HRD-77-36
5-13-77

REPORT OF THE COMPTROLLER GENERAL OF THE UNITED STATES

Property And Fiscal Management Problems At The Maryland Job Corps Center

Department of Labor

As early as January 1973, the Department of Labor was aware of deficiencies in the management of Government property and funds at the Maryland Job Corps Center. However, the deficiencies were not corrected before the Center contractor was changed on March 1, 1976. This review concerns operations under the management of the first contractor.

HRD-77-36

MAY 13, 1977

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-130515

The Honorable Goodloe E. Byron
House of Representatives

Dear Mr. Byron:

Your letter of March 3, 1976, requested us to review property and fiscal management at the Maryland Job Corps Center in Woodstock, Maryland, and to inquire into how the Center's operating responsibility was transferred.

Officials of the Department of Labor and the Youth Opportunity Foundation, Inc., have been given an opportunity to review and comment on this report. Their views have been incorporated, where appropriate.

We are providing copies of the report to interested Committees, Members of Congress, the Secretary of Labor, and the Chairman, Youth Opportunity Foundation, Inc.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

Enclosure

REPORT OF THE COMPTROLLER GENERAL OF THE UNITED STATES

PROPERTY AND FISCAL MANAGEMENT PROBLEMS AT THE MARYLAND JOB CORPS CENTER
Department of Labor

D I G E S T

The program at the Maryland Job Corps Center originally was designed to provide comprehensive residential training to 275 young men, 14 to 22 years old. The Center was opened in February 1972 and operated under Labor contracts by the Youth Opportunity Foundation, Inc., until March 1976, when its management was transferred under contract to the RCA Service Company. This review does not cover operations under RCA. (See p. 1.)

Labor records showing types and quantities of Government property at the Center were inaccurate: erroneously they included property previously disposed of, transferred, or reported stolen and listed some items more than once. Moreover, the records did not include all accountable Government property at the Center. (See p. 5.)

For example, slide projectors, other photographic equipment, and cassette tape players reported stolen in 1972 were still included in Labor records in February 1976. Also, property costing about $165,000, including typewiters, calculators, furniture, and many other items, was located at the Center in February 1976 but was not included on Labor's February 1976 inventory listing. (See pp. 7 and 8.)

Many apparent discrepancies were also found in the financial records maintained at the Center. For example, the Center's financial records for one contract period showed a cash balance of $8,005; however, the Center's bank statement showed no cash balance. At the completion of GAO's fieldwork, many discrepancies remained concerning the Youth Opportunity Foundation's financial records for the Center. (See pp. 8 and 9.)

Labor management and audit reports repeatedly cited deficiencies in the Center's fiscal records and controls, operating procedures, and property management. While Labor officials were aware of these problems as early as January 1973, timely corrective action was not taken. (See p. 9.)

Causes of the fiscal and property management problems at the Center include:

--Labor's failure to implement adequately its Contractor-held Property Management System.

--Poor fiscal and property management by the Youth Opportunity Foundation, Inc.

--Inadequate monitoring by the Department of Labor.

--Ineffective use of management and audit reports by Labor. (See p. 12.)

Labor used standard Government procurement procedures to transfer responsibility for operating the Center between contractors. (See p. 15.)

GAO recommends that the Secretary of Labor:

--Adequately put into practice Labor's Contractor-held Property Management System to properly account for Government property held by its contractors.

--Effectively apply procedures to promptly resolve property management and fiscal deficiencies identified in Job Corps Center contractor operations.

--Require a complete and accurate accounting of all funds furnished to the Youth Opportunity Foundation, Inc. (See p. 12.)

Labor concurred with GAO's recommendations and stated that a final accounting had been made for virtually all funds used by the Youth Opportunity Foundation, Inc. GAO has serious reservations, however, that contract funds have been properly accounted for. (See p. 13.)

Comments furnished by the Youth Opportunity Foundation, Inc., were considered and, where relevant, were included and evaluated in the report. GAO believes, however, that the comments are generally nonresponsive to the matters discussed in the report and represent an attempt to mitigate the seriousness of the Youth Opportunity Foundation, Inc.'s failure to properly manage the program by placing most of the blame on Labor. In GAO's opinion, the management of the Youth Opportunity Foundation, Inc. was seriously deficient. (See p. 13.)

Contents

ABBREVIATIONS

CPA	certified public accountant
ETA	Employment and Training Administration, Department of Labor
GAO	General Accounting Office
YOFI	Youth Opportunity Foundation, Inc.

CHAPTER 1

INTRODUCTION

Title I, Part A, of the Economic Opportunity Act of 1964, as amended (42 U.S.C. 2701 *et seq.*), established the Job Corps. This program for low-income youths aged 14 to 22 provides residential and nonresidential training centers. Title IV of the Comprehensive Employment and Training Act of 1973, as amended (29 U.S.C. 911 (supp. V 1975)), continued the program. Job Corps enrollees participate in education, vocational training, work experience, counseling, and other instruction. As of June 30, 1976, 21,018 individuals were enrolled at 60 centers in 31 States and Puerto Rico. Funding for fiscal year 1976 was about $175 million.

The program was administered by the Office of Economic Opportunity until July 1969 when it was transferred to the Department of Labor. The Director of the Job Corps, within Labor's Employment and Training Administration (ETA), is responsible for

--providing program leadership,

--providing overall direction and guidance for the administration of the program,

--establishing program size,

--approving all recruiting, placement, and training goals, and

--maintaining overall program review.

Each of ETA's 10 regional administrators is responsible for administering the Job Corps program in that region and assisting its centers in resolving problems.

