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BY THE U.S. GENERAL ACCOUNTING OFFICE
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Report To The Chairman, Committee On Labor And Human Resources United States Senate

Corrective Actions Taken Or In Process To Reduce Job Corps' Vulnerability To Improper Use Of Contracting Authority

GAO reviewed contract award and modification practices of the Office of Job Corps in the Department of Labor's Employment and Training Administration.

Before fiscal year 1982 the (1) Job Corps director had both programmatic and contracting officer authority, (2) internal controls were inadequate, and (3) audit coverage of Job Corps' procurement activities was inadequate. The Employment and Training Administration has either taken or is taking actions to resolve these problems.

A continuing problem is Job Corps' reliance on architectural and engineering support contractors to write design and construction contracts without independent reviews by Job Corps to assess the contracts' technical appropriateness. This report contains a recommendation to the Secretary of Labor for obtaining such reviews.



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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

HUMAN RESOURCES
DIVISION

B-203666

The Honorable Orrin G. Hatch
Chairman, Committee on Labor
and Human Resources
United States Senate

Dear Mr. Chairman:

In your November 8, 1982, letter, you asked us to review the use of contract modifications by Job Corps, a program operated by the Department of Labor's Employment and Training Administration (ETA), under title IV, Part B, of the Comprehensive Employment and Training Act (29 U.S.C. sec. 923 et seq. (1978)). Job Corps provides economically disadvantaged youths ages 14 to 22 with programs of vocational training, education, work experience, counseling, and other activities to help them become more responsible, employable, and productive. Specifically, you wanted to know whether the Job Corps national or regional offices had inappropriately used contracting authority to modify program contracts.

In summary, we found that before fiscal year 1982 Job Corps' procurement process was vulnerable to improper use of contracting authority. In several instances regional offices had not followed proper procurement procedures. The failure to follow procedures was an even greater problem, however, in the national office. The following conditions contributed to the problem:

- ETA had given the Job Corps director both programmatic and contracting officer authority.
- With some limitations, the regional Job Corps directors also had programmatic and contracting officer authority for Job Corps center contracts and regional recruiting and placement contracts.
- ETA did not have sufficient internal controls to reasonably assure the appropriate use of such broad authority by the national or regional directors.
- Labor's Office of the Inspector General had given little audit coverage to Job Corps contracts from fiscal year 1978 through fiscal year 1982.

Reacting to criticism of its procurement and management practices by Members of Congress, GAO, the news media, and other organizations, during fiscal year 1982 ETA revised its procurement policies and procedures to address problems in Job Corps as well as other ETA programs. As they affected Job Corps, the new policies and procedures removed contracting officer authority from the Job Corps director and instituted new internal controls over procurement. ETA also arranged for broad audit coverage of Job Corps contracts by the Office of the Inspector General.

Although we have not reviewed the new internal controls in operation, we believe ETA's actions should improve the efficiency and effectiveness of Job Corps' procurement activities. One exception, however, is the controls over contracts for architectural and engineering (A&E) support services, which may not adequately protect the Government's interest because ETA lacks the technical expertise to independently review contracts proposed by A&E support contractors for design and construction work at Job Corps centers. Our recommendation for dealing with this issue appears on page 17. Labor officials reviewed a draft of this report, and their comments are included where appropriate.

OBJECTIVES, SCOPE, AND METHODOLOGY

We approached our work from two perspectives. First, from a July 1982 list of 181 active national office contracts, we selected and reviewed all contracts of \$1 million or more that were for such activities as recruiting, placement, vocational training, A&E support services, management support, and construction. Twenty-three contracts met the criterion. Three of the firms with these contracts also had a total of eight contracts of smaller dollar value which we also selected for review. (See app. I.)

From the Office of the Inspector General, we found that broad audit coverage had recently been instituted over Job Corps contracting in such areas as center operation and support contracts, recruiting and placement contracts, vocational training contracts, and A&E support contracts. (See app. III.) In addition, the Inspector General's Security and Special Investigations Branch (SSI) was investigating allegations of improper procurement actions by a former Job Corps director. The U.S. attorney was also investigating some potential criminal aspects of the allegations. Because of the Inspector General's and U.S. attorney's involvement, we avoided potentially duplicative efforts by limiting our work on national office contracts to file reviews and, as necessary, contacts with national office personnel involved in the procurements.

We reviewed Job Corps' central files in Washington, D.C., for center operations' contracts in effect from October 1980 through September 1982. These file reviews revealed a number of contract modifications for which the written explanations of purpose seemed either unduly vague or not directly related to the contracts' basic purpose--to operate individual Job Corps centers.

We judgmentally selected and reviewed various modifications from contracts for seven centers and visited these centers to obtain additional information. The seven centers are Atlanta, Georgia; Jacksonville, Florida; Turner in Albany, Georgia; Earle C. Clements in Morganfield, Kentucky; Gary in San Marcos, Texas; Clearfield, Utah; and Los Angeles, California. We also visited the following Job Corps regional offices: Region IV, Atlanta; Region VI, Dallas; Region VIII, Denver; and Region IX, San Francisco. (See app. II.) At the centers, we interviewed management officials; examined contract files, correspondence, and other pertinent records; and inspected facilities and equipment as necessary. At the Labor regional offices, we interviewed management officials and examined contract files.

We briefed your staff on the results of our work on March 24, 1983. At their request we prepared this report summarizing our findings.

Our work was performed in accordance with generally accepted Government auditing standards.

