roles and responsibilities from OJC. The OCFO is responsible for the financial leadership of DOL, and its primary duty is to uphold strong financial management and accountability while providing timely, accurate, and reliable financial information and enhancing internal control.

As noted above, during the period July 1 to November 30, 2012, frequent meetings were held among personnel from OJC, ETA, OCFO, and other DOL offices to address PY 2012 potential funding shortfall and other matters. OJC, ETA, and OCFO personnel stated that during their frequent meetings, potential financial and program risks present in PY 2012 were identified and communicated to appropriate DOL personnel. However, the process conducted in PY 2012 does not appear sustainable or efficient for future periods. While this oversight structure was necessary to resolve the immediate OJC funding issues, no formal, systematic reporting procedures were established based on defined criteria or quantitative thresholds to communicate financial and program risks, including potential funding shortfalls.

Formal, systematic reporting procedures were not developed because the frequent meetings among various DOL personnel noted above provided the information needed at the time to address the immediate PY 2012 potential funding shortfall issues.

The GAO Standards states:

> Management needs to comprehensively identify risks and should consider all significant interactions between the entity and other parties as well as internal factors at both the entitywide and activity level. Risk identification methods may include qualitative and quantitative ranking activities, management conferences, forecasting and strategic planning, and consideration of findings from audits and other assessments.

The Standards also states:

> Because governmental, economic, industry, regulatory, and operating conditions continually change, mechanisms should be provided to identify and deal with any specific risks prompted by such changes.

Without formal, systematic procedures using established criteria or quantitative thresholds to detect potential financial and program risks and identifying appropriate personnel within DOL with which to communicate those risks, all appropriate personnel may not be aware of such risks, and corrective actions to address them may not be implemented in a timely manner.

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

For the period July 1 to November 30, 2012, we found that OFA had not developed any formal policies or procedures and that OCM and OJC maintained minimal policies and procedures that specifically addressed unique aspects of Job Corps activities, such as monitoring over the six Regional Offices and Job Corps contract file maintenance. Additionally, OJC Regional Offices had outdated standard operating procedures that did not accurately reflect current processes or defined roles and responsibilities within DOL associated with Job Corps funds management, contracting, and payment/expenditure activities. The standard operating procedures provided at the Regional Office we visited were created in 2008, referred to DOL's previous financial management system, and did not define new roles and responsibilities of recently created or restructured offices, such as OFA, OCM, and OJC.

ETA, after forming OFA and hiring new staff in the Fall of 2012, focused resources on remediating the effects of the PY 2011 funding shortfall and prioritizing PY 2012 cost saving measures, instead of first developing or updating policies and procedures.

The GAO Standards states:

> …management is responsible for developing the detailed policies, procedures, and practices to fit their agency's operations and to ensure that they are built into and an integral part of operations.

Without adequate up-to-date policies and procedures specific to Job Corps activities, individuals may not be aware of their roles and responsibilities regarding budget development, contracting, and monitoring activities.

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

To determine whether sufficient personnel with correct skill sets are in place, organizations perform formal assessments of human capital resource needs. Although ETA performed informal assessments over human capital resource needs through the analysis of vacant positions in its organizational structure charts, we found that ETA did not perform formal assessments to address the sufficiency of personnel with appropriate skill sets required to achieve strategic goals and mitigate related risks.

ETA stated that a formal assessment of human capital resources needs was not performed because informal estimates were used as an alternate so that resources could be used to establish OFA by August 2012, remediate the effects of the PY 2011 funding shortfall, and prioritize PY 2012 cost saving measures.

The GAO Standards states:

> Only when the right personnel for the job are on board and are provided the right training, tools, structure, incentives, and responsibilities is operational success possible. Management should ensure that skill needs are continually assessed and that the organization is able to obtain a workforce that has the required skills that match those necessary to achieve organizational goals.

Without a formal human capital resource analysis, sufficient resources with proper skill sets may not be allocated to perform the required duties to effectively manage the Job Corps program.

Budget Execution

The Job Corps PY runs from July 1 to June 30. As such, the initial annual spending plans are to be prepared prior to July 1 for the Operations and Construction funds and prior to October 1 for the Administration fund[8]. The ETA OFA Comptroller or Budget Officer[9] is to approve these spending plans, and DOL is to submit them to the Office of Management and Budget (OMB) when requesting apportionments.