MARYLAND JOB CORPS CENTER

The Maryland Job Corps Center, located on a 64-acre site in Woodstock, Maryland, opened in February 1972. The State of Maryland designated the Youth Opportunity Foundation, Inc. (YOFI), a nonprofit corporation, as its agent for operating the Center. YOFI operated the Center under cost reimbursable contracts with Labor until March 1, 1976, when Labor awarded the contract for operating the Center to the RCA Service Company, a subsidiary of the RCA Corporation. (See ch. 3.) The periods covered and amounts of YOFI's contracts were:

Contract number	Period	Amount
JCC-2165-99	July 1, 1971, through May 31, 1974	$3,370,934
3-JC409-24	June 1, 1974, through February 29, 1976	2,769,165

The time between the effective date of the first contract and the Center's opening was needed for site rehabilitation, development of educational plans, staff hiring and training, etc.

The Center's program was originally designed to provide residential training to 275 young men to prepare them for employment and the responsibilities of citizenship. The contractor furnished a full-time Center director, as well as all management and operating personnel, services, and materials.

SCOPE OF REVIEW

We interviewed Department of Labor officials at the headquarters office in Washington, D.C., and the Philadelphia, Pennsylvania, regional office which has administrative responsibility for the Maryland Job Corps Center. We also interviewed officials of YOFI, a certified public accountant (CPA) firm retained by YOFI, and a CPA firm retained by Labor. We examined documents, procedures, and practices relating to selected aspects of the Center's property and fiscal management covering the time that YOFI operated the Center. In addition, we examined the manner in which responsibility for operating the Center was transferred between contractors. The review did not cover the operations of the Center by the new contractor--the RCA Service Company. We completed our fieldwork in August 1976.

CHAPTER 2

NEED TO IMPROVE CONTROL OVER AND ACCOUNTABILITY FOR GOVERNMENT ASSETS

Department of Labor records of the types and quantities of Government property at the Maryland Job Corps Center were inaccurate: they erroneously included property previously disposed of, transferred, or reported stolen; and they listed some items more than once. Conversely, some accountable Government property at the Center was not included. Labor did not adequately implement its Contractor-held Property Management System which was designed to account for nonexpendable property furnished to contractors.

Management reviews and audit reports repeatedly cited deficiencies in the Center's fiscal records and controls, operating procedures, and property management. Although Labor officials were aware of these problems as early as January 1973, they failed to take timely corrective action. In August 1976, when we completed our fieldwork, many discrepancies remained in YOFI's records for the Center.

CONTRACTOR-HELD PROPERTY MANAGEMENT SYSTEM NOT ADEQUATELY IMPLEMENTED

Section 113(a)(3) of the Budget and Accounting Procedures Act of 1950 (31 U.S.C. 66a) requires that each executive agency establish and maintain systems to effectively control and account for all funds, property, and other assets for which the agency is responsible. Labor established its Contractor-held Property Management System to account for nonexpendable property furnished to its contractors. This system was not adequately implemented. Labor and its contractors are responsible for properly acquiring, using, maintaining, protecting, and accounting for property.

Accounting for property encompasses Labor's responsibility to provide assistance to contractors, as well as its responsibility to keep accurate records.

Labor's property handbook for contractors defines nonexpendable property as

--furniture, regardless of cost,

--tool "kits" and sets,

--tools and equipment carrying a manufacturer's serial number, and

--other property having a unit cost of $50 or more.

Each ETA Regional Contract Property Officer is responsible for administering the acquisition, control, and disposition of all contractor-held Government property within the region. Records for the Contractor-held Property Management System are computerized at headquarters.

Section 112 of the Budget and Accounting Procedures Act of 1950 requires the Comptroller General to cooperate with executive agencies in developing systems to control and account for Government assets and to periodically review these systems. These systems are approved by the Comptroller General when considered to be adequate and in conformity with principles and standards prescribed by the Comptroller General. The Comptroller General approved the design of Labor's Contractor-held Property Management System in October 1972. The system based on this design provides controls for correctly processing all transactions.

After reviewing implementation of the system, we reported to Labor's Comptroller on March 3, 1976 (B-115349), that several control procedures in the system design approved by the Comptroller General had not been implemented. These included:

--An automated suspense file for systematically recording all property acquired by contractors.

--Use of control totals to insure that all additions, deletions, and changes are processed.

--Adequate controls for correcting rejected transactions and resubmitting them to the system.

--Verification of physical inventories.

We concluded in the March report that, because these controls were not implemented, Labor could not properly account for nonexpendable Government property held by its contractors.

In an April 27, 1976, response to the March report, Labor stated that these control procedures were generally being implemented. Although Labor apparently initiated corrective action before the March report was issued, our review of the February 1976 inventory records for the Maryland Center showed problems which the control procedures were designed to overcome.

We believe Labor's failure to adequately implement its Contractor-held Property Management System contributed to the problems described below in accounting for property at the Maryland Center.

