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JOB CORPS BUDGET SHORTFALL: SAFEGUARDING WORKFORCE TRAINING FOR AMERICA'S DISCONNECTED YOUTH

HEARING

BEFORE THE

SUBCOMMITTEE ON EMPLOYMENT AND WORKPLACE SAFETY

OF THE

COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS

UNITED STATES SENATE

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

ON

EXAMINING JOB CORPS BUDGET SHORTFALL, FOCUSING ON SAFEGUARDING WORKFORCE TRAINING FOR AMERICA'S DISCONNECTED YOUTH

MARCH 12, 2013

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JOB CORPS BUDGET SHORTFALL: SAFEGUARDING WORKFORCE TRAINING FOR AMERICA'S DISCONNECTED YOUTH

TUESDAY, MARCH 12, 2013

U.S. SENATE,
SUBCOMMITTEE ON EMPLOYMENT AND WORKPLACE SAFETY,
COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:35 p.m., in room SD–430, Dirksen Senate Office Building, Hon. Robert Casey, chairman of the subcommittee, presiding.

Present: Senators Casey, Murphy, Isakson, and Hatch.

OPENING STATEMENT OF SENATOR CASEY

Senator CASEY. Good afternoon. Our hearing will come to order. I'm sorry that I'm running late and didn't have a chance to greet our witnesses inside the anteroom. But we'll maybe try to catch up afterwards. I want to thank everyone for being here, and I appreciate the work that's been done by a number of folks on both my staff and Senator Isakson's staff to make this hearing possible. And, of course, I appreciate the appearance of our witnesses.

We're here to discuss a critically important program and some fundamental problems with it and what we can do to resolve that. This is the first hearing of this subcommittee since the time that I was named chair, and I want to thank Senator Isakson for his work to make sure that we do this work on the subcommittee in concert with one another and with our staffs.

I know he's always worked that way with me and with others, and I especially appreciate it today, not only in the context of this subcommittee hearing, but more broadly. So I want to commend and salute that effort that he's made.

I start today as well with three groups of Americans that I and I'm sure this entire room is most concerned about when it comes to Job Corps. And that is, in particular, and first and foremost, taxpayers who, through their tax dollars, pay for everything we do here, pay for the Department of Labor, pay for the operations of the executive branch and the legislative branch. All that we see here is a result of tax dollars. So each of us, I think, has a special obligation, especially those of us who are elected or appointed officials, to focus on those dollars and what taxpayers get for those dollars and doing everything we can to meet the reasonable expectations that when they send their tax dollars to us, those dollars will be well spent and that we'll achieve some measure of a result, especially in a program like this.

Second, we think, of course, today about the students that are impacted, mostly in a positive way, sometimes in an adverse way, I think, with respect to the enrollment freeze which is in place due to the shortfalls that have occurred. A lot of students will be affected if that freeze were to endure over time. So we're very concerned about what happens to those students and the results that we hope for them as they focus on their careers and a job and contributing to our economy.

Then, finally, the individuals who are employed through the Job Corps and all the people that have done such good work. When we consider the program, which has been in place for decades, we have to consider what the purpose of that program is. I noticed in the testimony today there are various descriptions of what this program means to a student, what it means to the economy, and what it means for our country. I won't recite all those. I might refer to them later.

Basically, what this program is all about is helping young people to surmount or overcome difficult barriers in their lives, the barrier of poverty or the barrier of a lack of education or not the right training, in other words, helping to put young people, who face particularly difficult circumstances, on the right path. And, of course, a lot of that has to do with the skills that they can have by way of the training and the focus of the program.

I was struck by something that was sent to us regarding the University City District in Philadelphia, which is an example of what Job Corps means to at least one community in my home State of Pennsylvania. We have four sites, one of the four being Philadelphia.

The University City District, which partners with Philadelphia Job Corps, said as follows with regard to—and I saw this myself, some of the training that's done to prepare young people to go into the field of long-term care so they can be certified nurses aids or direct care workers, the numbers for which are staggering. We need tens and tens of thousands that we don't have right now.

They said, according to one program director,

> "Job Corps candidates stand out. They are poised, polished, and professional. They approach our programs, our training, and the opportunities afforded to them by our employers with the utmost respect and from a posture of willing learners, that makes them a pleasure to have in the program."

I think that same description, the kind of young people that are positively benefited by Job Corps, could be recited in connection with sites across the country.

So what is the problem? The problem is a shortfall, which amounted to $39 million in program year 2011, and then $61.5 million in program year 2012. And that led to a number of actions which culminated in an enrollment freeze, which is one of the main reasons people on both sides of the aisle in the Senate have been concerned about this, have written to the Department, and one of the reasons we're gathered here today.

The Department of Labor at various times has acknowledged the problem and has sent us information about what they've done in response to the problem. But here's among the more disturbing conclusions, that at one point the Department of Labor identified,

"serious weaknesses in the program's financial management processes." It goes on to detail how there weren't enough internal controls, how you control spending, how you monitor it, how you report it, and then, ultimately, how you can project spending over time.

At one level, I want to be very clear in terms of my own point of view. This is very basic budgeting that every single public agency has to do every day of the week and has to do it well if you're going to fulfill your obligation to those taxpayers that I spoke of earlier. And if you fall short of that, you have some explaining to do, and that's among the many questions that we'll pose today.

The freeze itself—here's the impact by one measurement. Each week of the freeze will affect 1,000 students. That alone should give us pause, and that alone should compel us to do something about fixing this problem.

We have today three witnesses with us. First, in order of presentation, will be Jane Oates. Jane is the Assistant Secretary of the Employment and Training Administration.

Jane, it's good to have you here.

Second is Antoine Dixon, who is the National Director of Job Corps for the U.S. Forest Service, which has 28 Job Corps centers. And then, third, Elliot Lewis, Assistant Inspector General for Audit at the Department of Labor.

It's good to have all three of you here.

But I will keep coming back to this basic issue from which flows a lot of tough questions, questions to which we need answers to. We'll get them today. If we don't get them today, we'll get them somewhere. Today is just the beginning, the very beginning, of an inquiry that I will undertake and I'm sure many others of the House and the Senate will as well.

But it is, in the end, about basic budgeting and making sure you can account for public dollars that are spent, and you can make accurate or reasonably accurate projections about spending within the context of a fiscal year or, in this case, within the context of a program year. The other thing we're going to talk about today is, in light of the problems and in light of the current status of this program, what, if any, accountability has been brought to bear in terms of those who have been engaged in this work, and I think that's a very important set of questions.

I'll stop here, because I want to get to our witnesses and give some time for our Ranking Member, Senator Isakson, to make his opening remarks.

