

## BRIEFLY...

Highlights of report number 26-14-002-03-370, issued to the Assistant Secretary for Employment and Training.

### WHY READ THE REPORT

Federal regulation established the ostensible subcontractor rule to prevent large businesses from using small businesses to evade the Small Business Administration's (SBA) small business size requirements for federal procurements. This report highlights 4 Job Corps center operator contracts where small business prime contractors, Alutiiq Education and Training (AET) and Alutiiq Professional Services (APS), and their large business subcontractor, ResCare, Inc. (ResCare), appeared to have violated the ostensible subcontractor rule. As a result, up to \$126.5 million in government funds set aside for small businesses may not have been used as intended. Additionally, this report highlights instances where ResCare, as a prime contractor, did not comply with the Federal Acquisition Regulation (FAR) and its own procurement policies when it awarded subcontracts and made purchases at the centers it operated.

### WHY OIG CONDUCTED THE AUDIT

We conducted this audit due to the procurement risks associated with a prior SBA determination of an ostensible subcontracting violation involving ResCare, as well as to follow up on a Fiscal Year 2012 OIG audit that substantiated an anonymous complaint regarding ResCare's procurement practices. We performed work to answer the following question:

Did the practices of ResCare and the prime contractors it performed work for comply with federal procurement regulations?

### 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/2014/26-14-002-03-370.pdf>.

September 24, 2014

## JOB CORPS CONTRACTOR AND DOL PROCUREMENT PRACTICES NEED IMPROVEMENT

### WHAT OIG FOUND

ResCare and its prime contractors did not always comply with federal procurement regulations.

ResCare appeared to be an ostensible subcontractor to 2 small business contractors for their small business set-aside prime contracts to operate the Bamberg, Cleveland, Westover, and Northlands Job Corps Centers. We found significant potential existed that: ResCare performed the primary and vital contract requirements at these 4 centers; the small businesses were unusually reliant on ResCare to operate the centers; and that together, ResCare and the small businesses circumvented the rule established to ensure small businesses could compete fairly for the small business set-aside contracts. We also found that the U.S. Department of Labor (DOL) did not have the processes and controls to carefully consider ResCare's relationship with the small businesses when awarding the prime contracts, as required by federal regulation.

Additionally, we determined that ResCare, as a prime contractor, did not always comply with the FAR and its own procurement policies when awarding subcontracts and purchase orders at the centers it operated. Significant deficiencies included soliciting and awarding subcontracts without competitive bidding and open competition, splitting purchases to fall under a monetary threshold that required competition or sole-source justification, and making purchases without obtaining required prior approvals.

### WHAT OIG RECOMMENDED

In summary, we recommended the Assistant Secretary for Employment and Training refer the small business set-aside contracts we identified to SBA for review and guidance on corrective action, if warranted; develop procedures and provide training to ensure each small business set-aside contract is free of potential violations of affiliation rules, conduct its planned procurement system review for ResCare in Fiscal Year 2015; and develop procedures to ensure ResCare complies with its own center operator contract provisions and procurement policies and procedures.

AET and APS disagreed with our conclusion that they appeared to have violated the ostensible subcontractor rule. However, ResCare and DOL agreed with our audit results and recommendations, and stated that they had either taken or planned to take corrective actions to address the issues identified in this report.