CONTRACTING: A MAJOR JOB CORPS ACTIVITY

Most of Job Corps' appropriated funds are obligated through contracts. For example, as shown under the center operations category on page 4, about \$323.4 million (or about 54 percent of the fiscal year 1983 budget) is for operating centers under regional office contracts with business firms, nonprofit organizations, and State and local governments; \$26.2 million (or about 4.4 percent) is for national office contracts with unions for vocational skill training at selected centers; and \$6.2 million is for both national and regional office contracts for support activities at Job Corps centers.

Capital expenditure contracts are also large in magnitude. Excluding contingency funds, about \$41.2 million (or 6.9 percent of the budget) is allocated for capital items for Job Corps centers. This includes, in large part, \$7 million for A&E support service contractors, who perform nationwide facility surveys, recommend facility construction and rehabilitation, and prepare design and construction contracts for ETA approval; and \$24.5 million for design and construction contracts.

About \$24.4 million (or 4.1 percent of the budget) is for enrollee recruiting, screening, placement, and support services contracts--\$5.4 million for national office contracts and \$19 million for regional office contracts. Most of the regional office contracts are with State employment security agencies.

Fiscal Year 1983 Job Corps Budget Structure
(dollars in thousands)

<u>Budget category</u>	<u>Budget amount</u>	<u>Percent of total</u>	<u>Type of contract</u>		
			<u>National</u>	<u>Regional</u>	<u>Other</u>
Center operations	\$440,698	73.5	\$113,765	\$324,113	\$2,820
Contract centers	352,441	58.8	a/26,184	323,437	b/2,820
Conservation centers (note c)	82,076	13.7	d/82,076	-	-
Support activities	6,181	1.0	5,505	676	-
Capital expenditures	50,375	8.4	39,033	9,730	1,612
Expenditures by Labor Conservation center expenditures (note c)	42,833	7.1	31,491	9,730	b/1,612
Recruiting, screening, place- ment, and support services	24,442	4.1	5,437	19,005	-
National management systems	960	0.2	960	-	-
National administration serv- ices (note e)	1,828	0.3	-	-	1,828
Enrollee transportation (note f)	9,143	1.5	9,143	-	-
Enrollee allowances (note f)	71,953	12.0	71,953	-	-
Total	\$599,399	100.0	\$240,021	\$352,848	\$6,260

a/This amount is for union vocational training programs.

b/These are funds reserved for contingency purposes.

c/These centers are operated by the Departments of Agriculture and the Interior under an interagency agreement. The budget calls for Labor to transfer a total of \$89.6 million to Agriculture and Interior in fiscal year 1983.

d/This amount includes \$9.8 million for union vocational training programs.

e/This includes the costs for such items as postage and the services of the Army Finance Center, which disburses enrollee allowances and transportation payments.

f/Payments are made by the Army Finance Center under an interagency agreement.

CONTRACTING OFFICER AUTHORITY
REMOVED FROM OFFICE OF JOB CORPS

Among other requirements, sound internal controls require the separation of duties to minimize risk of loss to the Government and to reasonably assure detection of errors or irregularities. Accordingly, no individual should control all key aspects of an event. However, from July 1975 through May 1982, the Job Corps director had both program management and contracting officer authority, except for sole-source procurements over \$2,500, which required approval by higher levels within ETA and Labor.¹ Such authority made it possible for the director not to follow prescribed procurement procedures. Moreover, the lack of adequate controls enabled the director to award sole-source contracts without obtaining required ETA and Labor approvals. A parallel situation existed in the regional offices. For example, from fiscal year 1978 through early fiscal year 1982, regional directors had fairly autonomous programmatic and contracting officer authority for center operation contracts.

Problems at the national office level

As mentioned earlier, the Inspector General's SSI investigated allegations of improper procurement actions by the individual who was Job Corps director from July 1979 to early 1982. Our review of Job Corps center operation contracts also identified questionable procurement actions originating in the national office.

SSI investigation

On October 21, 1981, SSI referred several matters that it was investigating to the Department of Justice for criminal investigation. In February 1983, the U.S. attorney closed his investigation without bringing any charges against the former director. SSI continued its administrative investigation and prepared an internal investigative memorandum concerning allegations of possible misconduct and abuse of official authority by the former director. The memorandum, which was sent to the Assistant Secretary for Employment and Training on May 18, 1983, covered the following topics relevant to the scope of our examination.

¹This authority was provided in Manpower Administration Orders No. 4-75 and 8-75 issued in July 1975 and in Employment and Training Order No. 4-80 issued in October 1980.

Batesville, Mississippi, center contract--In December 1980, Job Corps awarded a contract for operating the Batesville Job Corps center to MINACT, Inc., a Mississippi-based corporation. According to SSI, the Region IV director had recommended to the national office that the contract be awarded to another contractor, whose proposal the regional office had rated highest in technical merit and lowest in cost. However, the Job Corps director awarded the contract to MINACT, whose proposal was rated third highest in technical merit and second lowest in cost. The director told SSI that awarding the contract to MINACT avoided giving the other contractor, who operated the other two centers in Mississippi, a "monopoly" on the operation of centers in the State. According to the SSI branch chief, this rationale violated procurement regulations because it was not based on any of the selection criteria published in the request for proposals.