OPENING STATEMENT OF SENATOR ISAKSON

Senator ISAKSON. Well, thank you, Chairman Casey, and thank you for the kind remarks. We welcome you as chairman of the subcommittee, and I really appreciate your commitment to oversight which is precisely what this hearing is all about.

I welcome all our guests in the audience and, particularly, those from Atlanta and Brunswick, GA, who are with Job Corps and came up for this hearing today. I welcome all our witnesses, especially Jane Oates, who I had the privilege of working with in 1999—well, the year 2000 and 2001 on No Child Left Behind was when we first met, and I've enjoyed that relationship ever since. I'm a big believer in the Job Corps program, a big supporter of the

program, and I'm hopeful that we'll get some answers to some troubling questions, some of which have been referred to by Chairman Casey.

The Job Corps opened its doors in 1965 and since that time has provided needed services to underprivileged youth, including high school diplomas, GEDs, vocational and trade skills, and counseling to become productive members of the workforce. During times like these with such high sustained, long-term unemployment, programs like Job Corps become critical to help thousands of young people get the education and training needed to get off and stay off unemployment.

In February, the Bureau of Statistics published the following numbers. For young people age 16 to 24, 16.3 percent were unemployed. And I would challenge everybody to think that number is probably doubled when you come to underemployment. Nearly 30 percent of African-Americans in the same group were unemployed, and those age groups make up 51 percent of the typical Job Corps students. So we have a lot of people to serve and we're not serving as many as we should.

The President recently went on tour touting his plans to create a new middle-class jobs program. I think he needs to take a good look at Job Corps and existing ones like this program today. In 2011, I was troubled to learn that the Job Corps was facing a $39 million funding shortfall. The Department of Labor and its contracting partners were able to agree on a cost-savings measure in addition to transferring of funds from other DOL accounts, which meant to have minimal impact on Job Corps students, enrollment, and employees.

Unfortunately, this was a very short-lived victory. The funding shortfall at Job Corps not only followed the program into its program year, but also nearly doubled to $61.5 million. The Department has responded to this by first deciding to reduce the number of onboard strength slots at seven of the Nation's largest Corps centers, one of which happens to be in Albany, GA, which I am very familiar with and have visited, only to rescind this plan several days later.

The Department then decided that in order to address the shortfall it would have to suspend enrollments of new students for the remainder of the year until June 30. Not only is this an unfortunate disservice to the target population served by Job Corps, but this will also result in the layoff of thousands of Job Corps contractors nationwide.

The Department's mismanagement of Job Corps could ultimately cost as many as 30,000 struggling youth the opportunity to better their future and potentially 10,000 staff jobs supporting these students. This one-two punch by the Department on our economy is not what the economy deserves and not what we should have.

What is most discouraging to me is that after correspondence with the Department earlier this year, I remain unsatisfied that the Department understands the causes of the shortfall that originated in 2011 and appeared to continue through 2012. Both accounting measures and management systems have failed to assure the permanent stability of this program whose purpose is to help rebuild lives and educate people.

Further, I remain disappointed that the Department is still unsure of how much is saved through the suspension of new enrollments. I am sure that there were other alternatives designed to help address the shortfall, and I look forward to hearing from the Department as to why those were not used or seriously considered.

I look forward to having an open discussion with our witnesses today as we look for ways to fix Job Corps fiscal management issues. As long as the Department's mismanagement fails to fill the leadership void on this issue, thousands of young adults will be losing out on the opportunity of their lifetime to change their lives for the better. During tough times like these, we cannot and we must not afford to leave them stranded.

With that, Mr. Chairman, I yield back and look forward to the testimony and questions of our witnesses.

Senator CASEY. Thank you, Senator Isakson.

Senator Hatch.

STATEMENT OF SENATOR HATCH

Senator HATCH. Thank you, Mr. Chairman. I appreciate you holding this hearing. But I'm extremely disappointed by this shocking shortfall, lack of oversight, and poor decisionmaking within the national Job Corps program that has resulted in hurting our young people by denying them opportunities.

Let me just share a quick story about a young man named Jeremiah who has dyslexia and other learning challenges. He had gotten involved in drugs, and he joined the Job Corps because he wanted to stay out of trouble. He completed his high school diploma on the Clearfield Job Corps campus and was placed in the graphic design trade with a career pathway in digital arts and design.

Jeremiah went on to enroll at Weber State University in Ogden, UT. He graduated with a bachelor of arts degree and is now working as a full-fledged web designer. Jeremiah called just the other day to say how Job Corps changed his life. He continues giving back to other youth in after-school reading programs, a value he said he learned while studying at the Clearfield Job Corps Center.

I remember each of my visits to the Clearfield Job Corps in my State of Utah where over 1,000 students are acquiring trades and often, for the first time in their lives, are looking forward with hope to the future. The 200 youth at the Weber Basin Job Corps Civilian Conservation Center in Ogden, UT, shared their enthusiasm for designating their careers to working in the outdoors.

The Management and Training Corporation, or MTC, which is headquartered in my State of Utah, operates 18 centers nationwide and holds some contracts on three additional centers. They are contracted to serve 9,666 students during this contract year. But with the imposition of the student freezes, they will only be able to serve 4,867. Now, they have assured me that they are ready to work with ETA to find cost savings and are flummoxed by the delays in initiating cost-saving measures.

Let me just say that I remember back in the Reagan administration, Stockman, who was the head of OMB at the time, wanted to knock Job Corps out. I happened to be chairman of this committee at that time, and I just said, "That isn't going to happen." And it

didn't happen, and Reagan became an enthusiastic supporter of Job Corps. We had to fight for it, but it was saved at that particular time, and it has done an awful lot of good work for thousands and thousands of young people over the years. That was back in 1981.

I appreciate you folks appearing here today, and I just hope we can straighten this ship out. Naturally, I look forward to hearing your testimony here today, and, hopefully, we can find some way of really straightening the mess out.

Thank you, Mr. Chairman.

Senator CASEY. Senator Hatch, thank you.

We'll start with the testimony. What we can do in terms of time is to try to keep your opening remarks to 5 minutes, and each of your statements will be made a part of the record. So we'll start with Assistant Secretary Oates.

STATEMENT OF JANE OATES, ASSISTANT SECRETARY OF EMPLOYMENT AND TRAINING ADMINISTRATION, U.S. DEPARTMENT OF LABOR, WASHINGTON, DC

Ms. OATES. Good afternoon, Chairman Casey, Ranking Member Isakson, Senator Hatch, and Senator Murphy. Thank you for the opportunity to discuss the budgetary challenges currently faced by Job Corps. As Assistant Secretary for the Employment and Training Administration, I am responsible for Job Corps, and I take your concerns very seriously. I, too, love this program and have seen how it has changed lives.

