AUDIT OF
MINACT, INC.

FOR THE YEAR ENDED
SEPTEMBER 30, 1999

This audit was performed by Harper, Rains, Stokes & Knight, P.A., CPAs, under contract to the Office of Inspector General, and by acceptance, it becomes a report of the Office of Inspector General.

/S/

Deputy Inspector General for Audit

U.S. DEPARTMENT OF LABOR
OFFICE OF INSPECTOR GENERAL

REPORT NO:02-02-203-03-370
DATE: January 30, 2002

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ACRONYMS

CFR	Code of Federal Regulations
DOL	U.S. Department of Labor
ETA	Employment and Training Administration
FAR	Federal Acquisition Regulation
FY	Fiscal Year
JCC	Job Corps Center
OASAM	Office of the Assistant Secretary for Administration and Management
OCD	Office of Cost Determination
OIG	Office of Inspector General, U.S. Department of Labor
PRH	Job Corps Policy and Requirements Handbook

EXECUTIVE SUMMARY

Harper, Rains, Stokes & Knight, P.A., under contract to the Department of Labor (DOL), Office of Inspector General (OIG), conducted an audit of costs claimed by Minact, Inc. (Minact) for Fiscal Year (FY) 1999. The audit objective was to determine if costs claimed were reasonable, allocable and allowable in accordance with the Job Corps Policy and Requirements Handbook (PRH) and applicable Federal regulations.

Minact is a privately owned, for-profit corporation located in Jackson, Mississippi. During FY 1999, Minact received total revenue of $53.8 million. Of this amount, $53 million, or 99 percent, was provided by the Office of Job Corps to operate eight Job Corps Centers (JCC). Minact submitted a final indirect cost rate of 7.7 percent. Each JCC has a contractual indirect cost rate ceiling, which ranged from 6.6 to 7.5 percent. The maximum allowable indirect costs for each contract is the ceiling rate or the computed rate, whichever is lower.

Audit Results

In our opinion, except for questioned costs, the *Consolidated Schedule of Net Center Operation Expense Categories* (Exhibit A) presents fairly, in all material respects, the results of Minact's operations in accordance with PRH and applicable Federal regulations. The audit resulted in $100,348 of questioned indirect costs claimed. As a result, the proposed indirect cost rate for FY 1999 should be reduced from 7.7 to 7.5 percent as shown below:

	Proposed	Questioned	Per Audit
Allocated Indirect Costs (Exhibit B)	$3,367,304	$100,348	$3,266,956
Job Corps Direct Costs (Exhibit C)	$43,757,786		$43,757,786
Indirect Cost Rate	7.7%		7.5%

Questioned indirect costs of $100,348 are summarized below:

- We question $48,767 representing Job Corps' share of executive compensation in excess of the statutory ceiling of $125,900.

- Minact did not properly allocate depreciation and other vehicle expenses between personal and business use. We question $36,249, representing Job Corps' share of vehicle expenses for personal use.

- We question $15,332 of other costs, primarily due to costs charged in the wrong period and building improvements which should have been capitalized and depreciated.

In addition, we identified reportable internal control and compliance conditions which include physical inventory counts, purchase authorization, allocation of salaries, and regional wage surveys.

Minact Response

The Senior Vice President of Finance responded to our draft report on October 24, 2001. He agreed with the reportable conditions and questioned indirect costs of $40,977 for company owned vehicle and building improvements. However, he disagreed with $59,371 of questioned indirect costs.

Based on the additional documentation provided by Minact, we have reduced questioned indirect costs as presented in the draft report by $97,670. Minact'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.

Recommendations

We recommend that OASAM's Office of Cost Determination (OCD) ensure that Minact applies the revised indirect cost rate of 7.5 percent to direct costs of its Job Corps Centers (Exhibit C) and amends its billings accordingly.

We also recommend that the Assistant Secretary for Employment and Training ensure that Minact assigns inventory counts to an employee not responsible for maintaining inventory records and maintains a quarterly record of inventory counts, requires proper authorization of expenditures prior to payment, provides documentation to support the basis for its salary allocation plan, and conducts regional wage surveys for corporate staff salaries.

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.

Minact is a privately owned, for-profit corporation located in Jackson, Mississippi. During FY 1999, Minact's total revenues were $53.8 million. Of this amount, $53 million, or 99 percent, was provided by the Office of Job Corps to operate eight JCCs.