Humanization, Inc., Lakewood, Colorado--Humanization, Inc., is a management consulting firm whose president is a former Job Corps regional director. According to SSI, the Humanization president (1) contacted a number of Job Corps centers, (2) proposed that the centers contract with his firm to determine needed improvements in the residential quality of life for Corps members, and (3) acted as if he were a Job Corps spokesman by assuring center operators that the national office would add money to their contracts to pay for his services. From about mid-1980 through December 1981, Humanization was paid a total of \$376,351 under subcontracts with 14 centers.

During our visit to the Gary Job Corps center in San Marcos, Texas, center officials told us that in March 1980 they awarded a subcontract to Humanization for consulting services related to the residential quality of life. The subcontract was awarded based on verbal assurance from the national director that funds to pay for the services would be added to the Gary contract. According to the Job Corps Region VI director, the national office persuaded the center contractor to award the subcontract to Humanization. The national director instructed the regional office to transfer \$27,000 from center operation funds available for the Laredo Job Corps center contract to the Gary contract to pay Humanization. However, the Gary center eventually paid Humanization about \$60,000 for its services. The \$33,000 difference between the funds transferred and actual cost was paid from the center's operating funds. Also, according to a Gary center official, the national office said it would add money to the center contract for residential facility improvements recommended by Humanization. The center spent about \$282,000 out of operating funds to implement the capital improvements, but the national office never added the promised funding to the contract.

Institute for Humanist Studies, East Orange, New Jersey--
In February 1980, the Job Corps national office awarded a sole-source \$50,000 contract to the Institute. The award was made without required approvals from the Assistant Secretary for Administration and Management or Labor's Procurement Review Board. The contractor eventually received almost \$200,000 after contract modifications. Under this contract, the Institute basically was a conduit for funding research work by two Israeli citizens who studied the application of Israeli residential living models to Job Corps centers.

In January 1981, the national office awarded \$875,000 to the Institute under another sole-source contract. Again, the required higher level Labor approvals were not obtained. The contract's basic purpose was to implement the Israelis' research results. In connection with this, the Institute's director told the Inspector General's contract auditors that the Job Corps director persuaded him to award two subcontracts--one for \$31,564 to PREP, Inc., for instruction of Job Corps center staffmembers on how to present sex education materials that were to be distributed by PREP and another for \$21,564 to TEAM Associates, Inc., for work related to the residential living project.

Four Job Corps centers we visited had received unsolicited shipments of PREP's sex education materials. The Job Corps director authorized the regional offices to add money to the center contracts to pay PREP for its materials; however, two of the centers had not accepted the money and had shipped the materials, which they considered inappropriate, back to PREP. The other two centers had paid for but never used the materials which they also considered inappropriate.

In our work on national office contracts, we found that, during fiscal years 1977-81, Job Corps had noncompetitively awarded at least 10 contracts to TEAM Associates, a firm classified as a disadvantaged small business under section 8(a) of the Small Business Act (15 U.S.C. sec. 637(a)(1978)). Also, other ETA programs had awarded at least the following four contracts to TEAM:

<u>Purpose</u>	<u>Amount</u>	<u>Expiration date</u>
To provide support to the President's Task Force on Youth Employment	\$ 372,175	Sept. 30, 1981
To assist the Office of Youth Programs in implementing an automated instruction program	311,807	Mar. 31, 1982
To provide technical assistance to the Vice President's Youth Employment Task Force	1,441,092	Oct. 31, 1982
To develop management assistance and training systems for ETA grantees	557,892	Dec. 31, 1982

The 14 TEAM contracts were valued at almost \$12 million. Because of the number and amount of the contracts, the Inspector General plans to begin auditing them by early fiscal year 1984.

AFL/CIO Appalachian Council--According to SSI, Job Corps had awarded a fixed-price contract to the Council for recruiting services. Although the contract was fixed price, it was modified numerous times for services that should have been obtained competitively. Also, the Job Corps director, who was the contracting officer, failed to include a provision in the contract for access to records by Government auditors. As a result, SSI investigators were unable to gain access to the Council's records under the contract. The U.S. attorney later had to subpoena the records during his investigation.

As stated earlier, we summarized only those segments of the investigative memorandum pertaining to the scope of our work. (We understand that your office has received a copy of the Inspector General's investigative memorandum.)

Questionable national office
procurement actions identified by GAO

While examining Job Corps center contract modifications, we identified a number of inappropriate national office procurement actions. Some of the modifications involved the sex education materials from PREP, Inc., and the services of Humanization, Inc., which were discussed earlier. In addition, the national

office had used individual center operations contracts as vehicles for making procurements that were not the proper function of a Job Corps center. The procurements should have been made through new national office contracts, but the national office circumvented the required procurement approval process by adding funds through modifications of center contracts.

Several of these procurements were for automatic data processing equipment and services. For example, the national office wanted the Texas Educational Foundation, Inc.--operator of the Gary, El Paso, and McKinney Job Corps centers--to set up and run an automated nationwide enrollee data collection system.

Instead of procuring the system competitively under a national office contract, in April 1981 the national office instructed Region VI to add \$142,000 to the Gary contract. Thus, the Gary center operations contract was used as a conduit for the Foundation to buy equipment and operate the system. Later modifications brought the total amount funneled through the Gary contract for the equipment and services to \$538,696.

In another instance, from May 1980 through March 1982, the national office directed Region VI to add over \$572,000 to the Gary contract. This money funded a contract between the Texas Educational Foundation and the University of Illinois for testing the applicability of a computer-based instruction program called PLATO to Job Corps. Again, instead of following the procurement process to award a national office contract for testing PLATO, the national office routed funding for the project through the Gary center operations contract. The University was paid a total of \$544,292.