Today I'm here to discuss the causes of the current situation and share what we're doing to address the issues and how we're working to strengthen the Job Corps program. Job Corps provides a unique opportunity for disadvantaged young people age 16 to 24 in both residential and non-residential settings, offering both academic and vocational classes, allowing students to earn industry-recognized credentials, and when it does its job well, as it usually does, get them a good job, get them into the military, or get them into post-secondary education.

ETA administers Job Corps through 147 contracts for the program's 125 centers and their educational and vocational programs. Private contractors operate 97 centers, and my friends at Agriculture run the remaining 28.

Several factors contributed to the financial problems Job Corps faced in program year 2011, including growth in student-related expenditures and serious weaknesses in Job Corps' financial management processes. For example, Job Corps opened three new centers in program year 2010 and 2011 on a delayed funding schedule, and we did not appropriately plan for the increased cost resulting from opening those centers when we did. In other words, we used the money and didn't realize in subsequent years that we wouldn't have enough when the centers were fully operational at full on-board strength.

As a result of those efforts, in program year 2011, 77.3 percent of Job Corps students were able to earn 39,000 credentials in 157 program areas, reflecting a significant increase from program year 2010, which means we were doing better to improve the program, not realizing that we were headed for this shortfall. Our targeting of industry-recognized credentials meant that even in the worst

economy in my lifetime, our operators were able to put kids into good jobs.

I think that the quality of the program is there, and we need to make sure we're doing more on our end to ensure that the program is sustainable by watching that fiscal spending in a much better way. While these and other costs increased—by the way, the credentialing project cost us about $13 million. Some of that will be ongoing expenses, like taking assessments for those industry-recognized credentials. Some, we think, will be one-time costs, we hope, getting instructors and the equipment up to industry-recognized standards.

But while these and other costs increased during 2011, the extent of Job Corps' fiscal difficulties really did go unrecognized. This is largely because Job Corps lacked appropriate program monitoring tools and control protocols which, in turn, led to inadequate spending projections for the operations account.

Job Corps operates primarily through cost reimbursement contracts, not fixed price contracts. Therefore, as long as a cost is allowable and allocable, I have to pay those costs whenever a vendor submits them. That means it's critically important that my staff is professionally developed to the point to make sure that vendors are timely in submitting their costs due.

I want to be clear at this point. There was no wrongdoing by contractors, and I don't want to say anything that would lead you to believe that. I want to be up front and say this was inadequate staffing and monitoring on the part of the Job Corps program and, therefore, on the part of ETA.

To control costs in 2011, we implemented a variety of administrative and programmatic changes. These included negotiating across-the-board cost savings targets with each Job Corps center and suspending enrollments for new students in the month of June. We also implemented several initiatives to strengthen and coordinate existing controls and create new controls. And I'll be happy to answer any questions about that.

Going into 2012, we knew we had a shortfall. We knew the amount of the shortfall, and we started to take measures immediately in July 2012 to, hopefully, make our obligations align with our appropriation. We created a new Office of Financial Administration with the position of a senior level comptroller. That was the first time that ETA had a comptroller, something that I'm sure business people on the committee will find questionable.

We eliminated a contract for accounting services within the Job Corps operations account and replaced them with Federal employees. We reduced our cost to USDA, our partner, and we negotiated with contractors.

Seeing that my time is up, my testimony is part of the record, and I'll be happy to answer any questions on the specifics of this. Thank you.

[The prepared statement of Ms. Oates follows:]

PREPARED STATEMENT OF JANE OATES

Good afternoon, Chairman Casey, Ranking Member Isakson, and distinguished members of the subcommittee. Thank you for this opportunity to discuss the budgetary challenges currently faced by Job Corps. As Assistant Secretary for the Employment and Training Administration (ETA), I am responsible for the Job Corps

program and take your concerns very seriously. Today, I will offer some context for the current situation, discuss some of the causes, share what we have learned, what we are doing to address these issues, what we could have done better, and how we are working to strengthen the Job Corps program moving forward.

Job Corps provides a unique opportunity for disadvantaged young people to take control of and steer their lives in a positive direction. Students ages 16 to 24 in both residential and non-residential settings attend academic and vocational classes, earn industry-recognized credentials, and learn critical life skills in preparation for a good job, continued education or military service. Job Corps has helped improve the lives of almost 1.5 million students since the program began nearly five decades ago. Today's competitive job market and unemployment rates among young adults ages 16 to 24 make Job Corps more important than ever.

ETA administers Job Corps through 147 contracts for the program's 125 centers and educational and vocational programs. Private contractors operate 97 centers and the U.S. Department of Agriculture (USDA) runs the remaining 28 centers.

Although Job Corps has faced financial pressures, it experienced particular problems in program year 2011. Several factors contributed to the problems in program year 2011, including growth in expenditures, such as student-related expenditures and those associated with the opening of three new Job Corps centers in program year 2010 and program year 2011, and serious weaknesses in Job Corps' financial management processes that led to a failure to identify and adjust for rising costs in a timely manner. In program year 2012, Job Corps is again experiencing financial difficulties because the initial cost-savings measures we took were not sufficient to allow the program to stay within its appropriated amount without additional actions.

Growth in expenditures during this period occurred in several ways. For example, Job Corps opened three new centers in program year 2010 and program year 2011 on a delayed schedule. Funding that had been provided to Job Corps to cover the costs of operating these centers in prior years was no longer dedicated to these sites as a result of the delays, and we did not appropriately plan for the increased costs resulting from opening these centers when we did.

Additionally, ETA invested approximately $13 million in program year 2011 to turn Job Corps into a training program where students gain the industry-recognized credentials they need to meet the demands of the 21st century employer. In order to make the credentialing initiative successful, there was substantial investment in one-time costs, such as faculty training, books, accreditation, and other industry-related costs. As a result of these efforts, in program year 2011, 77.3 percent of Job Corps students earned over 39,000 credentials in 157 programs areas. This reflected a significant increase from program year 2010, in which 46.8 percent of students earned an industry-recognized credential.

While these and other costs increased during the course of program year 2011, the extent of Job Corps' financial difficulties went unrecognized. This is largely because Job Corps lacked appropriate program monitoring tools and control protocols, including those to sufficiently analyze contractual spending trends. In turn, this led to inadequate spending projections for the Operations account. Furthermore, Job Corps operates primarily through cost-reimbursement contracts which require close, ongoing oversight by Job Corps in order to manage or predict costs for future periods. The weaknesses in Job Corps program monitoring tools and protocols combined with its heavy reliance on cost-reimbursement contracts contributed to the challenges we faced and continue to face in addressing these difficulties.