Once funds are apportioned, ETA submits allotment requests to the Departmental Budget Center (DBC) and the Office of the Chief Financial Officer (OCFO), which then allot funds and make them available for obligation throughout the PY. ETA apportioned by quarter, as required by OMB, its PY 2012 Operations funds based on prior year history and input from the Job Corps program personnel.

The Job Corps program uses cost reimbursable contracts for the majority (65%[10] in PY 2011) of its operations costs and program requirements. These cost reimbursable contracts include estimated cost clauses which establish an estimate of total costs for obligating funds and set a cost ceiling that contractors cannot exceed without approval from a Contracting Officer (CO). In addition, these contracts include an Availability of Funds clause which establishes a contingency that DOL payments for such contracts depend on the availability of appropriated funds. Projected costs from these contracts

[8] Administration costs, funded with single-year appropriations, are projected on a fiscal year basis unlike other Job Corps costs.
[9] Prior to the creation of ETA OFA in August 2012, the National Director of Job Corps had this responsibility.
[10] Source: PY 2012 Spending Plan dated November 19, 2012, which indicated PY 2011 actual amounts of $1.021 billion cost reimbursable contracts and $1.580 billion total Operations spending.

present an element of unpredictability in the budget development process that must be managed.

As discussed under audit objective #1, OJC originally projected that total Operations fund costs for PY 2011 would exceed appropriations. In PY 2012, OJC also projected that if the Job Corps program continued its normal ongoing operations, it would exceed its appropriation. DOL was aware of the projected shortfall at the beginning of PY 2012 and began evaluating options available to reduce the program scope to within its appropriations. Job Corps Operations funds received appropriations of $1.569 billion for PY 2012, and the Consolidated Appropriations Act, 2012 allows for a 15% transfer of the $104.8 million appropriated for CRA funds, or $15.7 million, for Operations activities[11], if necessary. The initial PY 2012 Operations spending plan was created in June 2012, which was before the start of PY 2012, to indicate projected total operating costs equal to appropriations, because management planned to reduce the program scope to operate within its appropriation. In November 2012, projected costs were updated to $1.633 billion, which was $64.0 million higher than appropriated levels, without accounting for any cost savings measures. See Figure 2 below for a summary of the PY 2012 appropriations, projected operating costs, and amounts of projected operating costs in excess of appropriations through November 30, 2012.

Figure 2 *(dollars in millions)*

PY 2012 Period	PY 2012 Appropriations	Projected Total Operating Costs	Excess of Total Projected Operating Costs over Appropriations
June 2012	$1,569	$1,569	$0
November 2012	1,569	1,633	64

Specifically, we identified the following control deficiencies in budget execution:

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

The initial PY 2012 operations spending plan submitted to OMB included projected costs of $1.569 billion and appropriations of $1.569 billion. As discussed above, ETA personnel indicated that these PY 2012 projected costs were designed to equal appropriations because management planned to reduce the program scope to operate within its appropriation. However, because ETA had not yet completed its plan to sufficiently reduce the program scope, ETA was unable to support key plan assumptions and data source inputs in the initial version of the PY 2012 operations spending plan.

[11] Source: Public Law 112-74, Consolidated Appropriations Act, 2012, dated December 23, 2011.

No formal policies or procedures were implemented to properly document and maintain support for key plan assumptions and data source inputs for the initial version of an operations spending plan. Additionally, ETA personnel stated that they did not dedicate resources to support the initial key plan assumptions and data source inputs in PY 2012 because they knew such assumptions and data source inputs would likely change upon adjusting the program scope.

The GAO Standards states:

> Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.

Without documentation to support key plan assumptions and data source inputs in the initial version of the PY 2012 operations spending plan, management cannot support that Operations costs were projected accurately and appropriately reviewed prior to the beginning of the PY to allow for actions, such as the timely identification and implementation of sufficient cost savings measures, needed to effectively manage Job Corps funds.