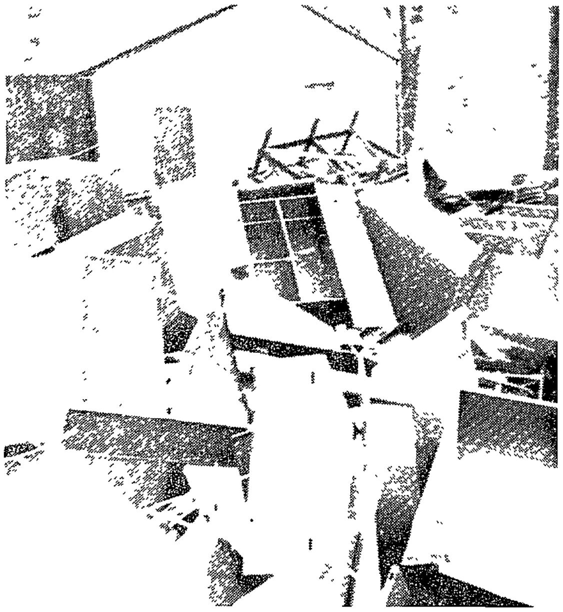
Inaccurate inventory records

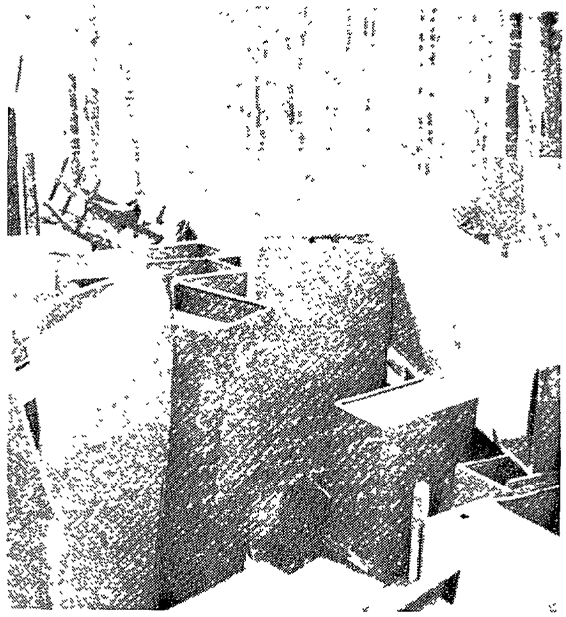
As part of our test of the accuracy of the inventory records, we compared the number of clothes washers and dryers shown on Labor's February 1976 inventory listing with the results of a February 1976 physical count made jointly by YOFI and RCA. In April 1976, by examining Center records and taking a physical inventory, we determined the number of clothes washers and dryers which were at the Center in February 1976. Our comparison showed that both the February 1976 inventory listing and the joint physical count were inaccurate.

	Quantity	
	Washers	Dryers
Labor's February 1976 inventory listing	13	11
Joint February 1976 physical count (YOFI and RCA)	20	18
February 1976 quantity at the Center as determined by GAO	27	22

The difference between the quantity of washers and dryers on the inventory listing and those we determined to be at the Center resulted from Labor's failure to have all property acquired by the Center recorded in Labor's inventory.

The difference between the number of washers and dryers identified during the February physical count and the number determined to be at the Center resulted from poor physical inventory procedures. For example, Center personnel located seven washers after the physical count--two under wall lockers in the Center's scrap yard and five in a room which had not been inventoried. YOFI could not provide any documentation to show that the two washers had previously been declared excess or scrap property. In any event, they were still carried on Labor's February 1976 inventory. The photographs on the following page show part of the scrap yard.





In its comments (see app. II), YOFI stated that a number of clothes washers and dryers that were on hand but not included on the inventory listing had been donated to the Center by local citizens. Although these machines would have no cost basis to the Center, they should have been included on the listing because they were physically at the Center and accountability for them should have been recorded.

In the joint February 1976 physical count, RCA identified and tagged Center property that it wanted. The remaining property was to be inventoried and declared excess or scrap by YOFI. However, some equipment at the Center was neither tagged by RCA nor declared excess or scrap by YOFI. A YOFI official told us that he thought RCA wanted the equipment but had neglected to tag it. At the completion of our fieldwork in August 1976, YOFI was still identifying property for disposition that had been included on Labor's February inventory listing but had not been counted during the physical count. Several of these items are listed on the following page.

Item	Quantity	Unit cost
Wood jointer	1	$ 252
Bench jigsaw	1	244
Bending machine	2	50
Welding machine	4	100 to 300
Copying machine	1	1,056
Engine analyzer	1	1,500

We also found deficiencies in the removal of stolen property from Labor's inventory listing. For example, in 1972 the Center reported to Labor headquarters that two slide projectors, other photographic equipment, and two cassette tape players had been stolen. On three separate occasions in 1973, the Center requested relief of accountability for these items, which was approved by the Labor headquarters Property Officer in June 1973. However, the property was still included on the February 1976 inventory listing.

Property that had previously been transferred or disposed of by the Center continued to appear on the inventory listing. For example, two six-passenger carry-all vehicles costing more than $2,400 each were delivered to the General Services Administration motor pool in Baltimore, Maryland, in August 1972; yet we identified these items on Labor's February 1976 inventory listing as being at the Center although we could not locate them.

In addition, the Center discarded as junk a vehicle that had been used for automotive training. The vehicle still appeared on the February 1976 inventory listing although Center correspondence indicated that it had been discarded early in the program. We also found that the February 1976 inventory listing included some items such as dictating machines and electric typewriters more than once.

On April 22, 1976, the Job Corps Director testified before the Subcommittee on Employment, Poverty, and Migratory Labor, Senate Committee on Labor and Public Welfare, that the Maryland Center's property loss--by theft, fire, and that classified as "unaccounted for"--was expected to total about $46,000, as follows:

Labor's February 1976 inventory listing		$295,652
Less property accounted for:		
Transferred to RCA	$102,033	
Previously transferred or disposed of but still listed on February 1976 inventory listing	14,884	
Duplications on Labor's February 1976 listing	15,883	
Property declared excess or scrap by YOFI	116,398	249,198
Property not accounted for		$ 46,454

We question the accuracy of this reconciliation because the February 1976 inventory listing omitted some Government property. For example, $54,410 of the $116,398 shown as property declared excess or scrap by YOFI represented property which was not on the inventory listing. In total, we identified property costing about $165,000, including typewriters, furniture, and many other items, which was not on the listing. Therefore, the listing was incomplete and could not be used for an accurate inventory reconciliation.

We did not determine the total value of property which the Center had not accounted for because the time and cost to reconstruct all inventory transactions since 1971 would have been prohibitive. Furthermore, because of the poor condition of the inventory records, we are not certain that all transactions could ever be accounted for.