As you know, Congress provided ETA with authority in program year 2011 to transfer up to $26.2 million in funds from the Job Corps Construction, Rehabilitation and Acquisition account to the Operations account. In April 2012, I concluded that Job Corps would need to transfer this full amount in order to finish the program year within the budget. At the end of May 2012, I notified the then-Secretary of the need to transfer the funds. It also became apparent that this transfer would not be sufficient to meet program year 2011 operating needs.

Thus, ETA obtained approval from the Office of Management and Budget in June 2012 to transfer up to an additional $5.37 million from the Training and Employment Services and State Unemployment Insurance and Employment Service Operations accounts to the Job Corps Operations account. The Department notified the Appropriations Committees of its intent to transfer these funds. In the end, only $2.2 million of this initial request was transferred to Job Corps' Operations account.

In addition to two funding transfers in program year 2011, we implemented a variety of programmatic changes to control costs. These changes focused on non-mission critical administrative expenses to ensure that student academic, career technical training, and post-graduation placement activities were not affected. These included negotiating across-the-board cost-savings targets with each Job Corps center

to de-obligate program year 2011 funds and suspending enrollment for new students in the month of June, except for homeless youth. We also conducted additional oversight on travel by requiring center operators to report all bus and airfare travel directly to the national office prior to arranging travel with ticketing agencies. This allowed for real-time accounting of travel costs for the month of June. We also required Job Corps center operators to submit their financial reports every 3 days during the month of June.

At the same time, we implemented several initiatives to strengthen and coordinate existing controls and created new controls that where appropriate, to track contractor expenditures and ensure adequate funding throughout the rest of program year 2011. On May 22, 2012, the Department established a Job Corps working group within DOL to provide weekly oversight of the remediation efforts during the end of program year 2011. In addition, in June 2012, then-Secretary Solis requested that the Inspector General perform a comprehensive review of the Job Corps financial control system. That review is ongoing and we look forward to receiving the results.

We understood at the outset of program year 2012 that we needed to take measures to ensure that program obligations remained within Job Corps' appropriated levels. Even before the program year started, we began to develop a comprehensive plan for cost-cutting measures, which we updated throughout the program year.

Given our strong interest in not reducing student services and minimizing disruption to the Job Corps program, we proceeded cautiously in evaluating and implementing cost saving measures in program year 2012. In retrospect, it is clear that we did not act as quickly or decisively as circumstances required.

Although they ultimately were insufficient, we took several significant steps throughout program year 2012 to gain better control of Job Corps' expenses. For example, in August a newly created Office of Financial Administration (OFA) within ETA, headed by a Senior Executive Service-level Comptroller, began operating. OFA oversees the now-centralized budget and financial operations of Job Corps and works with ETA's Office of Contracts Management (OCM) to ensure that Job Corps accounts in a more timely and accurate way for costs incurred in its cost reimbursement contracts. After OFA began operating, we developed initial targets for both savings and what we believed would be a sufficient reserve for the Job Corps program. We also eliminated a contract for accounting services within the Job Corps Operations account, reduced USDA costs, and negotiated with contractors to identify additional cost-savings measures. The added cooperation between OFA and OCM has resulted in significant improvements in the financial oversight of Job Corps and helped Job Corps identify potential funding concerns at an earlier stage than last year.

In September 2012, the then-Secretary approved several additional measures for program year 2012: reducing new student biweekly stipend and transition pay to graduates, suspending enrollments in late November and December, centralizing student transportation costs, and reducing select national academic support contracts and career technical support contracts. In October 2012, we issued guidance informing the Job Corps community that we would be suspending enrollment from November 26 through December 31, 2012.

Despite these cost-cutting measures, our analysis of data in November showed that Job Corps would need to implement additional savings because costs were again exceeding budgeted amounts. Therefore, in December, we took additional steps, including eliminating the student stipend for days when a Job Corps student is not present for duty, which took effect immediately, and reducing the student clothing stipend, effective January 1, 2013. We reduced Job Corps' national media buy by $4 million for program year 2012. In mid-December, we increased the student to teacher ratio from 15:1 to 18:1 in order to save costs, while properly accounting for the special academic needs of at-risk youth.

In January 2013, we also issued guidance to reduce health care-related costs, including by modifying the current health staffing requirements, adjusting the hours for center physicians, dentists and Training Employee Assistance Program specialists based on center usage, and requiring applicants to provide a current record of immunizations in order to eliminate duplicative care. We continued our work to cut administrative costs. Among other things, we have issued a solicitation that we anticipate will help Job Corps right-size its career technical training programs and we are exploring the best way to centralize utility and other procurements.

As you may know, the Department has initiated a process to close a small number of chronically low-performing Job Corps centers in program year 2013. This process was initiated as part of a larger reform effort to improve program outcomes and increase accountability. While we expect some savings as a result of these closures,

until we know which centers will be closed, we will not be able to determine how much money may be saved as a result.

Notwithstanding these efforts to reduce costs for program year 2012, as of the beginning of January 2013 we continued to project insufficient cost savings to remain within budgeted levels for the program year. On January 18, 2013, Job Corps instructed all centers to temporarily suspend outreach and admission activities, effective January 28, except for runaway, homeless and foster care candidates. The length of the suspension will be determined by the time it takes to achieve the necessary savings. Among other things, we will need to determine and maintain sustainable levels of enrollment and program delivery going forward.

The decision to temporarily freeze Job Corps enrollment nationwide was extremely difficult. It came after we implemented many alternative cost-savings measures, albeit insufficient ones. We also considered other alternatives (e.g., an abbreviated program year) before deciding to implement the temporary enrollment freeze, but ultimately rejected these and other options because of their more harmful effect on the Job Corps program and the students that it serves as well as the insufficient savings we would have obtained. Our conclusion was that the most certain and least detrimental savings Job Corps could achieve for the remainder of program year 2012 was from the temporary suspension of enrollment. Savings from this measure primarily will be achieved through modifications to center operations and Outreach and Admissions contracts. As those negotiations are currently ongoing, we do not yet have final cost savings figures. We anticipate that the results of these negotiations will be reductions in center expenses and the costs for Outreach/Admissions contracts for program year 2012. We will also achieve savings in student stipend and transportation costs.

Notwithstanding the temporary enrollment suspension, as of March 1, Job Corps continued to serve over 39,000 enrolled students—down from 44,268 that were enrolled on January 28. With the suspension of new enrollments, Job Corps will be able to keep its commitment to students who are already in the program.