The same situation occurred at the Job Corps center in Clearfield, Utah. From April 1980 through September 1982, the national office directed Region VIII to add about \$499,000 to the Clearfield center operation contract to fund a contract between Thiokol Corporation (center operator) and the University of Illinois for testing PLATO's applicability to Job Corps. The University was paid a total of \$496,129.

In a different situation, Region VIII added \$27,000 to the Clearfield contract to procure films through the University of Colorado wanted by the national office for nationwide recruiting. In our view, this procurement also was not a function of an individual Job Corps center and should have been handled under a contract between Job Corps and the film maker.

Problems originating at the regional office level

Regional directors serve as the contracting officers for contracts awarded for operating centers in their regions. Historically, Job Corps has awarded 2-year contracts with an option to extend the contract for 1 year. Although regional directors now have limited authority to modify center contracts without national office approval, they once had broad authority. From fiscal year 1978 through December 1981, regional directors needed national office approval only for modifications that extended a contract beyond the third year or that greatly increased the scope of work.

Each year the national office allocates funds to each regional office through a regional financial operating plan. This plan authorizes regional funding levels for five line items: (1) center operations, (2) center capital, (3) outreach/screening, (4) placement, and (5) other direct support. In several instances, Regions IV and VIII had made modifications to center contracts in fiscal years 1980 and 1981 that resulted in (1) circumventing agency procurement procedures and (2) using other direct support funds or center capital funds for purposes not intended in the approved regional financial operating plan.

Region IV

Other direct support funds in the regional financial operating plan are intended for regional office procurement of such items as (1) promotional materials, forms, and miscellaneous supplies for support of regional outreach, screening, and placement activities; (2) enrollee legal services; and (3) initial enrollee travel. In September 1981, the regional office added about \$193,000 of its other direct support funds to the contract for the Job Corps center in Jacksonville, Florida. The regional office used the contractor as a disbursing agent to pay invoices sent to it by the regional office. A regional official said this was done to avoid cumbersome procurement procedures.

The center made payments totaling almost \$14,000 for regional office purchases, including \$5,000 for accounting system software and \$2,803 for a photocopier. After we brought this problem to the attention of regional officials in July 1982, the remaining \$179,320 was reprogrammed into Jacksonville's operating budget.

In September 1980 the regional office added \$59,325 of capital funds to the contract for the Earle C. Clements center, Morganfield, Kentucky. As approved in the regional financial operating plan, this money was supposed to be used to purchase equipment for the center. However, over \$29,000 was used to purchase two minicomputers for the regional office. In addition, through September 1982, Clements paid \$3,744 a year from its operating funds for a maintenance contract for the two regional office computers.

Region VIII

In August 1981, the regional office added \$11,900 to the Clearfield center contract to employ two clerical staff to replace regional office personnel lost through reductions in force. The two clerical staff were employees of the Clearfield center contractor, Management and Training Corporation, but were housed in the regional office making regionwide transportation arrangements for new Job Corps enrollees, a function formerly performed by Job Corps employees. As of January 1983, 2.5 full-time equivalent employees of the contractor were still working in the regional office, and their salaries were included in the normal operating costs of the Clearfield center. In March 1983, we brought the situation to the attention of the Job Corps director, who said it would not continue. The contract was modified in June 1983 to remove provisions for the two clerical positions.

Also in August 1981, the regional office added \$6,500 of other direct support funds to the Clearfield contract so that the contractor could act as disbursing agent for the payment of expenses related to a Job Corps regional directors' annual meeting held in Salt Lake City. From these funds, the center disbursed payments to Job Corps regional office personnel for travel expenses, a hotel, airlines, and rental car companies.

INTERNAL CONTROLS ONCE LACKING BUT NOW IN PLACE

In an October 1982 letter to GAO, the Assistant Secretary of Labor for Employment and Training stated that our work and input from other sources--such as Labor's Office of the Inspector General, its Assistant Secretary for Administration and Management, and the Office of Management and Budget--had pointed to serious deficiencies in Job Corps management and administrative systems. Cited in the letter were a number of procurement problems, such as

- excessive and continuous reliance on sole-source contracting instead of open competition;²
- discretionary decisionmaking in funding actions without reference to detailed budgets, a comprehensive procurement plan, or funding controls;
- procurements made through third parties using centers as vehicles to avoid following required procurement approvals; and
- procurement decisions by regional contracting officers improperly reversed by the national office.

The Assistant Secretary said that the management and administrative problems demonstrated that Job Corps had been allowed to operate as an independent element within ETA with few checks and balances. To deal with these problems, ETA established various task forces to review and determine how to make the program more businesslike. To deal with the procurement problems, actions such as the following were cited by the Assistant Secretary.

- Implement new overall ETA procurement policy, as set forth in ETA Order 3-82 issued in December 1981, focusing on competitive procurements and providing a comprehensive system of safeguards.³
- Establish monitoring requirements and procedures.
- Develop a model request for proposals for center operations contracts.
- Develop a procurement technical assistance guide for Job Corps personnel.

²In an August 10, 1982, report to the Secretary of Labor (GAO/PLRD-82-107), we recommended that action be taken to competitively award future contracts for operating Job Corps centers, unless contractors are specifically exempt from competition by statutes.

