AUDIT OF
MANAGEMENT AND TRAINING CORPORATION
INDIRECT COST RATE PROPOSAL

FOR THE YEAR ENDED DECEMBER 31, 1999

U.S. DEPARTMENT OF LABOR
OFFICE OF INSPECTOR GENERAL

REPORT NO: 02-01-211-03-370
DATE: July 24, 2001

TABLE OF CONTENTS

ACRONYMS

CAS	Cost Accounting Standards
CFR	Code of Federal Regulations
CY	Calendar Year
FAR	Federal Acquisition Regulations
JCC	Job Corps Centers
MTC	Management and Training Corporation

EXECUTIVE SUMMARY

The U.S. Department of Labor, Office of Inspector General, conducted an audit of Management and Training Corporation's (MTC) final indirect cost proposal for Calendar Year (CY) 1999. The audit objective was to determine if indirect costs of $14,628,218 were reasonable, allocable, and allowable in accordance with applicable cost principles. Of the $14,628,218 indirect costs, $10,553,680 or 72 percent was allocated to Job Corps.

MTC, a for-profit company, was founded in 1980. During CY 1999, MTC received total revenue of $286 million. Of this amount, $216 million or 76 percent was provided by the Office of Job Corps to operate 22 Job Corps Centers (JCC) and one job training and placement program. Each JCC has a contractual indirect cost rate ceiling, which ranges from 5.85 to 6.30 percent.

Audit Results

Overall costs claimed by MTC were reasonable, allocable, and allowable. However, we question $94,932 of indirect costs claimed which included compensation and center directors' car allowance of $85,449 recorded as indirect costs that should be reclassified as non-reimbursable direct costs and added to the base. As a result, the proposed indirect cost rate for CY 1999 should be reduced from 5.87 to 5.81 percent, as shown below:

	Proposed	Questioned	Per Audit
Allocated Indirect Costs	$10,553,680	$94,932	$10,458,748
Direct Cost	$179,889,423	($85,449)	$179,974,872
Indirect Cost Rate Percentage	5.87		5.81

Questioned indirect costs of $94,932 are summarized below:

- We question $73,770 representing Job Corps' share of executives' compensation that exceeded the statutory salary ceiling of $125,900.

- We question $8,170 representing Job Corps' share of the JCC directors' car allowance that should have been allocated directly to the JCC based on benefits received.

- We question $9,008 representing Job Corps' share of audit fees related to the Corrections program. This service only benefited MTC's Correction program and, therefore, should not be allocated to the Job Corps program.

- We question $3,984 representing Job Corps' share of unallowable costs consisting of $3,421 for a golf outing and alcoholic beverages, and $563 for preparation of a gift tax return.

Recommendation

We recommend that the Assistant Secretary for Employment and Training ensures that MTC apply a revised indirect cost rate of 5.81 percent to the direct costs of its JCC (Exhibit B) and amend its billings accordingly.

Management and Training Corporation Response

The Senior Vice President responded to our draft report on July 2, 2001. He agreed with our findings and questioned indirect costs of $34,346 for executive compensation ($13,184), JCC directors' car allowance ($8,170), costs other than JC ($9,008) and unallowable costs of ($3,984). However, he disagreed with $60,586 of the car allowance included in executive compensation.

MTC's response to the draft report has been incorporated in the report with our comments. It is also included in its entirety as an Appendix.

INTRODUCTION

BACKGROUND

Job Corps was established in 1964 and is presently authorized under Title I, Subtitle C of the Workforce Investment Act of 1998. The overall purpose of the program is to provide economically disadvantaged youth with the opportunity to become more responsible, employable citizens. With annual funding of over $1 billion, Job Corps is the largest Federal youth employment and training program. Operations of the program are carried out mostly at residential centers where students participate in intensive programs of academic training, vocational training, work experience, and counseling.

MTC, a for-profit company, was founded in 1980. During CY 1999, MTC received total revenue of $286 million. Of this amount, $216 million or 76 percent was provided by the Office of Job Corps to operate 22 JCCs and one job training and placement program.

