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Dear Senator Bayh:

Your letter of October 18, 1971, requested that we examine certain irregularities reported as existing at the Department of Labor (DOL) Atterbury Job Corps Center near Edinburg, Indiana.

The irregularities involved blanket purchase agreements for the acquisition of supplies, rehabilitation projects undertaken to improve the Center's facilities, and DOL warehousing, at the Center, of supplies and equipment transferred from closed Job Corps centers.

We reviewed applicable DOL policies and instructions, contracts for operation of the Center and warehouse, and contractor records. We interviewed the individuals who reported the alleged irregularities and responsible DOL and contractor officials. In an attempt to determine what happened to a shipment of machine tools referred to in a letter from one of the concerned individuals, we contacted personnel of the General Services Administration (GSA), Chicago regional office, Property Management Disposal Service.

We have not given DOL, GSA, or the contractors involved an opportunity to formally examine and comment on this report. However, we have discussed our findings with DOL and contractor officials and have mentioned the corrective actions they have taken or proposed.

BACKGROUND

Title I, part A, of the Economic Opportunity Act of 1964 (42 U.S.C. 2711) established a Job Corps for low-income, disadvantaged young men and women and authorized the establishment of residential and nonresidential centers in which enrollees would participate in intensive programs of education, vocational training, work experience, counseling, and other activities. The Job Corps program was initially administered by the Office of Economic Opportunity (OEO); this responsibility was delegated by OEO to DOL in July 1969. DOL's Manpower Administration is responsible for administering the program. Within the Manpower Administration, the Director, Job Corps, is the responsible administrative official.

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Atterbury Job Corps Center

The Atterbury Job Corps Center is located on a former Army installation--Camp Atterbury--about 25 miles south of Indianapolis, Indiana, and, for the most part, uses buildings originally constructed for the Army. The Center opened in April 1965 and has been operated for the Government by Westinghouse Learning Corporation (Indiana) under cost-plus-fixed-fee contracts since June 1966. The current contract became effective December 1, 1971, and is to expire February 28, 1973; the estimated contract cost is \$11,479,923 plus a fixed fee of \$486,327.

The program at the Center was designed to provide comprehensive residential training to prepare young men between the ages of 16 and 21, coming from all ethnic groups, for useful employment and for the responsibilities of citizenship. To accomplish this goal, Westinghouse is required to furnish the necessary qualified personnel, services, and material; to establish efficient and effective management and administrative support for the program; and to perform all operations and maintenance functions necessary to support the Center.

DOL warehouse

The DOL warehouse at the Atterbury Job Corps Center consists of three buildings containing approximately 135,000 square feet of storage space. This facility was established to receive and redistribute or dispose of equipment and supplies from Job Corps centers closed in 1968. Westinghouse operated this facility for OEO under a cost-plus-fixed-fee contract which expired June 30, 1969. After assuming responsibility for the Job Corps in July 1969, DOL decided to continue using the warehouse to store equipment from centers closed from time to time and negotiated a new cost-plus-fixed-fee contract with Westinghouse to operate this facility through June 30, 1970. Subsequent modifications extended the contract to July 31, 1971.

On August 1, 1971, DOL awarded a cost-plus-fixed-fee contract for operation of the DOL warehouse through January 31, 1973, to Crown Moving and Storage, Inc., Indianapolis. The estimated contract cost is \$152,385 plus a fixed fee of \$9,000. The warehouse will be used to store equipment from closed Job Corps centers as well as from other DOL programs.

BLANKET PURCHASE AGREEMENTS

The internal controls over blanket purchase agreement (BPA) transactions involving the Corpsman Exchange and the Corpsman Cafeteria were of primary concern to the individual who brought these matters to our attention. A BPA is an arrangement used as a convenience for recurring procurements of supplies from a specific vendor at specified prices. A BPA eliminates the necessity of issuing repetitive small individual purchase orders. BPAs are issued to cover a specific period of time, generally 1 year, and are limited to specified dollar amounts.

Our review showed that the internal controls over purchases under BPAs needed strengthening and that the award and administration of BPAs needed improvement so that purchases might be made at the least cost.

The Corpsman Exchange sells sundry items, as well as sandwiches, soft drinks, and ice cream to the corpsmen; the Corpsman Cafeteria serves all meals to the corpsmen at no cost.

