



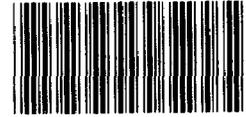
UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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HUMAN RESOURCES
DIVISION

July 2, 1982

The Honorable Albert Angrisani
Assistant Secretary for Employment
and Training
Employment and Training Administration
Department of Labor



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Dear Mr. Angrisani:

Subject: Job Corps Should Stop Using Prohibited
Contracting Practices and Recover
Improper Fee Payments (GAO/HRD-82-93)

During our current survey of Job Corps contract administration, we found that Job Corps Regional Offices seem to be administering contracts for center operations as cost-plus-percentage-of-cost rather than cost-plus-fixed-fee. Federal law prohibits the cost-plus-percentage-of-cost system of contracting. This practice was previously brought to the Job Corps Director's attention by a national office review team in May 1981, but action was not taken to stop the practice or correct errors.

The cost-plus-percentage-of-cost system of contracting is prohibited by 41 U.S.C. 254(b). Also, Federal Procurement Regulations state: "The fixed fee once negotiated does not vary with actual cost, but may be adjusted as a result of any changes in the work or services to be performed under the contract" (FPR 1-3.405-5). Job Corps currently has 72 two-year contracts with an estimated annual cost of approximately \$334 million for operating 74 centers. Eleven of these contracts are with non-profit agencies that do not receive a fixed fee. Of the remaining 61 contracts, we identified at least 39 that seem to have been treated as cost-plus-percentage-of-cost contracts or had the fee increased without changes in the scope of work. We estimate that over \$600,000 in fees were added to these contracts with no apparent changes in the scope of work.

We found examples of fee changes with no apparent changes in the scope of work in all 10 Job Corps regions. For example, in the Dallas Region, the contract for operating the Guthrie Job Corps Center was modified twice with the justification "to increase the cost per corps member year." The increases were for \$364,000 and the fee was increased \$14,000, or 3.9 percent of the cost. The fixed fee on the original contract was also 3.9 percent

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of cost. In the Seattle Region, the modifications to the Tongue Point Job Corps Center contract with RCA showed calculation of additional fees as a percent of increased costs. A total of \$886,000 was added to this contract for such reasons as to increase the cost per corps member year and to hire a mental health consultant. A \$44,000 fee (5 percent) was added to these costs with no apparent changes in the scope of work.

Use of the percentage-of-cost system appears to result from a misunderstanding of Federal Procurement Regulations by regional contracting officials. Atlanta Regional Job Corps contracting officials told us that they believed a fixed fee was a fixed percentage of costs rather than a fixed dollar amount. Because of this misunderstanding, when contract modifications for increased operating costs were made, the modifications included additional fees. We also identified instances where the Job Corps regions approved requests from contractors for increases in the overall contract fixed fee for such reasons as "the increased cost of doing business." Job Corps officials in the Atlanta Region told us the misunderstandings about procurement and contract regulations are caused by a lack of properly trained contracting personnel. For example, one contracting specialist was the former property officer. He was recently converted to his current position without any training in procurement and contracting procedures.

Job Corps officials have been aware of the fee problem since at least May 1981, however, they had not taken corrective action. As part of its monitoring function, the Job Corps national office sends teams out to review regional office operations. During its review of the Denver Regional Office, the team found indications of contracts being administered as cost-plus-a-percentage-of-cost. In its May 13, 1981, report to the Job Corps Director, the team pointed out that this practice was illegal. Subsequent reviews of the Dallas and Chicago Regional Offices reported similar findings. As of May 1982, no directives had been issued to the Job Corps regional offices explaining the problem or corrective action required.

We presented our findings to the Administrator, Office of Comprehensive Employment and Training, and the Acting Director, Office of Job Corps, on June 15, 1982. During this meeting, we discussed Job Corps' need to identify the extent of this problem and to determine the amount of money Labor should recover. The Administrator told us that a directive would be issued to the Job Corps regional offices instructing them to cease administering cost-plus-fixed-fee contracts as cost-plus-percentage-of-cost contracts. He also said a review of all current contracts would be made to identify those on which this occurred and the dollar amounts involved. Concerning the lack of properly trained contracting personnel, we explained that the Defense Contract

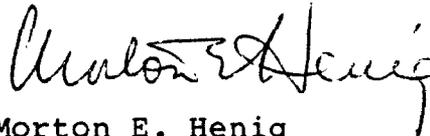
Administration Service conducts numerous courses on procurement and contracting practices and procedures that are sometimes available to civilian agencies. Accordingly, we suggested that they contact the Service to see if arrangements could be made for Job Corps personnel to participate in relevant training programs.

In addition to these actions, we recommend that the Acting Director, Office of Job Corps, be directed to recover prohibited fee increases on all current contracts. Further, we understand that a large number of expired contracts have not been audited and closed out. Therefore, we also recommend that all expired contracts which have not been closed out be reviewed to identify the amount of prohibited fee increases, if any, and steps taken to recover these fees.

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We would appreciate your advising us on the results of your efforts to correct this problem and any actions taken on our recommendations.

Sincerely yours,



Morton E. Henig
Senior Associate Director