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

ETA personnel indicated that Operations funds were apportioned by quarter, as required by OMB, based on prior year history and input from the Job Corps program personnel. However, documentation was not maintained to support an analysis over the PY 2012 Operations quarterly apportionment requests versus the projected operational needs by quarter.

For PY 2012, ETA did not develop and implement policies or procedures to prepare and maintain documentation supporting the determination of each quarterly apportionment request based on an analysis of projected operational needs.

The GAO Standards states:

> Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.

Without support indicating that proper analysis was completed to ensure that quarterly amounts requested for apportionment were based on projected operational needs, funds required to operate the Job Corps program may not be appropriately and efficiently allocated throughout the year.

Data Supporting Spending Projections and Monitoring

Job Corps contracting activities are primarily initiated by OJC Regional Office personnel who communicate with the OFA within ETA to determine if funding is available for Job Corps center contracting. If budgeting for a potential contract is allowed, the OFA budget division creates an Independent Government Cost Estimate (IGCE) which is later used to assist the OCM contracting officers in soliciting and evaluating proposals. Before the creation of OFA in August 2012, available funding was determined by the OJC National Office.

The CORs at the OJC Regional Offices work with COs within OCM in the pre-solicitation through proposal phases of each contract. Once a CO awards a contract, an obligation is recorded in the New Core Financial Management System (NCFMS) by OCM. For cost reimbursable contract awards, obligations are incrementally recorded in NCFMS by OFA for each contract on a quarterly basis. Also, OFA manually records the estimated cost for each contract into JFAS and Job Corps Financial Management System (JC-FMS) for monitoring purposes.

Given the nature of cost reimbursable contracts associated with Operations funds, projected costs are primarily determined based on estimated costs contained in each contract awarded by OCM. OCM utilizes the IGCEs to determine whether initial estimates provided by the contractor are reasonable. These projected costs are manually recorded by OFA and maintained within the JC-FMS and JFAS. Before the creation of OFA, program analysts within OJC manually recorded these projected costs.

Actual reimbursed and unreimbursed costs are manually recorded into JC-FMS by Job Corps center contractors and are reviewed by OJC Regional Office CORs. Actual reimbursed costs are approved by the COR and processed for payment in NCFMS by DOL's OASAM.

During our audit, we identified the following control deficiencies related to data supporting spending projections and monitoring:

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

ETA established a cost policy for developing cost models applied in determining the IGCE used in Job Corps center contracting activities. This policy was dated 1986. ETA did not have procedures in place to monitor this policy and update it to incorporate more current guidance and assumptions based on Job Corps activities since 1986.

ETA did not develop procedures to monitor the policy for developing cost models applied in determining the IGCE and update such policy as personnel believed such guidelines were valid.

The GAO Standards states:

> …management is responsible for developing the detailed policies, procedures, and practices to fit their agency's operations and to ensure that they are built into and an integral part of operations.

The Standards also states:

> Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties.

Without procedures to periodically review and update cost model policies, developed IGCEs may not provide an adequate basis of comparison when assessing acceptable contract award amounts, potentially resulting in the award of more costly contracts than necessary.

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

Data used in supporting Job Corps spending plan projections and monitoring is located primarily in the following three information systems:

- JFAS is OFA's contract financial management system for Job Corps. It contains the actual contract values of all Job Corps' contracts that have been awarded during a program year, records future contract year amounts, and tracks all approved contractual changes and funding throughout the life of each contract.
- JC-FMS is a Job Corps information system for the contractors. The contractors input their approved contract award amounts (budgets) and their actual expenditures related to the execution of the terms of their contracts.
- NCFMS is DOL's financial system of record. It records appropriations, apportionments, allocations, and individual contract obligations and payments. Obligations and payments occur on a daily basis as contract awards and modifications are executed, contractor invoices are processed for payment, and funds are outlayed.

During the first five months of PY 2012, relevant data for Job Corps contracts maintained in three information systems (NCFMS, JFAS and JC-FMS) did not interface, and the ability to perform electronic reconciliations of this data did not exist. ETA personnel stated that manual reconciliations were performed, as needed, over necessary data to assist in analyzing the projected PY 2012 funding shortfall. However, data from these three systems were not formally reconciled on a routine basis.