For FY 1999, Minact proposed an indirect cost rate of 7.7 percent. This rate was applied to total direct costs (excluding government reimbursable capital expenditures), as shown below:

Allocated Indirect Cost Pool (Exhibit B)	$3,367,304
Job Corps Direct Costs (Exhibit C)	$43,757,786
Indirect Costs Rate	7.7%

Each JCC has a contractual indirect cost rate ceiling which ranged from 6.60 to 7.50 percent. The maximum allowable indirect cost on the contract is the ceiling rate or the computed rate, whichever is lower.

Center	Dates	Ceiling Rate	Center	Dates	Ceiling Rate
Batesville	10/1/98-9/30/99	6.61%	Grand Rapids	10/1/98-5/31/99	6.61%
Burdick	10/1/98-4/30/99	6.61%	Grand Rapids	6/1/99-9/30/99	7.46%
Burdick	5/1/99-9/30/99	7.46%	Memphis	10/1/98-4/30/99	6.90%
Excelsior Springs	10/1/98-6/30/99	7.00%	Memphis	5/1/99-9/30/99	7.20%
Excelsior Springs	7/1/99-9/30/99	7.50%	St. Louis	10/1/98-9/30/99	6.91%
Gadsden	10/1/98-9/30/99	6.60%	Shreveport	9/1/99-9/30/99	7.46%

AUDIT OBJECTIVE

The audit objective was to determine if costs claimed for FY 1999 were reasonable, allocable and allowable in accordance with the Job Corps Policy and Requirements Handbook, Chapter 9, Financial Management; Code of Federal Regulations (CFR) Title 20; and Federal contract cost principles set forth in the Federal Acquisition Regulation (FAR), Part 31.

AUDIT SCOPE AND METHODOLOGY

We audited Minact's direct costs of $43,757,786 and indirect costs of $3,367,304 allocated to the Job Corps program.

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

For direct costs, we examined center operation expenses, public vouchers, general ledgers and supporting documentation including vouchers and invoices. We used monetary unit and judgmental sampling techniques to test individual account transactions. We tested $8,197,839 or 19 percent of the direct center costs base of $43,757,786. We did not audit performance measurements of Minact.

For indirect costs claimed, we examined corporate operation expenses, general ledgers and supporting documentation. We used monetary unit and judgmental sampling techniques and analytical procedures to test individual account transactions. We audited $1,981,273 or 59 percent of reported indirect costs of $3,367,304 allocated to the Job Corps program.

The audit was performed using criteria we considered relevant. Criteria included the Job Corps Policy and Requirements Handbook, Chapter 9, Financial Management; Code of Federal Regulations Title 20; Federal contract cost principles set forth in the Federal Acquisition Regulation, Part 31. Also, requirements of the contracts were used as criteria in evaluating the allowability of claimed costs.

We conducted our audit in accordance with generally accepted auditing standards and those applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted fieldwork from October 2, 2000 to December 18, 2000, at Minact's headquarters located in Jackson, MS, and at two JCCs, St. Louis and Excelsior Springs. Audit results were discussed with Minact's management on January 23, 2001.

Mr. John J. Getek
Deputy Inspector General for Audit
Office of Inspector General
U.S. Department of Labor
200 Constitution Avenue, N.W., Room S5022
Washington, D.C. 20210

INDEPENDENT AUDITOR'S REPORT

We audited the accompanying *Consolidated Schedule of Net Center Operation Expense Categories* (Exhibit A) for the period October 1, 1998 through September 30, 1999, under the U.S. Department of Labor (DOL) Job Corps Contracts (Exhibit C). The costs claimed are the responsibility of Minact's management. Our responsibility is to express an opinion on the reported costs, including final indirect costs, based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether reported costs are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the costs claimed. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall presentation of the costs reported. We believe our audit provides a reasonable basis for our opinion.

The *Consolidated Schedule of Net Center Operation Expense Categories* (Exhibit A) was prepared in conformity with accounting practices prescribed by the *Job Corps Policy and Requirements Handbook, Chapter 9, Financial Management* which is a comprehensive basis of accounting other than generally accepted accounting principles. Allowable costs are established by Federal regulations.

Opinion on Financial Statement

As discussed in the *Findings and Recommendations* section of this report, Minact's weaknesses in its cost allocation system resulted in questioned indirect costs of $100,348. ETA and OCD are responsible for resolving these questioned costs. The total effect of their determinations cannot be estimated at this time.