For CY 1999, MTC proposed an indirect cost rate of 5.87 percent, to be applied to total direct costs (excluding government reimbursable capital expenditures), as shown below:

Indirect Cost Pool	$ 10,553,680
Job Corps Direct Costs	$179,889,423
Indirect Cost Rate Percentage	5.87

Each Job Corps Center has a contractual indirect cost rate ceiling which ranges from 5.85 percent to 6.31 percent. The maximum allowable indirect cost on the contract is the ceiling rate or the computed rate, whichever is lower.

Center	Ceiling Rate	Center	Ceiling Rate
Atlanta	6.00	Hawaii	5.90
Atterbury	6.30	Inland	5.93
Cascades	6.00	Keystone	5.93
Charleston	6.00	Kittrell	5.93
Chicago	5.93	Philadelphia	5.93
Cincinnati	5.85	Potomac	5.93
Clearfield	6.00	Red Rock	6.31
Cleveland	6.00	Sierra	5.93
Dayton	5.93	Springdale	5.92
Denison	5.85	Tongue Point	5.85
Flint Hills	5.93	Turner	5.93

AUDIT OBJECTIVE

The audit objective was to determine if indirect costs claimed for CY 1999 were reasonable, allocable, and allowable in accordance with applicable cost principles. The cost principles set forth in the Federal Acquisition Regulations (FAR), Cost Accounting Standards (CAS) and Code of Federal Regulations (CFR) were used as criteria in evaluating the allowability of costs claimed.

AUDIT SCOPE and METHODOLOGY

We audited CY 1999 indirect costs of $10,553,680 allocated to the Job Corps program. We examined the general ledger, financial statements, and other supporting documentation including vouchers and invoices. We tested expenditures using a combination of random and judgmental sampling techniques to test individual account transactions.

Direct costs of $179,889,423, which were used as the base to compute the indirect cost rate, were not audited. Nonetheless, direct costs were amended as a result of our audit by reclassifications from the indirect cost pool.

We obtained an understanding of the internal controls through inquiries with appropriate personnel, inspection of relevant documentation, and observation of MTC's operation. The nature and extent of our testing were based on a risk assessment.

The audit was performed using criteria we considered relevant. Criteria included the CFR Title 20, and the Federal contract cost principles set forth in FAR, Part 31. Also, other requirements in the current contract were used as criteria in evaluating the allowability of claimed costs.

We conducted our audit in accordance with generally accepted auditing standards and standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted fieldwork from March 12, 2001 to March 29, 2001, at MTC's corporate office located in Ogden, UT. Audit results were discussed with MTC's management at an exit conference on March 29, 2001.

FINDING AND RECOMMENDATION

QUESTIONED INDIRECT COSTS - $94,932

Overall costs claimed by MTC were reasonable, allocable, and allowable. However, we question $94,932[1] of indirect costs claimed, which included compensation and center directors' car allowance of $85,449 recorded as indirect costs that should be reclassified as non-reimbursable direct costs and added to the base. As a result, the proposed indirect cost rate for CY 1999 should be reduced from 5.87 to 5.81 percent, as shown below:

	Proposed	Questioned	Per Audit
Allocated Indirect Costs	$10,553,680	$94,932	$10,458,748
Direct Cost	$179,889,423	($85,449)	$179,974,872
Indirect Cost Rate Percentage	5.87		5.81

Questioned costs of $94,932 are presented below:

Description	Amount
Executive Compensation	$73,770
Car allowances	8,170
Cost - Other than Job Corps	9,008
Unallowable Costs	3,984
Total	$94,932

[1] This amount represents Job Corps portion of total questioned costs. The percentages allocated to Job Corps depended on the cost pool allocated. For cost pools I, II and III, the Job Corps percentages were 75.06, 99.43 and 98.43 percent, respectively.