Because of the services provided by the Corpsman Exchange and the Corpsman Cafeteria, there are recurring requirements for sundry and food items, but the exact items, quantities, or delivery requirements are not always known in advance and in some instances vary considerably. In lieu of issuing numerous small purchase orders, the Center issued BPAs to selected suppliers. The BPAs terminated either when the purchases equaled the specified dollar limitation or when the stated time period expired. BPAs were awarded by the Center's Purchasing Department, and individual transactions were consummated by the activity requiring the supplies or services covered by the BPA.

On November 1, 1971, the Center had 116 open BPAs with a total dollar limitation of about \$1,303,000. We reviewed the award and administration of 34 BPAs with limitations totaling \$807,000. In addition, we evaluated the procedures used by the Corpsman Exchange and the Corpsman Cafeteria for determining need, ordering, receiving, issuing, and accounting for supplies.

We found that internal controls over BPA transactions for the Corpsman Exchange and the Corpsman Cafeteria were inadequate because one person in each activity had total responsibility for all parts of the BPA transactions.

Effective internal control requires the segregation of duties so that one person is not responsible for all parts of a transaction.

The stores clerk in the Corpsman Exchange was responsible for determining the quantity of each item to be ordered, acknowledging receipt of the quantity ordered for payment purposes, issuing items from the stock room, taking the physical inventory, and maintaining the stock-record cards.

The supply controller in the Corpsman Cafeteria was responsible for determining the quantities of each item to be ordered, placing the order, posting receipts, approving and posting issues, taking physical inventories and posting adjustments, approving invoices for payment, and, on occasion, physically issuing items from the storeroom.

In addition to the weaknesses in the internal controls, the following deficiencies were noted in the award and administration of BPAs.

1. Lack of competition--The Federal Procurement Regulations, which are applicable to Job Corps Centers, require that the policies for selecting suppliers on the basis of price and of other factors which govern purchases by other approved methods also govern purchases under BPAs.

The Center's procurement procedures state that BPAs will be awarded under formal competitive bidding procedures; however, of the 34 BPAs reviewed, 29 had been awarded initially on the recommendation of the manager of the principal using department or the manager of procurement, without competitive bidding. We found that all BPAs reviewed had been routinely renewed without competitive bids; 19 of the 34 BPAs had been initially awarded in 1966.

2. Underutilization of Government sources of supply-- Pursuant to an agreement with DOL, the Defense Supply Agency (DSA) will furnish certain supplies to Job Corps centers. Both perishable and nonperishable food supplies are covered by this agreement. The Center obtained perishable items such as meat, fresh fruits, and vegetables from DSA, but many nonperishable items were obtained under a BPA from a local supplier. The Center's supply controller advised us that BPAs covered only those items not available from Government sources. We found, however, that the supply controller's determination was based on an availability list issued in 1966 107

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and that a more current list included many items procured from the BPA supplier. Our comparison of the BPA prices with those published by DSA for 49 items purchased by the Center during fiscal year 1971 showed that DSA prices generally averaged about 30 percent lower.

3. Required DOL approvals not obtained--The Center's procurement procedures state that the prior written approval of the DOL contracting officer is required when a fixed-price purchase order exceeds \$10,000. Of the 34 BPAs reviewed, 22 had dollar limitations in excess of \$10,000, but DOL approval had not been obtained.

4. Other matters--Our review showed also that there was a need to update and clarify procurement procedures which had not been revised since they were issued in 1966; to more clearly state the terms and conditions of the BPAs, which in some cases were confusing; to improve procedures for verification of prices shown on invoices in order to correct problems of minor overpayments; and to enforce specified dollar limitations established for BPAs, which in a few cases had been exceeded.

Corrective actions taken or promised

By letters dated December 31, 1971 and March 16, 1972, the Center's director advised us that adherence to the requirement for obtaining DOL approval for procurements in excess of \$10,000 would be emphasized. The director said also that new procurement procedures had been prepared which would (1) require using Government procurement sources to the maximum extent and (2) formally establish the duties and responsibilities of procurement personnel and contract administrators.

The Center's Procurement Department has been reorganized and placed under the direction of a new administrator. Also, the Center plans to develop a training course to acquaint responsible personnel at the using levels with their duties and responsibilities in controlling BPAs.