NEED FOR COMPLETE ACCOUNTING OF GOVERNMENT FUNDS

We noted many apparent discrepancies in the financial records maintained at the Center. We discussed them with a YOFI official who in May 1976 requested its CPA firm to resolve them. Examples of the discrepancies noted are described below.

The Center's financial records for the YOFI contract which terminated May 31, 1974, indicated a cash balance of $8,005, while the Center's bank statement showed no cash balance. A YOFI official told us that there was no cash on hand and that the Center's financial records must have been inaccurate because YOFI had spent all the money received. Also, YOFI's claimed expenses at contract termination included such obligations as employees' earned vacation pay. YOFI billed Labor and received $15,980 for accrued vacation pay up to May 31, 1974. However, a vacation account of only $8,944 was established under the next contract. A YOFI official told us that the balance was used for obligations other than vacation pay under the first contract.

We reviewed YOFI's CPA report which was sent to Labor in December 1976. The report did not explain the $8,005 cash balance discrepancy or the $15,980 accrued vacation pay matter. Instead, the report dealt with certain costs which had been questioned under an earlier audit performed for Labor by another CPA firm. The auditor expressed no opinion on the results of his examination.

A May 5, 1976, financial audit report prepared for Labor by a CPA firm covering the contract terminated February 29, 1976, projected a cash shortage of $3,371. This was disclosed when an auditor compared YOFI's unpaid bills with the remaining contract funds. The auditor stated in his report that he was not engaged to review general and administrative costs claimed under the contract, which amounted to more than $110,000.

A YOFI response to the May 5 report discussed later in this chapter did not address the cash shortage.

In comments to us dated January 20, 1977, YOFI stated that the projected cash shortage was based on a preliminary estimate of the cost of commitments. The May 5, 1976, auditor's report, however, projected the shortage on the basis of obligations already incurred, not an estimate of proposed procurements.

NEED TO IMPROVE USE OF REVIEWS

Although Labor management reviews and financial audits of the Center cited deficiencies in property management and fiscal controls and procedures as early as January 1973, timely corrective action was not taken. The conditions we found at the Center (see pp. 5 to 9) could possibly have been avoided if Labor had effectively used the results of its reviews.

According to Labor's Philadelphia Regional Administrator for Audit, his office requests replies to all audit reports from the appropriate regional administrator for the program reviewed who is required to reply. However, no replies were received, and because of a lack of staff, his office did not follow up.

The following examples illustrate that Labor was aware of deficiencies in the Center's property and fiscal controls and procedures.

January 1973 management review

A Labor management review in January 1973 estimated that only 60 percent of the Center's property was recorded in Labor's inventory records.

YOFI was instructed to count the property and supply the correct information to Labor. Although a YOFI official advised us that the property was counted, there was no evidence that discrepancies were corrected. As noted on page 8, we identified property at the Center which was not recorded in Labor's February 1976 inventory listing.

January 1973 audit report

A January 15, 1973, Labor financial audit report for July 1, 1971, through June 30, 1972, cited the Center for inadequate fiscal controls, procedures, and property management. These included inadequate

--budgeting and financial control systems,

--time and attendance procedures,

--travel procedures,

--control over long-distance telephone calls,

--purchasing procedures, and

--inventory procedures.

The report also listed 24 items costing $1,769.03 as missing or stolen. However, as of February 1976, Labor had not removed 14 of these items from the records or determined what happened to them.

Although Labor officials discussed the audit deficiencies with YOFI's Center Director, who pledged corrective action, the audit report was not furnished to YOFI until May 1975. Labor officials were unable to explain why it was not more timely. YOFI replied to the audit report in June 1975; however, Labor's Philadelphia Regional Administrator for Audit told us in July 1976 that he had not received the ETA regional administrator's reply and was surprised to learn that the YOFI reply even existed.

November 1974 audit report

A November 1974 financial audit report prepared for Labor by a CPA firm covering the period July 1, 1972, through May 31, 1974, cited most of the same weaknesses as the 1973 audit report. For example, the 1974 report stated that not all invoices and supporting data for expenditures were available for inspection and that many had not been canceled. Labor's Philadelphia Regional Administrator for Audit stated that these weaknesses presented a picture of serious deficiencies in Center administration.

In addition, the report questioned $10,836 claimed by YOFI as a general and administrative expense, because the money was not spent. On May 19, 1976, Labor's Contracting Officer said he was not aware of the $10,836 item. He promised to verify its disposition, but as of December 10, 1976, it had not been resolved.

The report also disclosed that a tractor purchased in 1972 for $4,928 was not on Labor's June 1974 inventory listing for the Center. A YOFI official said the Center submitted information to enter the tractor into the inventory system, but the tractor was not included on Labor's February 1976 inventory listing although it was at the Center.

According to an official, YOFI was not aware of the 1974 audit results until it received this report in May 1975. Again, Labor officials were unable to explain why the audit report was not furnished to YOFI earlier so that corrective action could be initiated.

May 1976 audit report

A May 5, 1976, financial audit report prepared for Labor by a CPA firm for June 1, 1974, through February 29, 1976, cited the following weaknesses in the Center's operating procedures, accounting records, and internal controls. The Center did not:

--Maintain an accounts payable or voucher register or maintain adequate records to support accounts payable entries.

--Have a system of canceling paid vendor invoices or vouchers to prevent their resubmission for payment. The audit report stated that several small value invoices had been submitted for duplicate payments.

--Segregate duties of staff members as an internal control. For example, the bookkeeper was also custodian of the petty cash fund, resulting in weak internal control over petty cash.

--Maintain a system of approving, issuing, and accounting for travel and expense advances and reimbursements.

--Ascertain that all procedures for the purchase and issuance of materials and supplies were being followed.