In closing, the Department deeply regrets the current situation facing the Job Corps program. I personally take responsibility for not acting more quickly to ensure that the program was operating within its appropriated levels. The decision to temporarily suspend enrollment at all centers is a balanced and efficient way to achieve the savings needed to ensure we stay within our program year 2012 budget. We recognize that a comprehensive review of the Job Corps program, contracting, budget, and management is needed, and are undertaking such a review. We are committed to improving and strengthening the Job Corps program, and aligning it with its appropriated funding. I would like to reiterate our priority of working with the committee and the contractor community to place the Job Corps program on strong fiscal footing. I continue to believe that Job Corps is an important program, and I would note that Administrations from both parties have supported the Job Corps program over many years because it provides needed training and guidance to troubled youth. It is disheartening to report these challenges, but I believe we can do better and we must. I appreciate the opportunity to share information with you and I look forward to your questions.

Senator CASEY. Thank you, Assistant Secretary Oates.

Mr. Dixon.

STATEMENT OF ANTOINE L. DIXON, NATIONAL DIRECTOR OF JOB CORPS FOR THE U.S. FOREST SERVICE, GOLDEN, CO

Mr. DIXON. Chairman Casey, Ranking Member Isakson, Senator Hatch, and Senator Murphy, thank you for the opportunity to appear before you today regarding the financial situations faced by Job Corps.

Job Corps is a national education and training program primarily administered by the Department of Labor. The Job Corps Civilian Conservation Centers are operated on public land under an interagency agreement between the Department of Labor and the USDA Forest Service. The Forest Service currently operates or administers all 28 of the Job Corps Civilian Conservation Centers throughout the country in 18 States. The Forest Service serves approximately 6,200 students per year through the Job Corps program.

Through the years, the Forest Service has learned that hands-on training has strengthened the program and Job Corps CCCs have given back to the communities and to the public through community projects, natural resource work on national forest system lands, maintaining public recreation areas, and doing wild land firefighting. The Forest Service Job Corps program is completely funded by the Department of Labor appropriations. The Department of Labor provides funds transfers on a quarterly basis to the Forest Service.

In response to DOL's efforts to address the Job Corps financial issues in program year 2011 and program year 2012, the Forest Service implemented internal cost-saving measures as well as all of the DOL mandated cost-saving measures. These cuts have been made at all 28 of our Job Corps CCCs as well as our national office to ensure the sustainability of the program. The Forest Service efforts have contributed to Job Corps saving over $10 million in program year 2011 and $16 million in program year 2012, which resulted in the Forest Service receiving a budget in program year 2011 of $183 million, and in program year 2012 we received a budget of $180 million.

In program year 2012, savings were obtained by implementing, as I've mentioned, the DOL mandatory cost-saving measures related to personnel; clothing allowances; center vehicles; and reductions in travel, conferences, training, and communication. In addition to that, based on our approved budget, we also did not fill more than 100 positions, equating to over $5 million in cost savings.

In closing, the Job Corps Civilian Conservation Centers have allowed young people to reclaim their lives and build careers for almost 50 years. Job Corps Civilian Conservation Centers assist young men and women in becoming employable citizens, helping recover some of the billions of dollars in wages, taxes, and productivity that is lost when young Americans fail to complete their education. Job Corps CCC students volunteer thousands of hours to maintain the health and diversity of our national forests and our grasslands. They can be quickly mobilized to assist with natural disasters like floods, wildfires, and hurricanes.

Job Corps CCCs are an integral part of the Forest Service history, and the work that occurs each and every day by our Job Corps CCC students and the staff showcase our Nation's wise and continuing investment in the conservation of America's natural resources, not just our land, but the lives of young Americans.

Thank you for your time and attention, and I will be pleased to answer any questions you might have.

[The prepared statement of Mr. Dixon follows:]

PREPARED STATEMENT OF ANTOINE L. DIXON

Mr. Chairman, Ranking Member Isakson, and members of the subcommittee, thank you for the opportunity to appear before you today regarding the financial situation faced by the Job Corps.

INTRODUCTION

Beginning in 1933 with Camp Roosevelt, the first Civilian Conservation Corps (CCC) camp located on the George Washington National Forest, the Forest Service has had a long and vital association with youth and young adult conservation corps.

Indeed, the Forest Service Job Corps Program, authorized by Congress in 1964, is modeled after the CCC of the 1930(s). From 1930–38 over 3 million CCC enrollees worked in a diversity of boots-on-the-ground projects. Eighty years later, we commemorate the CCC's contributions to much of the earliest infrastructure for the Forest Service, and for the millions of seedlings they planted.

Job Corps is a national education and training program primarily administered by the Department of Labor (DOL). The Job Corps Civilian Conservation Centers (CCC) are operated on public land under an interagency agreement between DOL and USDA Forest Service. The Forest Service currently oversees or administers all 28 Job Corps CCCs throughout the country in 18 States. These centers provide training to youth in a natural environment. Students obtain work-based learning, including to conserve, develop, manage and enhance public national resources and public recreational areas, as well as to develop community projects in the public interest. The connection youth have to the Forest Service's conservation mission is unique and has sustained the Job Corps CCC program for almost 50 years.

FOREST SERVICE MANAGEMENT OF JOB CORPS CENTERS

Current authorization for the Civilian Conservation Centers within the Job Corps program is found in Section 147(c) of the Workforce Investment Act of 1998 (Public Law 105–220).

The student capacity for a Forest Service Center ranges from 168 to 300, and, in total, the Forest Service serves approximately 6,200 students per year through the Job Corps program. Through the years, the Forest Service has learned that hands-on training has been the strength of the program and Job Corps CCCs have given back to the communities, and to the public, through community projects, natural resource work on National Forest System lands, maintaining public recreation areas, or fighting wildland fires.

USDA RESPONSES TO JOB CORPS PROGRAM YEAR 2011 AND 2012 FINANCIAL DIFFICULTIES

The Forest Service Job Corps Program is completely funded by DOL appropriations; DOL provides fund transfers on a quarterly basis to Forest Service prior to obligation or disbursement.

In response to DOL efforts to address Job Corps financial issues in Program Year 2011 and 2012, the Forest Service has implemented internal cost-cutting measures as well as DOL's mandated cost-saving measures. These cuts have been made at all 28 Job Corps CCCs as well as the National Office to ensure the sustainability of the program. The Forest Service efforts contributed to Job Corps' savings of over $10 million in program year 2011 and over $16 million in program year 2012, resulting in a total Forest Service budget of $183 million in program year 2011 and $180 million in program year 2012. A great deal of the savings achieved in program year 2011 was obtained by implementing DOL's requested spending plans and by not filling staff vacancies. In program year 2012, savings were obtained by implementing the DOL required cost cutting measures related to personnel, clothing allowances, center vehicles, travel, conferences, training, and communications. In addition, based upon OJC's approved budget we did not fill more than 100 vacant positions, equating to more than $5 million in salary savings.

CONCLUSION

The key to improving a young person's life tomorrow depends on what we do today. Job Corps Civilian Conservations Centers have allowed youth to reclaim their lives and build careers for almost 50 years. Job Corps Civilian Conservation Centers assist young men and women in becoming employable citizens, helping recover some of the billions of dollars in wages, taxes, and productivity that is lost when young Americans fail to complete their education.