Resources were not dedicated to design interfaces between NCFMS, JFAS, and JC-FMS. In addition, ETA did not develop and implement formal policies or procedures defining roles and responsibilities and did not have adequate resources to ensure that system-generated data between these systems were properly reconciled on a routine basis and that the reconciliations were sufficiently documented.

The GAO Standards states:

> Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes.

Furthermore, the Standards states:

> Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties.

The lack of appropriate interfaces among systems may lead to inefficient use of resources and increased risk from human error. Without adequate controls to formally reconcile data on a routine basis between the aforementioned systems, data and information used in spending plans and monitoring tools to make program and financial decisions could be incomplete and inaccurate.

Finding 9 — Insufficient Monitoring over Job Corps Contract Vouchers

No formal Job Corps-specific policies and procedures were in place to specify the timing requirements of processing vouchers or to monitor delinquent Job Corps contract vouchers to be received and processed for payment. As part of gaining an understanding of the processes and controls over the data supporting spending projections and monitoring for the period July 1 to November 30, 2012, we noted that a selected voucher was signed by the contractor but was not date stamped as received and processed by the COR until approximately two months later; it was entered into NCFMS five days after COR processing. This unprocessed voucher was identified after the two subsequent numerically-sequenced vouchers had been processed by other authorized certifying officers within the same Regional Office.

The COR was not in the office when this unprocessed voucher was expected to be received, and Regional Office personnel did not properly track or monitor this missing voucher to ensure that it had been received and processed timely.

The GAO Standards states:

> …management is responsible for developing the detailed policies, procedures, and practices to fit their agency's operations and to ensure that they are built into and an integral part of operations.

The Standards also states:

> Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties.

Furthermore, the Standards states:

> Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

Without proper controls over the timely receipt and processing of invoices, expenditures could be recorded in the improper period, and contractors may experience cash flow issues.

Monitoring of Projected to Actual Costs

Each Job Corps center maintains an annual budget, the majority of which is associated with estimated costs per its respective cost reimbursable contract. Job Corps centers submit bi-weekly vouchers for payment of reimbursable costs and submit monthly cost reports within JC-FMS. An OJC Regional Office COR reviews these invoices and cost reports to ensure that actual costs are supported and within the contract budget. The *Job Corps Policy and Requirements Handbook* (PRH) requires the evaluation of variances of planned contract costs to actual contract costs per the monthly cost reports and identifies thresholds per line item cost that require contractor explanations.

During our audit, we identified the following control deficiencies related to monitoring of projected to actual costs:

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

The ETA National Office did not monitor total projected Job Corps contract costs against actual contract costs for the period July 1 through September 30, 2012. Based on review of the monitoring documentation by the National Office over budget to actual Job Corps contract costs in October and November 2012, we noted that no defined thresholds were used to investigate variances and no explanations were documented for such variances.

ETA personnel stated that the contract values and the projected monthly spending submitted for its contracts were not reliable at the start of PY 2012. ETA recognized that the contract values and the resulting projections would change once decisions were made and contract modifications were implemented. As a result, ETA focused budgetary staff resources on the evaluation of contractor proposals for program changes at the beginning of the year. For monitoring performed in October and November 2012, no defined thresholds were utilized and no variance explanations were documented because ETA was using such analysis as part of the continuing decision making process surrounding the PY 2012 financial situation and this information was not considered necessary at the time.

The GAO Standards states:

> Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.

The Standards also states:

> Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties.

Without adequate policies or procedures to monitor budget to actual Job Corps contract costs on a recurring basis at an overall level using defined variance thresholds, spending trends may not be properly analyzed, resulting in an inability to apply timely corrective actions, if needed.

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

As part gaining an understanding of the processes and controls over the monitoring of projected to actual costs for the period July 1 to November 30, 2012, a selected cost report for the month of October totaling approximately $872 thousand identified that 13 of the 29 expense categories either had an actual cost overrun or underrun compared to planned costs that exceeded established variance thresholds of 5 percent or more (plus or minus) of the line item amount budgeted for the entire contract year. The variances ranged from approximately $20 thousand to $134 thousand. For the identified variances above the thresholds, the contractor provided minimal explanations without calculations or other quantitative support. In addition, correspondence between the COR and contractor existed for 2 cost overruns, but 11 remaining cost variances were not addressed. ETA subsequently indicated that 6 of the 13 variance explanations were appropriate and accurate when factoring in a particular Program Instruction Notice; however, the documentation provided in total did not clarify whether the explanations addressed the full variance amount, addressed a minimal portion of the variance, or created a new variance (such as a budget surplus becoming a budget deficit).