Executive Compensation

Seven executives of MTC received compensation which exceeded Job Corps statutory salary ceiling of $125,900. This occurred because MTC did not include employer contributions to a defined contribution pension plan and monthly car allowances paid to MTC executives as compensation. As a result, we question $73,770 representing Job Corps share of executive compensation of $77,149 in excess of the ceiling. Public Law 105-277, Statute 2681-346, Sec. 101 states:

> *None of the funds appropriated in this title for the Job Corps shall be used to pay the compensation of an individual, either as direct costs or any proration as an indirect cost, at a rate in excess of Executive Level III.*[2]

FAR 31.205-6(p)(2)(i) states:

> *Compensation means total amount of wages, salary, bonuses, deferred compensation (see paragraph (k) of this subsection), and employer contributions to defined contribution pension plans (see paragraphs (j)(5) and (j)(8) of this subsection) for the fiscal year, whether paid, earned, or otherwise accruing, as recorded in the contractors cost accounting records for the fiscal year.*

MTC voluntarily excluded executive salaries in excess of Job Corps' statutory salary ceiling of $125,900. However, compensation for employer contributions to a defined contribution pension plan and monthly car allowances paid to MTC executives were not excluded. Car allowances paid to MTC executives should have been included in the total amount of employee compensation, since employees received a set monthly allowance of $1,100, and did not have to document their expenses. Therefore, this is not a reimbursement of expenses, it is additional compensation.

MTC Response

> *We agree that the employer contributions to defined contribution pension plans were inadvertently omitted from the calculation for the limitation of executive compensation. The employer contributions to defined contribution pension plans would have amounted to a total disallowable amount of $13,184 of the $73,770.*
>
> *As far as the remaining amount, which represents car allowances, we believe that the FAR defines what is compensation and what should be included in the limitation of compensation. . . .*
>
> *The FAR is very specific as to what total compensation means in reference to this paragraph of the limitation of compensation. It does not include car allowances paid as an item to be included in the limitation. We agree that car allowances are compensation*

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[2] The CY 1999 Executive Level III annual salary was $125,900.

and would be an item that would be included as compensation as noted in paragraph (a) where compensation is defined and begins "It includes, but is not limited to, "and then gives a listing of various types of compensation. However, paragraph (p)(2) states "As used in this paragraph:" then goes farther to specifically define the limitations on the what compensation is to be limited. We believe that we properly excluded the car allowances from the limitation according to the FAR. Our premise is that car allowances are compensation, but not a limited compensation for the purposes of the noted paragraph and should be allowed. This would result in a difference with the finding of $60,586. . . .

OIG Comment

We do not agree. These funds were provided to certain executives and were included as wages on the employees' Form W-2, Wage and Tax Statements. Although classified as "Car Allowances" on MTC's books, the compensation was not a reimbursement of actual expenses, but additional employee wages.

JCC Directors Car Allowances

One month of car allowances of $8,300 paid to nine JCC directors were allocated to the indirect cost pool. Car allowances of JCC directors directly benefit the JCC and should be directly charged to the specific contract. As a result, we question $8,170 representing Job Corps' share (98.43 percent) of the $8,300 charged. FAR 31.202 (a) states:

. . . . *Costs identified specifically with the contract are direct costs of the contract and are to be charged directly to the contract. . . .*

MTC Response

We agree that the amount was improperly included for one month. It should be noted that this was an oversight and only occurred for that one month when the individual that normally does this work was out on leave.

Costs - Other than Job Corps

MTC allocated a fee paid to the accounting firm KPMG Peat Marwick for preparing financial statements for the Correction's program. The audit fee was exclusively for another program and did not benefit the Job Corps program. Therefore, this cost should have been allocated to the Corrections program based on benefits received. As a result, we question $9,008 representing Job Corps' share (75.06 percent) of $12,000 in accounting fees included in the indirect cost pool. FAR 31.202(a) states:

A direct cost is any cost that can be identified specifically with a particular final cost objective. . . . All costs specifically identified with other final cost objectives of the contractor are direct costs of those cost objectives and are not to be charged to the contract directly or indirectly.

MTC Response

After reviewing the documentation we are in agreement with the finding.