In our opinion, except for the questioned costs (discussed in the *Findings and Recommendations* section of this report), the *Consolidated Schedule of Net Center Operation Expense Categories* (Exhibit A) presents fairly, in all material respects, Minact's operations in accordance with the Job Corps Policy and Requirements Handbook and applicable Federal regulations for the year ended September 30, 1999.

Report on Internal Control

In planning and performing our audit, we considered Minact's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on reported costs and not to provide assurances on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Minact's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the *Findings and Recommendations* section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable conditions described in the *Findings and Recommendations* section are material weaknesses.

Report on Compliance with Laws and Regulations

Compliance with laws, regulations and contract agreement provisions is the responsibility of Minact. As part of obtaining reasonable assurance about whether the costs claimed are free of material misstatement, we performed tests of Minact's compliance with certain provisions of laws, regulations and contracts. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the *Findings and Recommendations* section of this report.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the costs claimed by Minact as a whole for the period October 1, 1998 through September 30, 1999. The accompanying *Schedule of Reported and Questioned Indirect Costs* (Exhibit B) and *Schedule of Direct Operating Costs Base Used for Computing Indirect Cost Rate by Center* (Exhibit C), are presented for the purpose of additional analysis. Such information has been subjected to the auditing procedures applied in the audits of direct and indirect costs, and, in our opinion, is fairly stated in all material respects, in relation to the direct expenses and indirect costs taken as a whole.

This report is intended solely for the information and use of Minact, ETA and OCD, and is not intended to be and should not be used by anyone other than these specified parties.

December 18, 2000

FINDINGS AND RECOMMENDATIONS

I. QUESTIONED INDIRECT COSTS - $100,348

Overall, indirect costs of $3,367,304 (Exhibit B) claimed by Minact were reasonable, allocable and allowable. However, we question $100,348 primarily as a result of excess executive compensation, personal use of company vehicles, and other unallowable costs as summarized below:

Category	Indirect Costs
Excess Executive Compensation	$48,767
Company Owned Vehicles	36,249
Prepaid Conference Costs	6,349
Building Improvements	4,728
Legal Costs	4,255
Total	**$100,348**

As a result, the indirect cost rate for FY 1999 should be reduced from 7.7 to 7.5 percent as shown below:

	Reported	Questioned	Per Audit
Allocated Indirect Cost (Exhibit B)	$3,367,304	$100,348	$3,266,956
Job Corps Direct Cost Base (Exhibit C)	$43,757,786	-	$43,757,786
Indirect Cost Rate	7.7%		7.5%

Excess Executive Compensation

An executive of Minact received a salary of $175,830 which exceeded Job Corps statutory salary ceiling of $125,900 by $49,930. As a result, we question $48,767 representing Job Corps' share of executive compensation 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 [$125,900 for 1999].

Minact Response

> *. . .   The* <u>*cash*</u> *salary received by this executive is less than $125,900. The auditors have incorrectly interpreted the definition of compensation to include amounts deferred to a retirement plan set up for individuals whose participation in the company 401k plan are limited by the terms of the 401k plan.*
>
> *The public law cited defines "compensation" to include more than salary. Furthermore, Job Corps defined the ceiling to be "cash salary and bonus" only and applied the Executive Level III limit on salary only, which was $125,900 for 1999. For the auditors to redefine the term "compensation" with a different result from what the Office of Job Corps specified in RFPs is inconsistent and any discrepancy should be addressed with the Office of Job Corps not MINACT.*
>
> *In addition the audit report arbitrarily excludes the full definition of the term "compensation."   The total compensation of the Executive Level III position is the limit established by the law not the cash salary amount of $125,900.*
>
> *MINACT should not be penalized for accepting the clear direction of the Office of Job Corps to limit* <u>*cash payments*</u> *charged to the government to the* <u>*cash salary*</u> *of the Executive Level III position. . . .*

OIG Comment

It is unreasonable to characterize deferred compensation as employee benefits when the employee has the option of receiving the compensation in cash or including the compensation in the deferred compensation plan. For instance, an employee's contribution to a 401K plan would still be considered part of cash compensation. An employer matching or profit-sharing contribution would qualify as employee benefits. The amount questioned does not include employer matching or profit-sharing contributions. Therefore, the salary payment in excess of the Executive Level III amount of $125,900 represents an unallowable charge to Job Corps.