The auditors told us they did not test the accuracy of the inventory records because of the inventory taken for the change in Center management.

YOFI received the audit report on June 8, 1976, and prepared a two-part response dated August 21 and 30, 1976. The response, however, dealt only with costs questioned by the auditors and did not respond directly to the points dealing with weak operating procedures, accounting records, and internal controls.

CONCLUSIONS

Labor's failure to implement adequately its Contractor-held Property Management System allowed inaccurate accounting for property at the Maryland Job Corps Center. Also contributing to the Center's problems were poor fiscal and property management by YOFI and inadequate monitoring by Labor. The property management system should be implemented, and a complete and accurate accounting should be made of all funds provided to YOFI.

Effective implementation of established procedures is needed to insure timely corrective actions are taken on management and audit reports.

RECOMMENDATIONS

We recommend that the Secretary of Labor:

--Adequately put into practice Labor's Contractor-held Property Management System to properly account for Government property held by its contractors.

--Effectively apply procedures to promptly resolve property management and fiscal deficiencies identified in Job Corps Center contractor operations.

--Require a complete and accurate accounting of all funds furnished to YOFI.

AGENCY COMMENTS AND OUR EVALUATION

Labor, in a letter dated January 31, 1977 (see app. I), concurred with our first recommendation and indicated that procedures had been in place which would insure proper accountability of contractor-held property. Labor further stated that an accurate listing of property at the Maryland Center had been obtained and property unaccounted for under YOFI's contract was under final determination by the Contracting Officer. We would like to stress that our primary concern is not with the system that was established but with the inadequate implementation of the existing system.

Labor also said a pilot system of monthly property transaction reporting by Job Corps Centers is being established by the Philadelphia regional office and that each contractor's monthly payment voucher must be accompanied by copies of property receipts and acquisition costs. These procedures, if properly carried out, should improve the accountability for property acquired and disposed of by Center contractors.

Labor agreed with our second recommendation to promptly resolve property and fiscal problems. Labor's letter stated that future Job Corps Center reviews will stress increased coverage in both areas. A series of corrective actions was listed including (1) the regional property officer annually testing property accounts for accuracy, (2) fiscal officers conducting fiscal reviews to determine cash positions of a Center and that proper accounting standards are being followed, (3) audit reports being handled on a priority basis and timely responses required, and (4) contracts being modified or terminated if corrections are not made. We believe these procedures, if effectively carried out, should aid in identifying and promptly resolving property management and fiscal problems.

Labor also agreed with our third recommendation, stating that a final accounting for virtually all funds used by YOFI had taken place and that a complete audit for the contract period June 1, 1974, to February 29, 1976, had been reviewed by the Contracting Officer and findings and determinations issued resolving all fiscal issues raised by that audit. Labor also pointed out that YOFI had submitted a full reconciliation of accounts and that only a minor discrepancy remained regarding all contract funds paid to YOFI.

We briefly reviewed documentation concerning the actions cited in Labor's letter and have serious reservations regarding the effectiveness of the actions. First, the "full reconciliation" cited in Labor's letter was made by YOFI's CPA firm but contains the following qualifications:

(1) "We have performed a limited review of certain books and records * * *."

(2) "The period covered by our review was previously examined * * * and it was not contemplated that our review would constitute a reexamination of that period."

(3) "Our review in no way constitutes an examination under generally accepted auditing standards and, therefore, we are unable to express an opinion on the accompanying schedules of contract costs."

Second, a number of the Contracting Officer's findings and determinations regarding costs under the second contract were nonresponsive to items questioned by the auditors. For example, the auditors had questioned specific petty cash expenditures; however, the Contracting Officer's findings and determinations discussed the general allowability of the type of expense paid from the fund rather than specific costs questioned. Also, the Contracting Officer did not address the $3,371 cash shortage projected by the auditors. Third, we found no evidence that the discrepancies regarding the cash balance and accrued vacation pay matters, discussed on p. 8, were resolved. Accordingly, we do not believe that a complete and accurate accounting of all funds furnished to YOFI has been made.

We believe YOFI's comments on the draft report in its letter of January 20, 1977 (see app. II), are generally nonresponsive and represent an attempt to mitigate the seriousness of the deficiencies identified. The comments exemplify an attempt to place blame for the deficiencies mostly on Labor when, in our opinion, the management of YOFI was seriously deficient.

CHAPTER 3

CONTRACTOR CHANGE AT THE MARYLAND CENTER

In November 1975, YOFI and Labor mutually agreed to an early termination of the contract for operation of the Maryland Job Corps Center. This decision was made, according to testimony by Labor officials before the Subcommittee on Employment, Poverty, and Migratory Labor, Senate Committee on Labor and Public Welfare, because of the Center's inability to improve key performance indicators such as absentee and termination rates. On March 1, 1976, management responsibility for the Center was transferred from YOFI to the RCA Service Company.

Federal Procurement Regulations generally require that proposed procurements be published in the "Department of Commerce Synopsis" and provide at least 30 calendar days between the bid invitation and the date set for opening of bids. In accordance with Labor regulations, bidders' proposals for operating the Center were evaluated using the following factors:

- --The degree to which the proposal demonstrated an understanding of the objectives of the program.
- --The quality of proposed recruitment and placement support, educational and vocational training, residential and other corpsmember support services, administrative support services, and staff.
- --Demonstrated effectiveness in operating a Job Corps Center or similar activity.
- --The relative cost to the Government.
- --The ability and intention to adhere to Labor regulations and the Comprehensive Employment and Training Act of 1973, as amended.

The chronology of key events in the transfer of the Center from YOFI to RCA follows.