³ETA's efforts were performed in response to recommendations in our August 28, 1981, report titled "Labor Needs to Better Select, Monitor, and Evaluate the Employment and Training Awardees" (HRD-81-111).

In specific reference to Job Corps problems cited in this report, ETA has dealt with them by (1) removing contracting officer authority from the Job Corps director and limiting the contracting officer authority of regional directors, (2) implementing a new procurement planning and approval system, and (3) implementing procurement monitoring systems. We believe ETA's actions will improve the procurement process. However, a problem not yet resolved is ETA's lack of assurance that the Government's interests are adequately protected in Job Corps design and construction contracts. (See p. 15.)

Contracting officer
authority redelegated

In May 1982, ETA delegated contracting officer authority for all national office contracts to the director of ETA's Office of Contracting, who has no programmatic interests that could be an incentive to take shortcuts in prescribed procurement procedures.

Regional directors retain contracting officer authority for center operation contracts and regional recruiting and placement contracts, but their authority is limited. They cannot approve any contract or modification that increases contract value without written approval from the national office. Also, except in limited instances, the Job Corps director does not have authority to give a regional director approval to sign a contract modification without review and approval by higher levels within ETA.

Requirement for advance
procurement approvals

In December 1981, ETA issued Order No. 3-82, laying the groundwork for comprehensive procurement checks and balances. The controls were found to restrict Job Corps management's authority too much and were later eased to give management more flexibility in dealing with unexpected problems at Job Corps centers.

Under the order, all planned national and regional procurements--new awards or modifications--that are expected separately or aggregately to amount to \$10,000 must be in the Annual Advance Procurement Plan, or its supplements, before procurement can be initiated. During implementation of the order, ETA required that even procurements under \$10,000 be in the fiscal year 1983 plan.

Before a proposed procurement takes place, it must be reviewed and approved by the ETA Office of Contracting, the Assistant Secretary for Employment and Training, and the Assistant Secretary for Administration and Management. Sole-source procurements must also be reviewed by Labor's Procurement Review Board.

These approval requirements at first applied to all contract modifications, except that modifications under \$10,000 did not need approval of the Assistant Secretary for Administration and Management or the Procurement Review Board. In effect this constituted a freeze on spending outside the advance procurement plan and virtually eliminated Job Corps' ability to deal quickly with unexpected problems at centers.

After a backlog of problems began to build, in June 1982 ETA gave limited authority to the Job Corps director to deal with such situations without getting advance approval. On a per action basis, the Job Corps director may authorize up to \$10,000 in new spending, and the Associate Assistant Secretary for Employment and Training up to \$25,000. The Assistant Secretary for Employment and Training must approve amounts over \$25,000. This authority applies to

- emergency repairs needed to (1) correct conditions threatening the safety or health of Corps members and center staff, (2) avoid costly damage to a facility, or (3) prevent serious and immediate disruption of center operations;
- unforeseeable but legitimate increases in center expenses, such as utility and fuel costs, food costs, State sales taxes, and Davis-Bacon wage requirement costs (40 U.S.C. sec. 276a et seq. (1921));
- critical equipment, supplies, or materials;
- realignment of center contract budgets due to legitimate variances in budget line items; and
- redistribution of vocational skills training funds among centers.

Systems for monitoring procurements

The ETA Office of Contracting has instituted an automated system to help ensure that proposed procurements are in the advance procurement plan before procurement actions are initiated. Also, in March 1983, the Job Corps national office

instituted an automated system for monitoring funds obligated to center contracts by regional offices. The system can identify unauthorized movement or obligation of funds. By the end of June 1983, the Job Corps national office expects to have a similar system for monitoring national office contracts.

Problems still exist in A&E contracts

The Job Corps program uses A&E support services contractors to identify construction and rehabilitation needs of Job Corps centers, recommend contractors for proposed work, and write contracts for ETA's approval. Before contracting officer authority was delegated to the director of the Office of Contracting, the Job Corps national director approved the proposed contracts. Because ETA does not maintain an A&E staff, Job Corps has contracts with three firms for A&E support services. Review work by Labor's Office of Grants and Procurement Policy and audit work by a public accounting firm under contract to the Office of the Inspector General have identified a number of problems with the A&E support contracts:

- In some cases, the A&E support contractors had entered into unwritten subcontracts with contractors/consultants for significant dollar amounts.
- Each A&E contract had a clause providing for the contractor to be reimbursed actual costs incurred plus a fixed percentage of such costs. In effect, this constituted a cost plus a percentage of cost contract, which is generally illegal (41 U.S.C. sec. 254(b)(1949)) and could result in paying excessive fees to the contractors.⁴
- The three A&E contractors write design and construction contracts for work at specific centers, and these contracts need ETA contracting officer approval. Two persons from the A&E support contractors serve as ETA's in-house experts for preaward technical reviews of the proposed contracts. In effect, the A&E firms write contracts for ETA, but ETA does not have independent technical expertise to assess the contracts' appropriateness. Over a 4-year period, these contracts amounted to almost \$126 million.

⁴We previously found this practice occurring in center operations contracts and recommended that Labor determine the extent of its use on Job Corps contracts and recover any improper fee payments (GAO/HRD-82-93, July 2, 1982).

ETA has removed from its A&E contracts the clause providing for reimbursement of actual costs plus a fixed percentage of such costs. Also, the Inspector General is examining fee payments to determine if overpayments occurred and what action should be taken to recover the moneys. As it prepares to award a new contract to a single firm to replace the existing A&E contracts which expire at the end of fiscal year 1983, ETA will, in our opinion, continue to lack reasonable assurance that the design and construction contracts recommended by the new A&E firm are appropriate.