Job Corps CCC students volunteer thousands of hours to help maintain the health and diversity of our national forests and grasslands. The Job Corps CCC program maintains a cadre of young people with skills and abilities who can be quickly be mobilized to address national emergencies including wildfires, floods and hurricanes. Job Corps CCC students conduct work that enhances wildlife habitat, revitalizes wildfire-damaged landscapes, restores watersheds, and improves recreational resources for the benefit of all Americans. The stewardship projects Job Corps CCC students undertake are valuable, hands-on work experiences while providing exposure to career pathways in the areas of conservation, preservation, and resource management. These work experiences instill lasting and meaningful connections between the youth of America and the great outdoors. Through Forest Service Job Corps CCC, USDA is working across all boundaries, including in rural, economically challenged communities, to provide underserved youth with the training and the

tools they need to enter today's economy. By integrating the Forest Service mission with that of other USDA agencies, Job Corps CCC can work arm-in-arm to give underserved youth expanded opportunities and pathways to prosperity, target training for potential future employees, deliver services to USDA clients, and highlight USDA's leadership role in educating and training underserved youth and promoting rural prosperity.

Job Corps CCC is an invaluable resource that has produced past and present Forest Service leaders, including district rangers, forest supervisors, and regional foresters. The Forest Service is facing critical workforce shortages and Job Corps CCC is an ideal source from which to recruit and improve the skill and diversity of our permanent workforce.

The Forest Service intends to employ all the financial and programmatic resources available to continue providing services to our Nation's most vulnerable youth. Job Corps CCC is an integral part of the Forest Service's history and the work that occurs each and every day by our Job Corps CCC students and staff showcases our Nation's wise and continuing investment in the conservation of America's natural resources . . . not just our land, but the lives of young Americans.

Thank you for your time and attention and I would be pleased to answer any questions you may have.

Senator CASEY. Thank you, Mr. Dixon.

Mr. Lewis.

STATEMENT OF ELLIOT P. LEWIS, ASSISTANT INSPECTOR GENERAL FOR AUDIT, U.S. DEPARTMENT OF LABOR, WASHINGTON, DC

Mr. LEWIS. Chairman Casey, Ranking Member Isakson, and members of the subcommittee, thank you for the opportunity to discuss the Office of Inspector General's past and ongoing audit work related to the Job Corps program.

We have several audits underway, including one looking into the recent budget overruns experienced by Job Corps, to examine whether internal controls over funds and expenditures have been properly designed and implemented. Specifically, we're looking at why the budget overrun happened, what control weaknesses allowed it to happen, what changes the Department has already made, and what additional changes may still be needed to ensure this does not happen again. Barring any unforeseen circumstances, we expect this work to be completed in May.

As requested by the subcommittee, I will now discuss program financial management, procurement, and safety and health issues which we have reported on in the past. Recent audits of program performance have identified issues with the accuracy and reliability of performance results reported by Job Corps' contractors with respect to training placements.

In 2011, we found that approximately 18 percent of some 17,000 training-related placements either did not relate or were poorly related to the vocational training that students received while in Job Corps. For example, students trained in office administration and placed in fast food restaurants were reported as job training matches.

We've also reported on the need to improve Federal oversight of center-academic and center-career technical training programs. We found that Job Corps issued required performance improvement plans for less than 13 percent of the 510 underperforming career technical training programs for a recent 3-year period. Not surprisingly, many of these programs that did not receive improvement plans continued to underperform in subsequent years.

A critical aspect of financial management for a billion-dollar-plus Federal program such as Job Corps is to measure the cost of its outcomes. In a 2011 audit, we reported that Job Corps understated its cost per student measure by not including administrative costs in the calculation. We recommended additional cost efficiency metrics to provide decisionmakers more information on program success and efficiency.

In terms of procurement, we looked at procurement at seven centers run by five different contractors recently and found that none of the operators consistently ensured best value to the Federal Government when awarding subcontracts and purchase orders. In total, we question whether the Government received the best value for $17 million in contracts issued by these centers.

Ensuring the safety and health of students is of utmost importance. While Job Corps has a zero tolerance policy against violence and drugs, past audits have found that Job Corps needs to enforce student disciplinary policies. In a series of audits covering 10 centers run by six contractors, we found that centers did not always address suspected serious misconduct of students, allowing them to remain at the centers. This potentially places other students and staff at risk.

Over the past several years, we have also found that Job Corps faces a number of challenges in keeping its facilities safe, including conducting required inspections, correcting identified deficiencies in a timely manner, and managing their maintenance funds. For example, a recent report identified hundreds of deficiencies that had been funded for at least 2 years but had not been corrected, and that nearly $16 million in funding had been allowed to expire. The inability of Job Corps to expend these funds represents a lost opportunity to fund critical repairs and ensure safe conditions at those centers.

In closing, Mr. Chairman, Job Corps is an important part of the Department's efforts to serve at-risk youth and young adults, and we continuously initiate audits to identify ways to improve the program. We appreciate the opportunity to testify on our past and ongoing work and will provide the subcommittee our report on the budget overrun once it is completed.

I'd be pleased to answer any questions that you or any members of the subcommittee may have.

[The prepared statement of Mr. Lewis follows:]

PREPARED STATEMENT OF ELLIOT P. LEWIS

SUMMARY

Job Corps is the Nation's only federally operated residential training program for at-risk youth and young adults, and is a critical component of the Department's workforce development program. Ensuring the effectiveness of the Job Corps program is one of the major management challenges faced by the Department of Labor. The Office of Inspector General (OIG) has focused significant audit efforts toward identifying necessary improvements in the program and over the past 5 years, the OIG has issued 32 reports that provide recommendations to improve various aspects of Job Corps' operations. Overall, Job Corps has been generally responsive to audit findings, and has implemented corrective actions in response to our recommendations.

Currently, the OIG has several audits underway. One audit is looking into the recent budget overruns experienced by Job Corps to determine whether Job Corps' internal control processes over funds management and expenditures, including con-

tracting activities, have been properly designed and implemented. Specifically, the audit will determine why the budget overrun happened, what control issues allowed this to happen, what changes the Department has made and what additional changes are still needed to ensure this does not happen again.

The OIG testimony discusses program and financial management issues related to program performance, procurement activity, and student and staff safety and health. These audits have identified issues with the accuracy and reliability of reported performance by Job Corps' contractors related to on-board strength, job training match, and student eligibility. We have also found lax Federal oversight of student eligibility and center academic and career technical training programs, and reported on issues relating to procurement activities within the program. In addition, we have reported that Job Corps needs to make improvements in enforcing its student disciplinary policies, and in ensuring that its facilities are properly maintained.