Company Owned Vehicles

Minact did not properly allocate depreciation and other vehicle expenses totaling $99,775 between personal and business use. We analyzed all of the auto mileage logs submitted by employees and determined that 45.87 percent, or $45,767 of auto usage was personal. Minact had previously excluded $8,653 of vehicle expenses for personal use. As a result, an additional $37,114 ($45,767 less $8,653) of vehicle expenses should have been excluded by Minact. We question $36,249, representing Job Corps' share of vehicle expenses for personal use. FAR 31.205-6(m)(2) states:

That portion of the cost of company-furnished automobiles that relates to personal use by employees (including transportation to and from work) is unallowable regardless of whether the cost is reported as taxable income to the employees.

Minact Response

We concur with this finding. The accounting for this item was done correctly in prior years and was an error that will not be repeated.

Prepaid Conference Costs

A deposit of $6,500 for a corporate leadership conference held in FY 2000 was included in the indirect cost pool for FY 1999. As a result, we question $6,349 representing Job Corps' share of prepaid corporate leadership conference costs. FAR 31.203(e) states:

A base period for allocating indirect costs is the cost accounting period during which such costs are incurred and accumulated for distribution to work performed in that period.

Minact Response

We disagree with this finding. As a cost saving measure the leadership conference for Job Corps Center management is held biennially and as a result benefits accrue to both years. The deposit was necessary and was clearly an incurred cost for the FY99. There is no advantage to the government to move this cost to the subsequent year.

OIG Comment

The payment was made and expended in 1999 for a conference to be conducted in 2000. Since there was no benefit received during FY 1999, there can be no cost. Therefore, this prepaid conference costs is an unallowable cost for FY 1999.

Building Improvement

Minact included building improvement costs of $4,841 that should have been capitalized and depreciated annually over the useful life of the asset in its indirect costs pool. As a result, we question $4,728 representing Job Corps' share of building improvements. FAR 31.205-11(a) states:

Depreciation is a charge to current operations which distributes the cost of a tangible capital asset, less estimated residual value, over the estimated life of the asset in a systematic and logical manner.

Minact Response

We concur with this finding. The initial entry was made based on the lease agreement.

Legal Costs

Legal costs incurred and not accrued during FY 1998 were included in the FY 1999 indirect cost pool. As a result, we question $4,255 representing Job Corps' share of legal costs. FAR 31.203(e) states:

A base period for allocating indirect costs is the cost accounting period during which such costs are incurred and accumulated for distribution to work performed in that period.

Minact Response

We disagree with this finding. Although the dates of the service may have been FY98 the invoice for the service was not submitted to accounting until February 1999, five months after the end of the fiscal year. Since the attorney did not report his services to our outside auditors during year end inquiries, there was no basis for an accrual. There is no advantage to the government to move this cost to the prior year.

OIG Comment

Minact should have a payable system that properly accrues all expenses at year end. Legal costs not accrued as of FY 1998 should not be allowed in FY 1999.

Recommendation

We recommend that OASAM's Office of Cost Determination ensure that Minact applies the revised indirect cost rate of 7.5 percent to direct costs of its Job Corps Centers (Exhibit C) and amends its billings accordingly.

II. REPORTABLE CONDITIONS

Inventory Internal Controls

Minact's Center Accounting Manual states:

The physical inventory count must be conducted and/or observed by staff members not having primary responsibility for maintaining perpetual records.

> *. . . a physical inventory count be conducted at the end of each quarter. The results of the inventory count are to be forwarded to the center finance department and the corporate office within two days following the inventory count. . .*

Physical inventory counts for FY 1999 at the Excelsior Springs JCC were conducted by an employee whose job included custody of inventory and maintenance of perpetual records. A lack of segregation of duties between inventory custody and maintenance of inventory records is an internal control weakness which can lead to theft and concealment of inventory through employee manipulation of inventory records. In addition, Minact was missing 9 out of 16 quarterly inventory count sheets at four JCCs, as shown below:

Center	Number of Missing Quarterly Count Sheets
Gadsen	3
St. Louis	3
Batesville	2
Grand Rapids	1

Unauthorized Purchases

Minact could not provide evidence of purchase authorization for 24 percent (17 of 71) of expenditures in our sample of non-personnel expenditures for Grand Rapids, Batesville, Gadsden and Memphis JCCs.