The Center's director advised that, except for items available from a sole source, each BPA with a local supplier would be rebid as soon as possible, with subsequent rebidding every 12 months.

Internal controls over Corpsman Exchange and Corpsman Cafeteria operations, including BPA transactions, will be

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strengthened by separating the duties for the various parts of the transactions.

The Center's director advised also that Westinghouse was in the process of obtaining refunds from vendors to whom overpayments had been made.

REHABILITATION PROJECTS

The information furnished to us concerned the improper use of unexpended funds, designated for rehabilitation of Center facilities, for the purchase of supplies for unapproved projects or for normal operating requirements. Additionally, the information indicated that Westinghouse had received, contrary to the terms of its contract, reimbursement for its general and administrative expenses and a fixed fee for the funds improperly spent.

The contracts for operation of the Center from July 1, 1970, through November 30, 1971, provided that the DOL contracting officer approve, as essential, any new construction, modification, repair, or rehabilitation projects in excess of \$500. The contract also established a maximum amount to be reimbursed for this work, including the general and administrative expenses, and specifically excluded payment of a fee.

DOL approved expenditures of \$771,180 for 52 rehabilitation projects at the Center during the contract period. During our review we inspected the warehouses used to store supplies purchased for rehabilitation of facilities and examined the procedures for determining the need for rehabilitation; for estimating project cost; for obtaining DOL approval; and for procuring, storing, accounting, and billing for supplies.

We found that the procedures for determining the need for proposed rehabilitation projects and for obtaining DOL approval of the projects were generally adequate. The billing of general and administrative expenses was also in accordance with the terms of the contract and did not include an amount for a fixed fee. However, the methods for estimating the quantities and for procuring and allocating the costs of supplies needed improvement in order to keep costs to a minimum, to adequately control supplies, and to accurately account for the cost of individual rehabilitation projects.

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Procurement of excess quantities

During our inspection of the warehouses used to store supplies for rehabilitation projects, we noted substantial quantities of supplies which we were advised were left over from completed or discontinued projects.

Two of the items observed in the warehouses--vinyl tile and carpeting--were reported to have been procured for a single project which initially involved the installation of vinyl tile and linoleum over a plywood subfloor in 22 dormitories with a floor area of 205,606 square feet. The Center estimated that 252,000 square feet of tile would be required. Subsequently, but before the purchase of much of the floor tile, it was decided to eliminate from the project the four dormitories where the linoleum was to be installed, and shortly thereafter it was decided to substitute indoor-outdoor carpeting for vinyl tile in the individual rooms of 12 dormitories. These changes should have reduced the requirement for vinyl tile to 14,205 square feet, but the Center purchased a total of 331,245 square feet for \$40,265, or about 167,040 square feet more than was needed. Further, the Center procured 8,000 square yards of carpeting at a cost of \$24,000, instead of the estimated need for about 7,400 square yards. Center officials were unable to tell us why they bought the excess quantities.

Supply costs not allocated properly

We were advised that supplies for rehabilitation projects are charged to the project for which they are ordered but may be used on any project. Under this system, there is no assurance that the supplies will be used as intended or that the reported costs of individual rehabilitation projects will be accurate. For example, the entire cost of the vinyl tile and carpeting mentioned above was charged to the floor-covering project, without any adjustment for the quantity still on hand.

Center officials estimated that there were 800 square yards of carpet in the warehouse at the time of our inspection and advised us that an additional 590 square yards had been installed in 24 rooms not included in the scope of the project. Another 20 square yards were estimated to have been used to replace carpet damaged after installation.

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Corrective actions taken or promised

The Center's director advised us by letter dated March 16, 1972, that the excess material previously unaccounted for would be inventoried and controlled so that proper charges could be made to any new project which might use this material. Further, more attention will be given to estimating project needs and to maintaining supporting documentation for the estimates in the project files. DOL's concurrence will be sought for changes which result in increases of more than \$1,000 over the original estimate.

DEPARTMENT OF LABOR WAREHOUSING

The information provided on the DOL warehousing operation also concerned a lack of control, because supplies in excess of \$1 million were reported to have been received from closed Job Corps centers in unidentified lots and redistributed without accountability records. In addition, some new or nearly new equipment was reported to have been classified as scrap or as salvage, before redistribution. The example cited purported that an almost complete machine shop, shown as having been shipped to Purdue University in 1968 or 1969, did not actually go to the university.