Good afternoon, Mr. Chairman, Ranking Member, and members of the subcommittee. Thank you for the opportunity to discuss our past and on-going audit work related to the Job Corps program, including work related to Job Corps' recent budget shortfalls. As you know, the Office of Inspector General (OIG) is an independent entity within the Department of Labor (DOL); therefore, the views expressed in my testimony are based on the findings and recommendations of the OIG and are not intended to reflect the Department's position.

Job Corps is the Nation's only federally operated residential training program for at-risk youth and young adults, and is a critical component of the Department's workforce development program. The Job Corps program provides residential and non-residential education, training, and support services to approximately 60,000 disadvantaged, at-risk youths, ages 16–24, at 125 Job Corps centers nationwide. The goal of this $1.7 billion program is to offer an intensive intervention to this targeted population as a means to help them turn their lives around and prevent a lifetime of unemployment and dependence on social programs. Ensuring the effectiveness of the Job Corps program is one of the major management challenges faced by the Department, and the OIG has focused significant audit efforts toward identifying necessary improvements in the program. Over the past 5 years, we have issued 32 reports containing 175 recommendations to improve various aspects of Job Corps' operations. Job Corps has been generally responsive to our audit findings, and has implemented corrective actions in response to our recommendations.

Currently, we have several audits underway, including one looking into the recent budget shortfalls experienced by Job Corps. Former Secretary Solis informed the OIG last summer of budget overruns in Job Corps' program year 2011 appropriations, and requested that we perform a review of the internal controls in place over Job Corps' contract operations. In response to the request, we are currently conducting an audit to determine whether Job Corps' internal control processes over funds management and expenditures, including contracting activities, have been properly designed and implemented. Specifically, the audit will determine why the budget shortfall happened, what control issues allowed this to happen, what changes the Department has made and what additional changes are still needed to ensure this does not happen again. We expect the work to be completed in May, barring any unforeseen issues encountered.

As requested by the subcommittee, I will now discuss program and financial management issues related to program performance, procurement activity, and student and staff safety and health, issues on which we have reported concerns as a result of our audit work.

PROGRAM PERFORMANCE

Job Corps uses output and outcome performance information to make critical program decisions. Having reliable data regarding the number of students enrolled in the program, the number who earn a high school diploma or GED, the number who complete vocational training, and the number who obtain employment and/or vocational training related employment is needed to enable Job Corps to determine if the program is working and is cost-efficient. Also, given that more than 75 percent of Job Corps centers are operated by private contractors, reliable performance information is needed by Job Corps when making decisions to exercise contract option years or to award new contracts for center operations.

Our body of work includes several audits related to program performance. These audits have identified issues with the accuracy and reliability of reported performance by Job Corps' contractors related to on-board strength, job training match, and

student eligibility. Our audits have also identified weaknesses in Federal oversight of center operators.

JOB TRAINING MATCH

A recent audit identified concerns about the reliability of Job Corps' metrics for job training match. Not only is the purpose of Job Corps to help students find employment, but it is also to provide specialized vocational training that will result in training-related employment, that offers the potential for better wages. A 2011 audit found that 3,226 of the 17,787 training-related placements reported for the periods we reviewed either did not relate, or poorly related, to the vocational training received. For example, students trained in office administration, but placed in fast food restaurants were reported as job training matches. We also found that 1,569 students who completed vocational training were placed in jobs that required little or no previous work-related skills, knowledge or experience, such as parking lot attendants, janitors, and dishwashers. As a result of these findings and the importance of maximizing the success of Job Corps, we are conducting an audit this year to assess the effectiveness and efficiency of Job Corps' services in helping its students to gain necessary skills and employment. Specifically, this audit will evaluate the status of students prior to enrolling in Job Corps, the training they received, their initial job placements, and their job retention 6 and 12 months after leaving Job Corps.

FEDERAL OVERSIGHT OF CENTER OPERATORS

We have also found and reported on lax Federal oversight of center academic and career technical training programs. Tools used by Job Corps to provide oversight of these programs include Regional Office Center Assessments—a week-long compliance assessment designed to cover all aspects of center operations—and the development of Performance Improvement Plans for centers that do not meet expected levels of performance.

An audit issued last year found that Job Corps did not place sufficient emphasis on assessing career technical training programs during its Regional Office Center Assessments. For example, we found that Job Corps identified and addressed program weaknesses for only 7 of the 510 (1.4 percent) career technical training programs that underperformed during program years 2008 to 2010. Additionally, we found that during fiscal years 2007 through 2011, 89 of the 120 required Regional Office Center Assessments were not completed timely. This lack of adequate or timely oversight hindered Job Corps' efforts to ensure its students were being taught the skills they needed to find meaningful jobs.

Moreover, during program years 2008 to 2010, Job Corps issued Performance Improvement Plans for just 12.6 percent of the 510 underperforming career technical training programs. Not surprisingly, many of the underperforming programs that did not receive Performance Improvement Plans continued to underperform in subsequent years.

We also found that Job Corps could use Performance Improvement Plans to improve its oversight of center academic programs. We found that 11 percent of Job Corps centers did not meet their high school diploma/GED attainment performance goals in program years 2008 through 2010. At the time of our audit, Job Corps stated that it had not developed policies and procedures to issue Performance Improvement Plans for underperforming academic programs because the Workforce Investment Act does not require them. While Performance Improvement Plans are not required, the Act specifically provides the Department with the latitude to develop and implement such plans as needed. Issuing Performance Improvement Plans to centers with underperforming academic programs could enhance the oversight provided by Job Corps and may help eliminate problems hindering centers' performance for this very significant program outcome.

Finally, a critical aspect of financial management for a billion-plus dollar Federal program such as Job Corps is to measure the cost of its outcomes. A 2011 audit found that in program year 2009, Job Corps' calculated its cost per student by dividing a portion of its appropriated expenses by the number of new enrollees over the course of a program year. However, Job Corps did not include administrative costs when calculating that measure, thus the cost per student was understated. Additionally, we found that establishing other cost efficiency metrics, such as cost per student training slot utilized or cost per job placement, could provide decision-makers with more information to measure and manage the program's costs, successes, and areas where cost efficiencies are necessary.

ON-BOARD STRENGTH

Job Corps assesses how well a center operator is utilizing center capacity through a measure called "on-board strength." A recent audit of two centers operated by the same contractor found the contractor did not always separate students for excessive unexcused absences as required by Job Corps' policy. As a result, on-board strength performance was overstated for these two centers. Overstatements of a center's on-board strength, such as those disclosed in our audit, subjects the contractors to liquidated damages under the terms of their contracts. Moreover, by allowing students with excessive absences to remain in the program, Job Corps may be excluding more committed students from admission to the program.