Minact policy requires authorization and approval by the JCC finance manager of expenditures prior to payment. For the instances noted, the approval would have been made through Minact Inc.'s automated purchasing system. However, the system was unable to provide evidence of the appropriate authorization for expenditures prior to payment. This weakness in application of a designed control procedure could result in JCC expenditures exceeding budget amounts or unallowable expenditures.

Salary Allocation

Documentation was not available to support the allocation of salaries for employees who worked on both corporate and JCC activities. Minact allocated two employees' salaries between corporate and center expenses. These allocations were based on estimated hours per week spent on the corporate positions. PRH, Chapter 9, Appendix 901 C.4.b. states:

> *If an employee works in more than one area such as part time in basic education and part time in vocation training,. . . the cost must be allocated to the appropriate categories. The basis for the allocation must be documented in a salary allocation plan explaining the rationale for the allocation.*

Corporate Salary Documentation

Regional wage surveys were not conducted for corporate staff salaries. Minact conducted wage surveys for JCC positions only. The lack of wage surveys resulted in the contractor not having the necessary information to evaluate the reasonableness of corporate salaries. 48 CFR 31.205-6(b) states:

> *The compensation for personal services paid or accrued to each employee must be reasonable for work performed. . . . (1) Among others, factors which may be relevant include general conformity with the compensation practices of other firms of the same size, the compensation practices of other firms in the same industry, the compensation practices of firms in the same geographic area, the compensation practices of firms engaged in predominantly non-Government work, and the cost of comparable services obtainable from outside sources.*

Minact Response

> *We concur with findings of lapses in our procedures for inventory and approvals. We are in transition to a fully automated databased accounting system and our manuals are being updated to describe the electronic procedures in place currently.*
>
> *However, we do not concur that a salary allocation plan based on actual time sheet distribution is a requirement of the PRH, Appendix 901 C.4.b. The rationale for the allocation was documented and reasonable. The recommendation to allocate based on time sheet distribution does not recognize the nature of the work, which includes responding to telephonic or electronic requests from other Job Corps center staff for clarification of technical and system issues. To require the individuals to keep such detailed records is counterproductive and burdensome. We should not be criticized for recognizing the occurrence of such assistance and systematically crediting the contract appropriately.*

We do not concur that a regional salary survey is required for corporate staff compensation. A local survey has little relevance for our company compensation schedules. Many corporate staff transfer from Job Corps centers and salaries are based on what is paid for the direct cost positions. Compensation reasonableness is also confirmed by federal salary schedules. We do not believe that a salary survey is required or necessary to confirm reasonableness.

OIG Comment

We do not agree regarding the salary allocation plan. The finding does not recommend time sheet distribution as stated in Minact's response. Minact should prepare a salary allocation plan documenting the basis for the allocation as required by PRH.

We also do not agree that a regional wage survey has little relevance to the company's compensation schedules. The regulations cited in the above finding do not exclude corporate staff compensation from the requirement that salary surveys be performed.

Recommendations

We recommend that the Assistant Secretary for Employment and Training ensure that Minact:

- Assigns inventory counts to an employee not responsible for maintaining inventory records and maintains a quarterly record of inventory counts.

- Requires proper authorization of expenditures prior to payment.

- Provides documentation to support the basis for its salary allocation plan.

- Conducts regional wage surveys for corporate staff salaries.

Exhibit A

MINACT, INC.
Consolidated Schedule of Net Center Operation Expense Categories
For the Year Ended September 30, 1999

Center Operation Expense Categories	Reported
Educational Personnel	$3,487,418
Other Educational	264,926
Vocation Personnel	3,598,376
Other Vocation	589,171
Social Skills Personnel	8,670,032
Other Social Skills	1,003,114
Food	3,322,301
Clothing	857,225
Support Service Personnel	2,620,875
Other Support Service	833,422
Medical / Dental Personnel	2,656,282
Other Medical /Dental	589,582
Other Child Care	(3,748)
Admin Personnel	4,937,218
Other Admin	1,400,510
Contractor G&A	2,954,189
Facility Maintenance Personnel	1,105,141
Other Facility Maintenance	1,469,566
Security Personnel	2,098,101
Other Security	62,899
Communications	356,824
Utilities and Fuel	1,793,354
Facilities Lease	24,836
Insurance	235,394
Motor Vehicle	343,228
Travel and Training	563,539
Contractor Fee	2,244,187
Net Center Operation Expense	**$48,077,962**[1]

[1] The difference of $4,320,176 between Exhibit A ($48,077,962) and Exhibit C ($43,757,786), was primarily due to Contractor G&A ($2,954,189), Contractor Fee ($2,244,187), less other miscellaneous adjustments ($878,200).