Policies and procedures per the PRH did not address the precision of detail required for contractors to explain variances between actual expenses and planned expenses on their cost reports. In addition, outdated Regional Office standard operating procedures did not address how CORs should address cost variances in excess of the established thresholds and how their actions should be documented nor were monitoring controls in place to ensure that CORs were performing these duties properly.

The GAO Standards states:

> …management is responsible for developing the detailed policies, procedures, and practices to fit their agency's operations and to ensure that they are built into and an integral part of operations.

The Standards also states:

> Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties.

Per the PRH Chapter 5: Administration, Appendix 502 regarding the display and evaluation of variances of planned contract costs to actual contract costs:

> Reported variances may occur for a number of reasons, including: (i) erroneous assumptions in the formulation of the budget, (ii) unforeseen events requiring greater or fewer financial resources than anticipated,

> (iii) poorly controlled spending, and/or (iv) internal reporting or computational errors. The identification and analysis of variances may lead to a wide range of corrective actions…

In addition, it states:

> For center operating expense, the cost reports for contract centers will identify budgetary variances by individual cost category on a contract year-to-date basis. A line item variance is simply the difference between planned contract year-to-date cost and the actual contract year-to-date cost.
>
> For individual line items, 01-29, an explanation is required if the variance is 5 percent or more (plus or minus) of the line item amount budgeted for the entire contract year. However, no explanation is required if the dollar amount of the variance for an individual line item represents less than 0.1 percent of the total center operations budget (line 30) for the entire contract year…An explanation is further required whenever the current contract year-to-date total Actual Expense for Center Operations exceeds the Planned Total Expense by an amount equating to 1 percent of the total budget for the current contract year.

Without proper policies and procedures which address the precision of detail required for contractors to explain variances between actual expenses and planned expenses on their cost reports, OJC may not understand the reasons for the variances and be able to address them appropriately.

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RECOMMENDATIONS

We recommend the Assistant Secretary for Employment and Training:

1. Establish necessary criteria and thresholds for detecting potential financial and program risks to be routinely documented and communicated, and identify the appropriate personnel within DOL to receive this periodic information.

2. Develop and implement formal policies and procedures or enhance existing policies and procedures to:

    a. Standardize OJC Regional Office standard operating procedures to reflect current processes and systems and define roles and responsibilities, including deadlines and general timing requirements pertinent to those roles and responsibilities, of OFA, OCM, and OJC;
    b. Define precision of detail required for contractors to explain variances between budget and actual expenses on their cost reports;
    c. Identify required monitoring procedures to ensure that CORs are performing their duties properly;
    d. Establish timing requirements for processing Job Corps vouchers, and monitor delinquent vouchers to be received and processed for payment;
    e. Retain readily available relevant documentation associated with Job Corps funds' processes and controls, including spending plans;
    f. Adequately support and document key plan assumptions and data inputs in initial Operations spending plans;
    g. Analyze and document quarterly apportionment requirements for Operations funds; and
    h. Monitor budget contract costs to actual contract costs at the National Office on a recurring basis using established variance thresholds.

3. Conduct a formal assessment of human capital resources needed for processes and internal controls over Job Corps funds, and periodically update the assessment.

4. Periodically review and update the policy for developing cost models applied in determining the IGCE used in Job Corps center contracting activities to incorporate the use of more current guidance and assumptions.

5. Formally reconcile data on a routine basis between NCFMS, JFAS, and JC-FMS.

6. Evaluate the cost-benefit of creating system interfaces between NCFMS, JFAS, and JC-FMS.

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Appendices

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Appendix A
Background

Job Corps Background[12]

Job Corps is a national residential training and employment program administered by the Department of Labor (DOL) to address the multiple barriers to employment faced by disadvantaged youth throughout the United States. Job Corps provides educational and career technical skills training and support services. Job Corps was originally established by the Economic Opportunity Act of 1964. Current authorization for the program is Title 1, Subtitle C, of the Workforce Investment Act of 1998.