In 1968 OEO closed 15 Job Corps centers and shipped the supplies and equipment to the Atterbury Job Corps Center for warehousing. During that time we were reviewing the Center's operations as a part of our review of economic opportunity programs made pursuant to title II of the 1967 amendments to the Economic Opportunity Act of 1964. We observed that shipments of equipment and material were being received from these centers without any itemized listing of the material shipped. At that time we discussed this matter with Westinghouse officials and the OEO Job Corps Project Manager and were advised that the funding limitations precluded leaving the centers open long enough for normal handling of these shipments. Further, we were advised that Westinghouse would inventory the equipment and supplies and would prepare appropriate accountability records.

Subsequently, OEO negotiated a contract with Westinghouse to operate a warehouse facility from January 1 through June 30, 1969. The contract required Westinghouse to inventory; to categorize as serviceable or as salvage, in accordance with GSA standard condition coding; and to dispose of the materials and equipment received from the closed centers.

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According to a Westinghouse report dated July 30, 1969, property valued at about \$697,000 was inventoried. We were advised by the contractor that most of this inventory had been turned over to GSA or shipped to other Job Corps centers. The contractor gave us a listing of property valued at \$180,388 which had been transferred to DOL accountability when DOL assumed responsibility for Job Corps functions in July 1969.

The allegation that property was received from closed Job Corps centers in unidentified lots was correct, on the basis of our observations in 1968. We have no way of ascertaining the extent to which property may have been redistributed without accountability records prior to the contractor's initial inventorying of the property. Therefore, we limited our review to the adequacy of controls currently in existence and to a review of the one example furnished in support of the reported irregularities.

Westinghouse maintained a stock-card, perpetual-inventory system; our test of the system disclosed no discrepancies. However, DOL did not require that Westinghouse conduct either the required yearly physical inventory of the property in the DOL warehouse or a final inventory before transferring responsibility to Crown Moving and Storage in 1971. DOL did not have a listing of the property available for redistribution from the warehouse.

Physical inventories not taken

The DOL "Property Handbook for Manpower Administration Contractors" states that two inventories of Government-owned property in the possession of contractors should be made. One is a yearly inventory taken to help maintain adequate control over the property. The other is a final inventory taken before completing the contracts so that relief of accountability can be accomplished.

Westinghouse officials advised us that Westinghouse did not take a yearly or a final inventory during the period of the DOL contracts, because the contracting officer did not request one.

The Manpower Administration Property Officer advised us that no interim inventory had been required at the Atterbury warehouse because of the workload caused by the constant flow of equipment from closed centers through the warehouse. The

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Property Officer believed that it was not feasible to try to take an inventory and still support the program under these conditions.

Crown, the present contractor, was taking a physical inventory at the time we completed our field work. In July 1972 Crown advised us that the physical inventory had been completed and that it totaled \$971,563.01, as of March 15, 1972. This total was about \$28,000 greater than the inventory amount shown by Westinghouse's records.

No listing of property available
for redistribution

The DOL contract with Westinghouse required periodic submissions of property listings to the Manpower Administration Property Officer. These listings were to be based on the contractor's computerized, perpetual-inventory system. The listing for March 1970 showed equipment valued at \$1,557,031. Shortly thereafter a manual system was inaugurated, and no listing of available equipment was prepared. We were advised that, upon completion of the physical inventory by Crown Moving and Storage, the system will be converted again to a computerized operation which will provide periodic inventory listings.

Alleged shipment of machine tools
to Purdue University

On December 19, 1968, 13 pieces of Job Corps machine tools valued at \$27,218 were declared excess. Available records indicate that GSA transferred these items to the Department of Agriculture warehouse at Atterbury for temporary storage. Purdue operated this warehouse. We were advised that GSA again moved this equipment within a short time to another location, but the record of this movement was not available at the Atterbury location. An official of GSA's Property Management Disposal Service told us that a thorough search of its records failed to indicate what finally happened to these machine tools.

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We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after your approval has been obtained or public announcement has been made by you concerning the contents.

Sincerely yours,



Comptroller General
of the United States

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/ The Honorable Birch Bayh
United States Senate