Exhibit B

MINACT, INC.
Schedule of Reported and Questioned Indirect Costs
For the Year Ended September 30, 1999

Cost Category	Reported	Questioned	Per Audit
Salaries and wages	$1,221,755	$48,767	$1,172,988
Consultant fees	66,252	0	66,252
Payroll taxes and benefits	463,701	0	463,701
Telephone	112,446	0	112,446
Supplies and services	183,825	4,728	179,097
Printing, postage, freight	56,916	0	56,916
Equipment rental and repair	69,936	0	69,936
Dues and subscriptions	29,117	0	29,117
Training	48,724	6,349	42,375
Legal	73,740	4,255	69,485
Accounting	56,478	0	56,478
Insurance	45,517	8,666	36,851
Travel	292,890	0	292,890
Automobile	31,235	11,617	19,618
Office Rent	166,795	0	166,795
Depreciation	141,065	15,966	125,099
Taxes	70,434	0	70,434
Directors fees	36,724	0	36,724
Administrative subcontracts	72,315	0	72,315
Software amortization	125,909	0	125,909
Other	1,530	____	1,530
Total	**$3,367,304**	**$100,348**	**$3,266,956**

Exhibit C

MINACT, INC.
Schedule of Direct Operating Costs Base
Used for Computing Indirect Cost Rate by Center
For the Year Ended September 30, 1999

Contract Number	Center	Reported
28-5-002-43	Batesville	$4,281,891
JCC-3005-38	Burdick	2,650,942
JCC-8005-38	Burdick	1,975,196
JCC-7008-29	Excelsior Springs	9,153,367
01-5-0004-43	Gadsden	4,438,072
5-JC-951-26	Grand Rapids	3,755,341
5-JC-972-26	Grand Rapids	1,859,676
47-7-0004-43	Memphis	5,173,784
JCC-5007-29	St. Louis	10,084,958
JC-22-9-00033	Shreveport	396,383
21-1-0016-43	Clements	($11,824)
Total		**$43,757,786**[1]

[1] The difference of $4,320,176 between Exhibit A ($48,077,962) and Exhibit C ($43,757,786), was primarily due to Contractor G&A ($2,954,189), Contractor Fee ($2,244,187), less other miscellaneous adjustments ($878,200).

MINACT INC.

5220 Keele Street
Jackson, Mississippi 39206
(601) 362-1631

October 24, 2001

Mr. Richard H. Brooks
Regional Inspector General for Audit
New York Regional Audit Office
Office of Inspector General
201 Varick Street
New York, New York 10014

Attention: Mark L. Schwartz
Assistant Regional Inspector General for Audit

Subject: Draft Audit Report of MINACT, INC.
For the year ending September 30,1999
Report No: 02-01-208-03-370

Dear Mr. Brooks:

We appreciate the opportunity to provide a response to the draft audit report of costs claimed by MINACT, INC. for the year ending September 30, 1999. We appreciate the professional manner in which the audit was conducted by the IG staff and the audit team from Harper, Rains, Stokes & Knight, P.A. The audit was very helpful to us and will be used to enhance the effectiveness and efficiency of our fiscal systems.

As the attached comments demonstrate we do have concerns primarily about the conclusions and any final recommendation for disallowance of the first two findings. We believe there is sufficient basis to reconsider the findings and remove them from the report.

Your consideration of our comments is appreciated. Please contact me at (601) 362-1631 for questions or clarification.

Sincerely,

Sam Devore

Sam Devore
MINACT, INC.

"MAKING THE AMERICAN DREAM A REALITY"

- MINACT wrote off $100,000 of the underfunded balance in its self-insured health plan account.

  Response:

  We strongly disagree with this finding.

  The questioned cost is based on a CAS clause that is not applicable. 9904.416-50(a)(2) does not apply. Payments are made to a trust fund. A copy of the 5500 for the MINACT Group Health Trust is enclosed.