Event	Date
Advertisement for proposals in "Department of Commerce Synopsis"	Dec. 15, 1975
Pre-bidders conference	Dec. 22, 1975
Tour of Maryland Job Corps Center for prospective bidders	Dec. 30, 1975
Bidders' proposals opened	Jan. 30, 1976
Contract signed with RCA	Feb. 12, 1976
RCA assumed management of the Maryland Center	Mar. 1, 1976

Forty-five calendar days elapsed between the bid invitation date and the day bids were opened. As of December 10, 1976, no formal protest had been filed by any of the four unsuccessful bidders.

CONCLUSION

We found that Labor used standard Government procurement procedures to transfer responsibility for operating the Center from YOFI to RCA.

U.S. DEPARTMENT OF LABOR
OFFICE OF THE ASSISTANT SECRETARY
WASHINGTON

31 JAN 1977

Mr. Gregory J. Ahart
Director
Human Resources Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

This is in response to your letter of December 22, 1976, to the Secretary, transmitting a proposed report entitled, Property and Fiscal Management Problems at the Maryland Job Corps Center. The comments are keyed to the specific issues raised in the report.

1. We recommend that the Secretary of Labor adequately implement the Department's Contractor-held Property Management System to enable it to properly account for government property held by its contractors.

Comment: Concur. Regional Contract Property Officers, after approving Property Requirements Lists (PRL's) for contractors, are required to periodically follow up on the status of property procurement by the contractors. The same system requires that the Regional Contract Property Officers conduct, every 3 years a random sampling of property lists to determine the accuracy of the contractor's annual certification of property on hand. As a matter of practice, this random sampling is conducted annually by the Property Officer during Job Corps center annual reviews. In the case of Maryland, the June 1975 annual review highlighted the property problems, and the Property Officer gave detailed instructions for correction by the contractor.

Many months of intensive work by Youth Opportunity Foundation, Inc. (YOFI), RCA and Labor, through December 1976, have resulted in an accurate listing of property in place at the center under RCA. Unaccounted for property under YOFI is currently under a final determination by the contracting officer which should be completed by the end of March 1977.

In addition to the annual property surveys, Region III is establishing a pilot system which requires a monthly reporting by centers on the status of all approved PRL's as to procurement, receipt of items, excess items received, and number of property transactions during a particular month. Following receipt of that monthly report, the Regional Contract Property Officer will be able to track on a timely basis when to expect data for computer list changes. By this system, delay in computer list adjustments should be prevented. In addition to the field testing of the pilot reporting system, Region III will require copies of property receipts and acquisition costs to be submitted with the contractor's monthly payment voucher. With that submission, the Regional Contract Property Officer will be able to pinpoint acquisitions and be on the alert to see that these acquisitions are reflected in the next quarterly computer list.

2. We recommend that the Secretary of Labor effectively implement procedures to ensure that property management and fiscal deficiencies identified in Job Corps center contractor operations are resolved in a timely fashion.

Comment: Concur. Job Corps center reviews in the future will stress increased coverage of both areas. As previously stated, the Regional Contract Property Officer will continue to conduct annual random sampling of property accounts. In the future, a fiscal officer will conduct fiscal reviews to determine cash positions of a center and accounting systems to determine that proper accounting standards are being met. Audit reports will be handled on a priority basis, and timely responses required. When findings from program or management reviews, or audits, indicate improper operations at the center, corrective actions to be taken will be specified, and technical assistance will be given by the Department of Labor to facilitate implementation of the corrective actions. If the corrections are not achieved, a contracting officer's cure letter will be issued directing immediate actions and, as a last step, the contract will be modified or terminated if compliance is not secured.

3. We recommend that the Secretary of Labor require a complete and accurate accounting of all funds furnished to YOFI.

Comment: Concur. Final accounting for all funds used by YOFI has taken place. A complete audit for the contract period, June 1, 1974, to February 29, 1976, has been reviewed by the contracting officer and a findings and determination issued resolving all fiscal issues raised by that audit. As to the remaining unresolved fiscal issue on the original contract, YOFI has just submitted a full reconciliation of their accounts involving a discrepancy between costs and voucher amounts. Out of a total 4-year funding of $6,140,099, an account difference of $59 was remaining. When the contract closeout package is submitted in the near future to the contracting officer, any unutilized funds will be rebated to the Department of Labor.

We appreciate the opportunity to comment on this report. If my office can be of any further assistance to you, feel free to contact me.

Sincerely,

Fred G. Clark

FRED G. CLARK
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Richard A. Batterton
Chairman

January 20, 1977

Mr. Gregory J. Ahart, Director
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

We appreciate the opportunity to review the draft report of inquiry on the conditions found at the Maryland Job Corps Center, which was transmitted with your letter of December 22, 1976.

A. Overview

The problems raised in your draft report are basically those which have been previously identified and dealt with by the Foundation and the U.S. Department of Labor. It has never been suggested, nor do we now assert, that the corrective action initiated by the Foundation or the federal government was successful in truly eliminating the deficiencies observed at the Maryland Job Corps Center. In fact, when it became apparent to the board of the Foundation that its actions were not wholly effective and that the center could not be operated by the Foundation at the desired level of effectiveness and without an inordinate expenditure of time and other resources, the Foundation and the Department of Labor mutually agreed to transfer responsibility for the center to another training contractor.

The reasoning behind our decision to withdraw from the contract was indicated in my testimony before the Subcommittee on Employment, Poverty and Migratory Labor of the Senate committee on Labor and Public Welfare (Enclosure 1). It would be unfortunate, however, if your report merely reiterated the problems which led to our decision in the first place. To do so, we feel, would create the erroneous impression that, in the face of documented problems, the Department of Labor and the Foundation failed to initiate corrective action.

B. Corrective Action

The newly appointed Foundation board of directors decided in early 1975 that a change in center administration was needed and initiated a nationwide search, conducted in cooperation with DOL, for a new center director with a proven track record in administering a Job Corps center, and more importantly, one who had experience in effecting a turn-around at a center which was experiencing the problems we were having at the Maryland center.