Job Corps is administered by the DOL Employment and Training Administration's (ETA) Office of Job Corps (OJC), under the leadership of the National Director, supported by the National OJC and a field network of six Regional Offices (located in Atlanta, Boston, Chicago, Dallas, Philadelphia, and San Francisco). Education, training, and support services are provided to students at 125 Job Corps center campuses located throughout the United States.

The OJC awards contracts to support a system of primarily residential centers offering basic academic education, career technical training, work experience, and other support to economically disadvantaged youth. Large and small corporations and non-profit organizations manage and operate 97 Job Corps centers under these contractual arrangements. The remaining 28 centers are operated through inter agency agreements between DOL and the U.S. Department of Agriculture. In addition, 25 operators are contracted to provide outreach and admissions and career transition services.

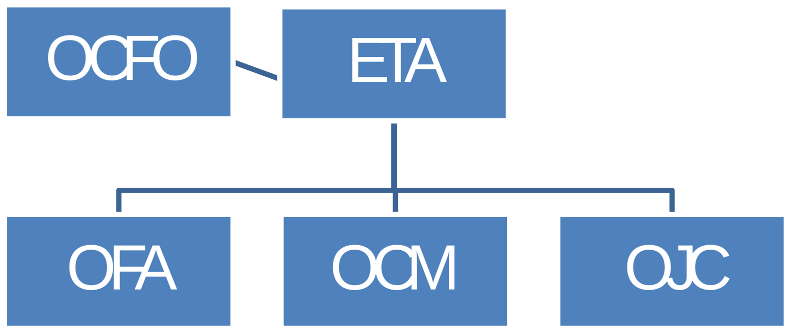
In June 2012, the Office of Inspector General (OIG) was notified by the Secretary of Labor of insufficient funding in the OJC Program Year (PY) 2011 appropriations. DOL requested that the Office of Management and Budget (OMB) transfer $26.2 million from OJC construction funds to its Operation fund to close this funding gap in PY 2011. Furthermore, other financial management issues have been noted in relation to OJC budgeting and accounting areas.

In the June 2012 notification, the Secretary of Labor requested the OIG to perform a review of the internal controls currently in place over decentralized contract operations, both in the regions and at Headquarters, including preventative and detective controls, and that the OIG provide a report of findings with any appropriate recommendations.

[12] Sources: http://www.jobcorps.gov/AboutJobCorps.aspx, http://www.jobcorps.gov/AboutJobCorps/authority.aspx, http://www.jobcorps.gov/AboutJobCorps/programproram_design.aspx, and http://www.jobcorps.gov/AboutJobCorpsAboutJObCorps/program_admin.aspx, pages last updated March 20, 2013; U.S. Department of Labor, Agency Financial Report, Fiscal Year 2011; Memorandum from Hilda L. Solis, Secretary of Labor to Daniel Petrole, Acting Inspector General, *Office of Job Corps Financial Controls*, June 2012.

PY 2012 Organization Chart

The following organization chart represents the primary agencies and offices that have significant roles related to the fund management, contracting, and expense/payment processes of the Job Corps funds.



Funds Management

Job Corps spending plans are developed for all funds including Operations, Construction, Rehabilitation and Acquisition (CRA), and Administration. These spending plans are submitted to OMB when requesting funding for apportionment. Once these funds are apportioned, ETA submits allotment requests to the Departmental Budget Center (DBC) and the Office of the Chief Financial Officer (OCFO), which then allots funds and makes them available for obligation throughout the program year.

Given the nature of cost reimbursable contracts associated with Operations funds, projected costs are primarily determined based on estimated costs contained in each contract awarded by Office of Contract Management (OCM). Therefore, OJC Regional Offices and OFA must monitor and manage these projected costs to ensure that actual costs remain within appropriated levels. In addition, all contracts should be properly recorded and maintained to ensure that all projected costs are captured. These projected costs are manually recorded by Office of Financial Administration (OFA) and maintained within the Job Corps Financial Management System (JC-FMS) and Job Corps Fund Allocation System (JFAS). Before the creation of OFA, program analysts within OJC manually recorded these projected costs.