  The applicable reference: Cost Accounting Standards, clause 9904.416-50(a)(1) which does apply states:

  (a) Measurement of projected average loss. (1) For exposure to risk of loss which is covered by the purchase of insurance or by payments to a trusteed fund, the premium or payment, adjusted in accordance with the following criteria, shall represent the projected average loss:

  (i) The premium cost applicable to a given policy term shall be assigned pro rata among cost accounting periods covered by the policy term, except as provided in subdivisions (a)(1)(ii) through (iv) of this subsection. A refund, dividend or additional assessment shall become an adjustment to the pro rata premium costs for the earliest cost accounting period in which the refund or dividend is actually or constructively received or in which the additional assessment is payable. (Emphasis added)

  It is our conclusion that the audit report has ignored the fact that payments were made to a trust fund and that the fiscal year being reviewed should be included in the earliest accounting period.

  The disallowance is not supported by the facts as stated in the finding. The total debit balance as stated in the finding was $630,764. It is more than reasonable, as recommended by the actuary, that the revised projected average loss for that period, which is the calendar year for the plan, would be increased by $100, 000 representing only a portion of the actual loss. MINACT did not expense the total actual cost of $630,764 but began allocating the cost based on the recommendation of the actuary.

  We request that this finding be removed from the report.

MINACT, INC. Response to findings

- An executive of MINACT received a salary of $175,830…

Response:

We disagree with this finding. The summary of this questioned cost is misleading. The cash salary received by this executive is less than $125,900. The auditors have incorrectly interpreted the definition of compensation to include amounts deferred to a retirement plan set up for individuals whose participation in the company 401k plan are limited by the terms of the 401k plan.

The public law cited defines "compensation" to include more than salary. Furthermore, Job Corps defined the ceiling to be "cash salary and bonus" only and applied the Executive Level III limit on salary only, which was $125,900 for 1999. For the auditors to redefine the term "compensation" with a different result from what the Office of Job Corps specified in RFPs is inconsistent and any discrepancy should be addressed with the Office of Job Corps not MINACT.

In addition the audit report arbitrarily excludes the full definition of the term "compensation." The total compensation of the Executive Level III position is the limit established by the law not the cash salary amount of $125,900.

MINACT should not be penalized for accepting the clear direction of the Office of Job Corps to limit cash payments charged to the government to the cash salary of the Executive Level III position.

We have no problem complying with the reinterpretation going forward but request that this finding be removed from the report based on inconsistency in the guidance from the Government.

MINACT, INC. Response to findings

- MINACT did not properly allocate depreciation and other vehicle expenses.

  Response:

  We concur with this finding. The accounting for this item was done correctly in prior years and was an error that will not be repeated.

- A deposit of $6,500 for a corporate leadership conference held in FY2000 was included in the indirect cost pool for FY99.

  Response:

  We disagree with this finding. As a cost saving measure the leadership conference for Job Corps Center management is held biennially and as a result benefits accrue to both years. The deposit was necessary and was clearly an incurred cost for the FY99. There is no advantage to the government to move this cost to the subsequent year.

- MINACT included building improvement costs of $4,841 that should have been capitalized and depreciated annually.

  Response:

  We concur with this finding. The initial entry was made based on the lease agreement.

- Legal costs incurred and not accrued during FY98 were included in the FY99 indirect cost pool.

  Response:

  We disagree with this finding. Although the dates of the service may have been FY98 the invoice for the service was not submitted to accounting until February 1999, five months after the end of the fiscal year. Since the attorney did not report his services to our outside auditors during yearend inquiries, there was no basis for an accrual. There is no advantage to the government to move this cost to the prior year.

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MINACT, INC. Response to findings

- Reportable conditions

  Response:

  We concur with findings of lapses in our procedures for inventory and approvals. We are in transition to a fully automated databased accounting system and our manuals had not been updated to describe the electronic procedures in place currently.

  However, we do not concur that a salary allocation plan based on actual time sheet distribution is a requirement of the PRH, Appendix 901 C.4.b. The rationale for the allocation was documented and reasonable. The recommendation to allocate based on time sheet distribution does not recognize the nature of the work, which includes responding to telephonic or electronic requests from other Job Corps center staff for clarification of technical and system issues. To require the individuals to keep such detailed records is counterproductive and burdensome. We should not be criticized for recognizing the occurrence of such assistance and systematically crediting the contract appropriately.