The candidate appointed as center director by the Foundation and approved by the U.S. Department of Labor had considerable experience in Job Corps and had "rescued" two other Job Corps centers which had problems similar to those found at the Maryland center.

The Foundation board of directors instructed the new center director to launch a program of corrective action designed to eliminate the discrepancies noted earlier in administration, management and educational areas, and granted him full authority to initiate additional emphasis on improvement of environmental conditions at the center.

The center organization was revamped, restructured and streamlined to provide better and more effective utilization of personnel resources. In addition, personnel changes in key and line staff were made as rapidly as possible to help upgrade center operations in the shortest period of time. Personnel who were deemed by the center director as being unable to function in a satisfactory manner were separated.

The basic and vocational educational programs were revised to conform with the most recent Job Corps policies and directives. The results of these actions were reflected in statistical reports submitted to the Labor Department. These reports indicated a significant improvement in class attendance, retention rates, and higher turn-out of graduates in categories I and II.

Further, the Foundation board of directors directed action be taken immediately to reorganize and reactivate the Community Relations Council with noteworthy results. Linkages were enhanced considerably with the community and community organizations through greater and better cooperation by center staff and corpsmen. The net result was a better understanding of the mission of Job Corps by the community and better relations between the center and the Woodstock community.

The Foundation also took action to develop and implement the fiscal measures needed to correct the deficiencies indicated by previous audit personnel. The budget was revised and spending was brought under control. The Applied Cost Budget was submitted to the Department of Labor for review and approval. The Department of Labor approved the revised budget as sound and desirable.

The entire logistics system was in the process of complete reorganization at the time management responsibility was transferred to the RCA Service Company. Procurement policies had been developed and implemented to ensure a steady flow of materials and supplies to support all center activities. A more disciplined inventory was initiated to assure that equipment and furniture at the center would be properly accounted for.

The vehicle maintenance program was restructured to provide a systematic maintenance schedule to ensure the vehicles were in maximum operating efficiency in order to support center activities. Additional vehicles were added to the fleet to improve operational effectiveness.

The buildings and grounds maintenance program was revised with emphasis on upgrading environmental conditions at the center. This action resulted in marked improvement in corpsman living areas and in general overall appearance of the center.

The corpsman disciplinary program was revised and a program designed to curb AWOL, promote social awareness, and improve corpsman behavior and appearance in general was implemented with excellent results.

In order for the Foundation board of directors to directly provide direction and management in operation of the center, an Agent for Corporate Affairs was designated, and a corporate office was established. This arrangement was designed to provide the Foundation oversight and operational flexibility needed to manage the center. This arrangement also provided Foundation the medium needed to have daily contact with the operational elements at the center and to receive feedback on center operations on a timely basis. This procedure was further designed to ensure that contractual obligations were met and problems addressed in a timely manner.

Other corrective measures recommended by the Foundation to center management included dual signatures on all Foundation financial instruments, verification of accounts payable by corporate personnel to ensure expenditures were valid and paid only once, a requirement that the center director or his designated representative approve postings to financial records, the establishment of policy and control on handling petty cash expenditures, corpsman pay, staff travel and other financial transactions. Finally, closer coordination was effected with Department of Labor on such matters to ensure contract compliance.

The only set of issues raised in the draft report which were not dealt with by the Foundation were those transmitted to the Foundation in the audit report received well after the cessation of center operation by the Foundation. The Foundation board of directors concerned themselves with reconciliation of problems encountered when the Foundation was the training contractor. It is our opinion that corrective actions dealing with improvement of fiscal procedures for the continued operation of the center (e.g., those cited in the report of audit through February 29, 1976) should be considered by the RCA Service Company, the successor training contractor.

C. Detail of Specific References

In addition to these general comments, certain specific references contained in the draft report merit response.

1. Inventory Practices/Inaccurate Records

We have verified that items on the quarterly print-out were on hand and have transmitted the required forms to have changes made on the print-out. This has been standard procedure, employed throughout the life of the contract. We can give no explanation why some of the items appear on the property print-out while others do not, even though some of the items appeared on the same Form 3-28.

It must be emphasized that the Foundation had no corporate property management system which might conflict with procedures outlined in Job Corps directives. Foundation personnel, therefore, implemented the Job Corps property management program.

2. Physical Inventory of Property

Foundation and RCA personnel conducted a joint inventory of property at the center as was previously planned. RCA Service Company selected the serviceable items and tagged them for retention. The remaining items were to be inventoried and declared excess to the needs of the center. There was, however, an apparent mix-up on some of the items. In some instances, Foundation personnel assumed RCA picked up the items and listed them on the joint inventory. Further, RCA picked up certain items under different classification codes and different serial numbers, which indicated that these items listed on the Foundation's inventory were missing.

Upon discovery of these discrepancies, all discovered after responsibility for center operations had been transferred to RCA, the corporate agent for the Foundation expended substantial effort to rectify this situation. With the cooperation of RCA and Department of Labor, these discrepancies have now been eliminated.

3. Stolen Property

The slide projectors, cassette tapeplayers, photographic equipment and other property cited in the draft report were reported stolen, as required, and the police reports and requests for relief of accountability were forwarded to the Department of Labor in accordance with Job Corps regulations. When relief of accountability was granted the appropriate Form 3-28 was initiated to have these items deleted from the Foundation's inventory. In some instances the items were deleted, while in others they were not. We cannot give an explanation for this situation except to indicate that procedures were followed. The same situation applies to the equipment found at the center but not listed on the property inventory. Foundation personnel responsible for these transactions again indicated procedures were followed to have these items reported when acquired. The same explanation applies to the vehicles transferred to another agency and to the vehicle that was destroyed in training.