Actual reimbursed and unreimbursed costs are manually recorded into JC-FMS by Job Corps center contractors and are reviewed by OJC. Actual reimbursed costs are approved by OJC and processed for payment in the New Core Financial Management System (NCFMS) by DOL's Office of the Assistant Secretary for Administration and Management (OASAM).

Contracting Activities

Job Corps contracting activities are primarily initiated by OJC Regional Offices who communicate with OFA to determine if funding is available for Job Corps center contracting. If budgeting for a potential contract is allowed, the OFA budget division creates an Independent Government Cost Estimate (IGCE) which is later used to assist the OCM contracting officers in soliciting and evaluating proposals. Before the creation of OFA in August 2012, the available funding was determined by the OJC National Office. The Contracting Officer Representatives (CORs) at the OJC Regional Offices work with Contracting Officers (COs) within OCM through the pre-solicitation to proposal phases of each contract.

Once a contract is awarded by a CO, an obligation is recorded in NCFMS by OCM. For cost reimbursable contract awards, obligations are incrementally recorded in NCFMS by OFA for each contract on a quarterly basis. Also, OFA manually records the estimated cost for each contract into JFAS and JC-FMS for monitoring purposes.

Payment/Expenditure Processes

Job Corps payment/expenditure processes and internal controls include Job Corps centers submitting bi-weekly vouchers for payment of reimbursable expenses and submitting monthly cost reports within JC-FMS. These invoices and cost reports are reviewed by an OJC Regional Office COR to ensure that actual costs are supported and within the contract budget.

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Appendix B
Objectives, Scope, Methodology, and Criteria

Objectives

We conducted this performance audit to determine the root cause of the Department of Labor's (DOL's) Job Corps Program Year (PY) 2011 funding shortfall which necessitated the $26.2 million budget transfer request during PY 2011 and to determine whether management had implemented a properly designed system of internal controls over Job Corps funds and expenditures, including contracting activities, during the first five months of PY 2012 covering July 1, 2012 through November 30, 2012.

Scope

Our performance audit scope included factors related to the Job Corps PY 2011 funding shortfall and processes and internal controls related to Job Corps funds management, contracting activities, and payments/expenditures during the first five months of PY 2012.

Methodology

To determine the root cause of the PY 2011 funding shortfall which necessitated the $26.2 million budget transfer request in PY 2011, we conducted interviews with key management personnel and reviewed documentation. During our work over the first five months of PY 2012, we reviewed existing policies and procedures, performed walkthroughs at the National Office and one of six Regional Offices, and selected nonstatistical samples for testing, to assess DOL's design and implementation of internal controls over Job Corps funds and expenditures using the Government Accountability Office's (GAO) *Standards on Internal Control in the Federal Government* as criteria.

Criteria

GAO's *Standards on Internal Control in the Federal Government GAO/AIMD-0021.3.1,* dated November 1999.

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Appendix C
Acronyms and Abbreviations

CO	Contracting Officer
COR	Contracting Officer Representative
CRA	Construction, Rehabilitation and Acquisition
DBC	Departmental Budget Center
DOL	United States Department of Labor
EPS	E-Procurement System
ETA	Employment and Training Administration
GAO	Government Accountability Office
IGCE	Independent Government Cost Estimate
JCDC	Job Corps Data Center
JFAS	Job Corps Fund Allocation System
JC-FMS	Job Corps Financial Management System
NCFMS	New Core Financial Management System
OASAM	Office of the Assistant Secretary for Administration and Management
OCFO	Office of the Chief Financial Officer
OCM	Office of Contracts Management
OFA	Office of Financial Administration
OIG	Office of Inspector General
OJC	Office of Job Corps
OMB	Office of Management and Budget
PRH	Job Corps Policy and Requirement Handbook
PY	Job Corps Program Year
SOP	Standard Operating Procedure

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Appendix D
Employment and Training Administration Response to Draft Report

U.S. Department of Labor 200 Constitution Avenue NW
Washington, DC 20210

MAY 24 2013

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

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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

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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

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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 contactor cost reports to ensure that ETA is able to address them appropriately.

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