Unallowable Costs

Unallowable costs of $3,984 representing Job Corps' share (75.06 percent) of $5,308 consisting of $3,630 for a golf outing, $928 for alcoholic beverages and $750 for preparation of an individual gift tax return. As a result we question $3,984. FAR 31.205-14 states:

Costs of amusement, diversions, social activities, and any directly associated costs such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities are unallowable.

Regarding the unallowable cost for alcoholic beverages, FAR 31.205-51 states:

Costs of alcoholic beverages are unallowable.

The unallowable costs for preparation of an individual gift tax return, FAR 31.201-4 states:

A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a Government contract if it: (a) *Is incurred specifically for the contract. . . .*

MTC Response

In reviewing these costs, we were able to determine that the staff did not follow the process in coding the disbursement properly. We agree with this finding.

Recommendation

We recommend that the Assistant Secretary for Employment and Training ensures that MTC apply the revised indirect cost rate of 5.81 percent to direct costs of its JCC (Exhibit B) and amend its billings accordingly.

Exhibit A

Management and Training Corporation
Schedule of Indirect Costs
For Year Ended December 31, 1999

Cost Center	Proposed	Questioned	Per Audit
Executive Office	$671,687	$3,421	$668,266
Finance	1,645,291	9,571	1,635,720
Corps. Info. System	883,002		883,002
Special Services	114,375		114,375
Communications	227,205		227,205
Human Resources	1,391,374	8,726	1,382,648
Internal Audit	140,967		140,967
Risk Management	152,470		152,470
Program Design & Development	319,610		319,610
Contract Administration	469,792		469,792
Training Programs	1,286,044	54,660	1,231,384
Eastern NE Region	613,331		613,331
SE Region Office	746,393		746,393
Central Region Office	725,892		725,892
Job Corps B&P	485,578		485,578
Western Region	680,669	18,554	662,115
Total	$10,553,680	$94,932	$10,458,748

Exhibit B

Management and Training Corporation
Schedule of Direct Costs
For Year Ended December 31, 1999

Contract Number	Center	Direct Costs	Reclassified From Indirect	Revised Direct Costs
13-6-0011-43	Atlanta	$8,210,078		$8,210,078
5-JC-952-18	Atterbury	11,128,568		11,128,568
13-4-0011-43	Brunswick	40,139		40,139
JC-RX-95-01	Cascades	5,593,139		5,593,139
3-JC-546-54	Charleston	7,461,174		7,461,174
5-JC-970-17	Chicago	4,945,269		4,945,269
5-JC-950-39	Cincinnati-Old	1,835,115		1,835,115
5-JC-971-39	Cincinnati-New	3,051,234		3,051,234
JCC-4007-49	Clearfield	22,026,190		22,026,190
5-JC-958-39	Cleveland	6,218,046		6,218,046
5-JC-946-39	Dayton-Old	(30)		(30)
5-JC-965-39	Dayton-New	5,495,321		5,495,321
JCC-3004-19	Denison-Old	5,085		5,085
JCC-8001-19	Denison-New	5,489,375		5,489,375
JCC-5008-20	Flint Hills	4,979,810		4,979,810
EA-001-6-00-15	Hawaii	8,647,031		8,647,031
EA-006-5-00-06	Inland	6,491,443		6,491,443
3-JC-614-42	Keystone	11,059,233		11,059,233
37-7-0005-43	Kittrell	6,217,369		6,217,369
3-JC-654-42	Philadelphia	4,306,570		4,306,570
3-JC-619-11	Potomac	9,906,129		9,906,129
3-JC-555-42	Red Rock	5,598,819		5,598,819
JC-4-22-00033	Shreveport	3,880,038		3,880,038
UNR-6247	Sierra	8,518,609		8,518,609
JC-RX-94-01	Springport / Pivot-Old	3,560,322		3,560,322
JC-RX-98-02	Springport / Pivot-New	939,764		939,764
JC-RX-94-02	Tongue Point	6,227,316		6,227,316
JC-RX-98-01	Tongue Point	2,101,997		2,101,997
13-7-0002-43	Turner	15,296,353		15,296,353
	Non-Reimbursable	659,917	85,449	745,366
	Total Direct Costs	$179,889,423	$85,449	$179,974,872