4. Washers and Dryers - Inaccurate Inventory Records

The alleged discrepancy between inventory records and the number of washers and dryers on hand reflect donated items which were not picked up on the inventory. Foundation records reflect that 20 washers and 20 dryers had been purchased, two washing machines were transferred in from another center but never repaired because of the excessive costs which would have been entailed. The remaining machines were donated by local citizens.

The corporate agent showed your examiners letters accepting donations, yet no explanation of these donations appear in the draft report.

5. DOL Property Management System

Whether or not all the items were reported and failed to get into the system is conjecture at this point because it is difficult to reconstruct the system employed at the time. However, here are excellent examples of the difficulties encountered in the overall property system.

The Foundation turned over property at the center to the RCA Service Company during the last week of February 1976, and RCA submitted the necessary paperwork to pick up the items. Yet some of the items picked up by RCA still appeared on our print-out. The procedure had to be repeated and probably resulted in duplicate listing when both transactions were finally processed. Although the Foundation took action to alleviate this situation, the duplicate items still appeared on subsequent property print-outs.

In June, July, September and October 1976, the Foundation followed established procedures and requested that certain other items be deleted from the property print-out. In several instances, the items still appeared on later property print-outs. Again, the procedure had to be repeated.

In October 1976 we reminded the Department of Labor by mailgrams that property no longer in our possession appeared on our September property print-out. Again we requested expeditious action to have the matter resolved. We have yet to receive a reply on action taken by Department of Labor on several of our queries.

6. Photographs of Scrap Yard

We fail to see the relevance of the photographs of the center scrap yard which are included in the draft report. The draft report does not suggest that items have been inappropriately placed in the scrap yard. Nor does the draft report indicate that the center scrap yard is any more or less neat than those maintained by other centers or federal agencies including the General Accounting Office. Unless there is a relevant point to be made by the photographs, their inclusion in the draft report is gratuitous at best.

7. Cash Balance/Accounting for Government Funds

The unresolved cash balance of $8,005 of a previous contract was not called to the attention of the Foundation. Further, the Foundation did not receive the customary brief-out at which time this item as well as others could have been resolved.

However, the Foundation did take action when the question was raised by your examiners in 1976. At that time, the Foundation took immediate action and requested that its CPA firm examine this apparent discrepancy. A copy of their report was transmitted to the Department of Labor on December 12, 1976. It is our opinion that the matter has been adequately resolved. A minor misimpression created by the report was that a CPA firm was retained by the Foundation for the sole purpose of conducting this examination.

8. "Unresolved" Discrepancies

The draft report states that many unresolved discrepancies concerning the Foundation's financial records remained at the completion of their field work.

Although your examiners began their field work during the first week of April 1976, the Foundation never received any reports on the "unresolved discrepancies" until the draft report was transmitted to the Foundation in December 1976, approximately nine months after the Foundation had terminated operation of the center.

It is our opinion that the discrepancies cited in the draft report as unresolved are the subject of other audits. Responses to those audits are all pending with the Department of Labor. It is our belief, therefore, that the draft report's recommendation for "full accounting" would unnecessarily duplicate other publicly funded audits of the subject expenditures.

The Foundation's contracts have been audited by auditing personnel retained by the Department of Labor. Contract JCC 2165-99 has been audited on two occasions and the Foundation responded to the reports of audit. As mentioned above, the CPA report adequately clarifies the cash balance question.

Contract 3-JC-409-24 has also been audited on two occasions by Department of Labor auditors and the Foundation has responded to those reports of audit. We can see no useful purpose to a further audit of accounts already audited.

9. "Interviews" with Foundation Officials

The draft report refers to contacts with Foundation officials. With the exception of the informal briefing conducted by your personnel in July 1976, there were no contacts with the Foundation's board of directors.

10. Projected Cash Shortage

The Foundation did not comment on the probable projected cash shortage indicated by the auditor because it was based on a preliminary estimate of the cost of commitments made through February 29, 1976. There was insufficient time to make the needed adjustments to bring spending in line with the availability of funds. It should be noted that the Foundation's action on cancellation of orders and a closer evaluation of commitments resulted in an underrun of the contract budget, a further indication that fiscal measures adopted by the Foundation were sound and effective.

11. G&A Expenses

The draft report questions the $10,836 claimed by the Foundation under a previous contract and which had not been expended at the time of the audit. The G&A costs under the old contract were a fixed monthly amount not subject to audit by the Department of Labor. As stated in Contract JCC-2165-99:

> "It is mutually agreed that ...expenditures of funds from this G&A account will not be subject to the auditing procedures of the Department of Labor as outlined elsewhere herein."

This matter was addressed in our response to the report of audit conducted during the period July 1, 1972 through May 31, 1974. We have not received any response to our explanation on this subject from the Labor Department to date and presume that the matter has been resolved.

D. Summary

The Foundation is a non-profit corporation which was designated, by its lease with the State of Maryland and contracts with the U.S. Department of Labor, as the agent to operate the Job Corps center from July 1, 1971 to February 29, 1976. It is our opinion that the Foundation, in the absence of comment to the contrary from the Labor Department has fulfilled all of its obligations under the terms of its contracts with the Department of Labor. We have responded to the questioned costs in the report of audit to the first contract. We requested and received a total audit of the second contract through the period February 29, 1976. We have responded to the questioned costs in the report of audit to that contract, and the contracting officer has accepted our report. Finally, full and complete documentation of inventory transactions has been provided to responsible officials in the Department of Labor.

We trust that we have provided you with sufficient clarification to enable you to revise the draft report. Should you desire further assistance in this regard, please feel free to contact me.

Sincerely yours,

Richard A. Batterton
Chairman

Enclosure

GAO note:
Enclosure has been deleted for brevity.

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