AUDIT COVERAGE ONCE LACKING
BUT NOW GREATLY EXPANDED

In the previously mentioned letter to GAO, the Assistant Secretary for Employment and Training cited as a major problem a backlog of unaudited Job Corps contracts--a backlog that accumulated without any plan to deal with it. The limited audit coverage was demonstrated by a June 1982 audit status report prepared by Job Corps for contracts in effect on or after October 1, 1977. Of 413 national office contracts listed in the report, none had been audited, and of 515 regional office contracts, only 28 had been given some audit coverage. Some of the unaudited contracts had been awarded as early as 1972.⁵

In early 1982, ETA began efforts to improve the audit coverage of Job Corps contracts, and in May 1982 ETA informed the Inspector General that it would transfer \$7 million to his office for doing Job Corps contract audits. The Inspector General had instituted broad audit coverage of the entire Job Corps program by early fiscal year 1983, and the coverage is to be expanded in late fiscal year 1983 and in fiscal year 1984. Audits now underway encompass such areas as (1) enrollee transportation and allowances; (2) center operations; (3) vocational training; (4) recruiting, screening, and placement; and (5) A&E support services. Planned audits include design and construction contracts and contracts with TEAM Associates, Inc., which had numerous Job Corps and other ETA contracts. The Inspector General expects to issue a number of reports this fiscal year on audits now underway. (See app. III.)

⁵In our July 2, 1982, report referred to on page 15, we stated that a large number of expired contracts had not been audited and closed out, and we recommended that action be taken to review them.

CONCLUSIONS

The procurement problems discussed in this report occurred primarily because (1) the Job Corps director had both programmatic and contracting officer authority, (2) internal controls were inadequate, and (3) audit coverage of Job Corps procurement activities was inadequate. ETA has addressed these problems by (1) shifting contracting officer authority from the Job Corps director to ETA, (2) adopting internal controls, and (3) arranging for broad audit coverage of Job Corps contracts by the Inspector General. ETA's actions should improve the efficiency and effectiveness of Job Corps' procurement activities.

A continuing problem, however, is Job Corps' reliance on A&E support contractors to write design and construction contracts without ETA's having the expertise to independently assess the technical appropriateness. Lack of such independent review raises the possibility that the Government's interests may not be adequately protected.

RECOMMENDATION TO THE
SECRETARY OF LABOR

We recommend that the Secretary provide a means for independent expert review of contracts proposed by the A&E support contractor for design and construction work at Job Corps centers. This could be done in various ways, such as direct hiring of the individuals with skills needed, arranging for the part-time assignment of an expert from another agency, or contracting for the services from a separate firm.

AGENCY COMMENTS AND
OUR EVALUATION

ETA officials concurred with our recommendation and said that two staff positions will be established to increase oversight of the A&E contract. A monitor will be brought in to oversee compliance with the contract terms and conditions, and an engineer will be hired to review the technical aspects of proposals for design and construction work. When completed, these actions should provide a means for the independent expert review we believe is necessary.

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As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days from its issue date. At that time we will send copies to the Secretary of Labor; the Assistant Secretary for Employment and Training; the Director of the Office of Job Corps; and the Director, Office of Management and Budget, and will make copies available to others upon request.

Sincerely yours,

A handwritten signature in cursive script that reads "Richard L. Fogel".

Richard L. Fogel
Director

NATIONAL OFFICE CONTRACTS EXAMINED BY GAO

<u>Type of contract/contractor</u>	<u>Number of modifications</u>	<u>Contract value</u>		<u>Performance period</u>	
		<u>Start</u>	<u>End</u>	<u>Start</u>	<u>End</u>
<u>Vocational training contracts</u>					
1. AFL/CIO Appalachian Council	16	\$ 685,177	\$11,370,369	12/30/77	09/30/83
2. National Association of Home Builders	26	2,128,105	22,700,387	09/28/78	09/30/83
3. United Brotherhood of Carpenters and Joiners of America	19	2,238,770	15,306,111	09/28/78	09/30/83
4. Operative Plasterers and Cement Masons	14	1,033,487	8,121,697	09/28/78	09/30/83
5. International Brotherhood of Operating Engineers	14	626,670	5,057,939	07/01/78	09/30/83
6. International Brotherhood of Painters and Allied Trades	21	890,628	8,024,153	09/28/78	09/30/83
7. Brotherhood of Railway, Airline and Steamship Clerks, Freight Handlers, Express and Station Employees	11	3,265,624	16,265,440	09/26/79	09/30/83
8. International Masonry Apprentice Trust	12	1,334,171	6,533,119	09/27/79	09/30/83
9. National Maritime Union of America	8	1,218,000	3,157,980	03/19/81	09/30/83
10. Falls Management Institute	6	400,000	1,408,335	06/21/79	03/31/82
<u>Residential living support contracts</u>					
11. National Business Services Enterprises, Inc.	8	\$ 426,502	\$ 1,347,795	06/16/80	12/31/83
12. TEAM Associates, Inc.	5	44,419	94,247	03/16/81	06/30/82
<u>Education support contracts</u>					
13. TEAM Associates, Inc.	6	\$ 99,849	\$ 324,030	10/01/80	09/30/82
14. TEAM Associates, Inc.	4	197,100	1,178,989	03/16/81	09/30/82
15. TEAM Associates, Inc.	3	150,000	203,666	05/04/81	09/30/82
16. TEAM Associates, Inc.	7	199,526	619,022	09/10/80	09/30/82
17. TEAM Associates, Inc.	4	160,073	404,910	03/16/81	09/30/82
<u>National management support contracts</u>					
18. Aurora Associates, Inc.	3	\$ 202,800	\$ 279,703	09/28/80	04/30/82
19. Aurora Associates, Inc.	9	5,700,000	8,287,034	12/29/80	12/31/83
20. TEAM Associates, Inc.	6	99,969	215,463	09/15/80	09/30/82

APPENDIX I

APPENDIX I

<u>Type of contract/contractor</u>	<u>Number of modifications</u>	<u>Contract value</u>		<u>Performance period</u>	
		<u>Start</u>	<u>End</u>	<u>Start</u>	<u>End</u>
<u>Recruiting, screening, placement, and support services contracts</u>					
21. Women in Community Service	11	\$2,080,567	\$ 6,907,611	10/01/80	09/30/83
22. Joint Action in Community Service, Inc.	7	234,532	639,990	10/01/80	09/30/82
23. Joint Action in Community Service, Inc.	9	1,862,831	6,469,398	10/01/80	09/30/83
<u>National A&E support services contract</u>					
24. Leo A. Daly Company	5	Not to exceed \$9,568,858 \$10 million		09/05/80	09/30/83
<u>Design and construction contracts</u>					
25. Face Associates, Inc.	3	Not to exceed \$2 million			
26. Environmental Management Consultants, Inc.	5	Not to exceed 9,155,300 \$7 million		09/01/80	09/30/83
27. The Harris Corporation	10	\$2,823,136	\$3,596,872	09/18/80	07/01/82
28. The Harris Corporation	3	1,526,000	1,555,000	03/22/82	01/15/83
29. Rice and Weidman, Inc.	11	1,004,000	1,212,252	08/18/81	07/27/82
30. Lawless and Alford, Inc.	3	2,369,000	3,039,018	05/18/81	03/01/83
31. Shelby-Skipwith, Inc.	5	1,677,900	1,791,435	06/03/81	05/01/82

DOLLAR VALUE AND TYPES OF CENTER CONTRACT MODIFICATIONS REVIEWED BY GAO

<u>Region/Center</u>	<u>Purpose and dollar value of modifications</u>								<u>Number of modifications</u>
	<u>Operations</u>	<u>Rehabilitation</u>	<u>Equipment</u>	<u>Other direct support</u>	<u>Humanization, Inc., consulting services</u>	<u>ADP equipment and services</u>	<u>Sex education materials</u>	<u>Other</u>	
Region IV:									
Atlanta	\$ 236,237	\$111,256	\$ 31,813	\$ 9,135	\$ -	\$ -	\$ 10,408	\$ -	7
Jacksonville	-	-	-	193,283	-	-	-	-	1
Clements	2,021,879	134,775	5,225	-	-	59,325	-	<u>a/190,086</u>	6
Turner	321,000	-	205,000	-	-	-	18,657	-	3
Region VI:									
Gary	-	-	-	-	27,000	1,222,705	-	<u>b/64,468</u>	10
Region VIII:									
Clearfield	198,900	172,805	286,320	<u>c/33,500</u>	-	678,574	-	-	17
Region IX:									
Los Angeles	418,319	27,034	15,000	-	-	-	-	-	3

a/Subcontract with University of Kansas for learning disabilities program.

b/Salaries for national office intern and teacher aides.

c/Includes \$27,000 for recruiting films used nationwide.

AUDIT COVERAGE OF JOB CORPS CONTRACTS BY THE OFFICE OF THE INSPECTOR GENERAL

APPENDIX III

<u>Budget category</u>	<u>Contractor</u>	<u>Audit task orders issued to Certified Public Accounting firms</u>			<u>Requirements</u>
		<u>Number of task orders issued</u>	<u>Date signed</u>	<u>Completion date</u>	
1. Enrollee Transportation and Allowances	Army Finance Center	1	01/19/83	09/30/83	Financial and compliance audits of (1) readjustment allowance payments and (2) the allowance, allotment, and travel payments system.
2. Center Operations					
a. Operator contracts	(1) MINACT, Inc.	1	05/24/82	05/31/83 (Reports now in draft)	Financial and compliance audits of Batesville, Knoxville, and St. Louis center contracts.
	(2) 24 contractors	9	09/30/82	09/30/83	Financial and compliance audits of contracts for 73 centers.
b. Residential living	(1) Institute for Humanist Studies (two contracts)	1	04/12/82	06/30/83	Financial and compliance audit of two Institute contracts.
	(2) TEAM Associates, Inc.		Task order is to be issued in late FY 1983 or early FY 1984.		Financial and compliance audit of this contract and 15 other contracts totaling \$12 million awarded to TEAM for various purposes.
c. Education	TEAM Associates, Inc.	----- Same as 2b(2) -----			
d. Vocational training	AFL/CIO Appalachian Council (four contracts)	1	09/30/82	09/30/83	Financial and compliance audit of four cost reimbursable contracts totaling \$12.9 million.

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APPENDIX III

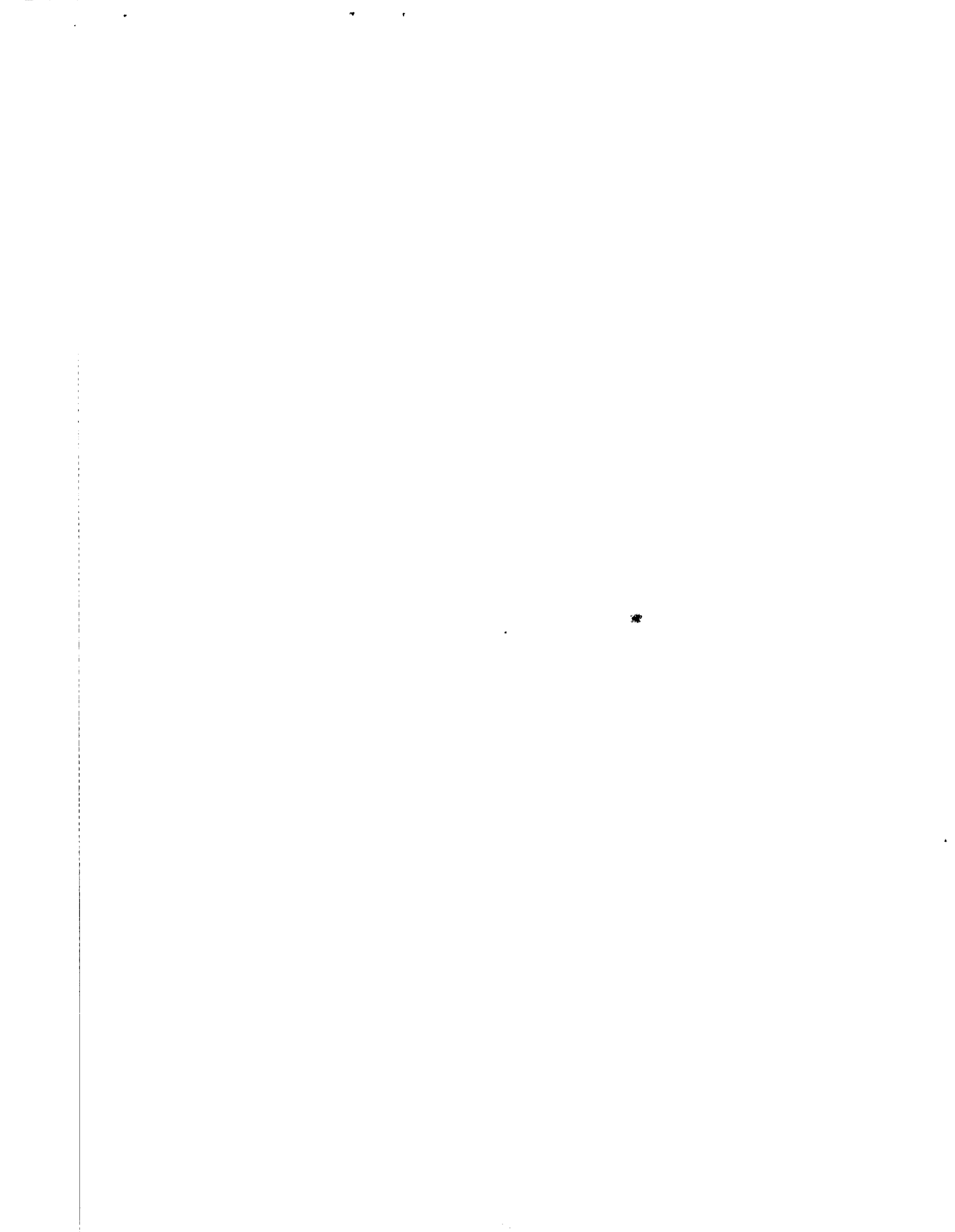
Audit task orders issued to Certified Public Accounting firms

<u>Budget category</u>	<u>Contractor</u>	<u>Number of task orders issued</u>	<u>Date signed</u>	<u>Completion date</u>	<u>Requirements</u>	
3. Recruiting, Screening, Placement, and Support Services	(1) AFL/CIO Appalachian Council (19 contracts)	----- Same as 2d -----			Financial and compliance audit of 19 fixed price contracts totaling \$9.8 million.	
	(2) All recruitment and placement contractors	1	02/25/83	11/30/83 (E&E) FY 1984 (F&C)	Complete coverage of recruitment and placement: <ul style="list-style-type: none"> —Financial and compliance audits —Economy and efficiency audits —Program results audits —Vulnerability audits 	
4. National Management Systems	TEAM Associates, Inc.	----- Same as 2b(2) -----				
5. Capital Outlays	a. A&E support	Three contractors: —Leo A. Daly —Face Assoc. —EMC	1	09/30/82	09/30/83	Financial and compliance audit of contracts totaling \$32.3 million.
	b. Design/construction	Numerous contractors	Task order is being drafted.		Financial and compliance audit of contractors identified for audit during the work described in 5a.	

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Audit task orders issued to Certified Public Accounting firms

<u>Budget category</u>	<u>Contractor</u>	<u>Number of task orders issued</u>	<u>Date signed</u>	<u>Completion date</u>	<u>Requirements</u>
6. Overall Job Corps program	Contractors of various types.	1	12/17/82	09/30/83	Conduct a survey of program and develop an audit plan which will provide complete program coverage: —Financial compliance audits —Economy and efficiency audits —Program results audits —Vulnerability audits —A&E audits —Recruitment and placement audits —Support contractor audits —Agriculture, Interior, Job Corps center audits



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