STUDENT ELIGIBILITY

It is also critical for Job Corps to ensure that it serves only those students who meet its low-income eligibility requirements. Our September 2011 audit of Job Corps' controls for ensuring Job Corps contractors only enrolled eligible students found that inadequate enrollment procedures allowed ineligible students to take slots intended for at-risk and low-income youth. Job Corps' policy allowed most potential students to self-certify their family income levels. Admissions counselors were required to obtain income documentation from potential students only if the information provided verbally was questionable, or if the potential students' social security number ended in one of five, two-digit sequences. This sampling methodology resulted in requiring documentation from just 5 percent of student applicants. No documentation, such as paycheck stubs or proof of public assistance, was required for the other 95 percent of Job Corps' recruits. At the time of the audit, we estimated that Job Corps enrolled 472 ineligible students in the program in March 2011 at a projected expenditure of about $14 million to train them. We recommended that Job Corps reassess the eligibility of all active students where Job Corps' system showed recorded family incomes above the established income thresholds and take appropriate action, such as terminating the student and recovering costs from the outreach and admissions contractor. Also, for the 153 ineligible students we identified during our testing of a sample of admitted students, we recommended that Job Corps recover from its outreach and admissions contractors the approximately $2.3 million it had already sent to train these students.

PROCUREMENT ACTIVITY

Job Corps currently trains more than 60,000 students at 125 centers nationwide, of which 28 are federally operated by the U.S. Department of Agriculture's Forest Service. The other 97 centers are operated by contractors, who carry out the bulk of Job Corps' sub-contracting procurement activity. From a financial management perspective, our most recent audit work has focused on the Department's procurement activities to obtain contractors to operate Job Corps centers and perform other needed program services. We have also looked at the procurement activities of contractors who themselves procure center services from subcontractors.

Our work in this area has consistently identified procurements that did not ensure the best value for the taxpayers. For example, our review of Job Corps center contractor procurements found that the Department awarded a 5-year contract for $37.5 million to continue operation of a center and by the end of the fifth year, 13 modifications had increased the total contract cost by 22 percent to $45.7 million. Most troubling was the fact that, while the cost of the contract increased significantly, there were no modifications for additional goods or services.

In another instance, we identified a $2.4 million contract that the Department awarded without competition, citing "only one responsible source will satisfy agency requirements." However, Job Corps market research indicated that there were 18 other contractors capable of doing the work. Absent competitive bids on such contracts, the Department cannot be assured it receives a fair price for services.

Recently, we issued a series of audit reports on the procurement activities at seven centers operated by five different contractors. These centers served 4,447 students and managed about $29 million in subcontracts during program years 2010 through the first quarter of 2012.

Our audit determined that none of the seven center operators consistently ensured best value to the Federal Government when awarding sub-contracts and purchase orders. In aggregate, we questioned whether the Government received the best value for $17.1 million in contracts issued by the seven centers. For example, one center operator allowed an executive vice president to award a sole source contract to a company owned and operated by a subordinate vice president. In addition to conflict of interest concerns, the lack of competition for the contract meant that

the center operator could not demonstrate it had paid a fair price for the services it procured. We found that center operator policy guidance regarding center procurement activity was inadequate and, as a result, the seven center operators did not consistently comply with Federal and contractual requirements applicable to their procurement activities.

STUDENT AND STAFF SAFETY AND HEALTH

Providing students and staff a safe and healthy environment so that students can take full advantage of the resources Job Corps provides is critical to the success of the program. Our past audits have found that Job Corps needs to make improvements in enforcing its student disciplinary policies, and in ensuring that its facilities are properly maintained, including promptly addressing any hazardous conditions.

ENFORCEMENT OF STUDENT DISCIPLINARY POLICIES

In order to provide the safest possible learning environment, Job Corps has a Zero Tolerance Policy against violence and drugs. Students who break this policy are to be dismissed and not allowed to re-enter the program. Other serious misconduct that could lead to dismissal includes persistent disobedience of center rules, repeated or prolonged absences from classes, improper use of center facilities and equipment, and leaving the center without permission.

In a series of audits issued in 2009 and 2010 covering 10 centers operated by six contractors, we found that four centers did not always convene Fact Finding Boards and Behavior Review Panels as required for students suspected of serious misconduct. For example, from a sample of 188 events identified in security records at the four centers, we identified 29 events requiring a Fact Finding Board for which none was held. These students were allowed to remain at the center without consideration of appropriate disciplinary action, including removal from the center, thus potentially placing other students and staff at risk. Based on a sample of the 268 students at one center who were separated for disciplinary reasons, we found that 16 percent had committed earlier infractions for which a Fact Finding Board or Behavior Review Panel should have been convened, but was not.

In addition to not properly investigating serious misconduct, the same series of audits identified six centers where properly investigated misconduct was not reported to Job Corps as required. We determined that 40 percent of 235 significant incidents occurring at the six centers during our audit period were not reported to Job Corps. These incidents included physical assault, weapons possession, narcotics possession or sales, and other events that indicated a student was a danger to himself or others. Although these centers may have investigated and taken appropriate disciplinary action, not reporting these events to Job Corps impacts Job Corps' ability to ensure that centers take appropriate actions regarding the incidents being reported or to analyze trends to support management and policy decisions at a national level.

FACILITY MANAGEMENT

Over the past several years, OIG audits have found that Job Corps faces a number of challenges to keep its facilities safe, including conducting required inspections, correcting identified deficiencies in a timely manner, and maintaining accountability over its maintenance funds.

Job Corps center operators are required to conduct weekly safety inspections of food handling and recreation areas, and to perform monthly safety and occupational health inspections of other areas. Centers are to correct identified deficiencies promptly, and document and maintain records of inspections and corrective actions. Our audits at individual Job Corps centers found that some centers were unable to demonstrate that they had conducted all of the required inspections. As a result, students and staff at those centers were exposed to safety and health hazards that could have been identified and abated, such as locked emergency exit doors and improperly stored flammable liquids observed at one center. Past OIG audits have also found other unsafe and unhealthy conditions that had not been addressed, such as: (1) extensive mold in a culinary arts storage room; (2) potential asbestos hazards; (3) multiple tripping hazards; and (4) hanging and exposed ceiling tiles in student areas.

Another issue involves Job Corps' ability to correct identified deficiencies in a timely manner. Even though Job Corps has directed all regions and center operators to take "immediate action to repair all funded deficiencies in order to ensure a safe and healthy learning environment," a recent OIG report identified hundreds of deficiencies that had been funded for at least 2 years but had not been corrected.

Past OIG audits have also identified Job Corps' challenge to ensure accountability over its maintenance funds. During program years 2009–11, Job Corps received about $108 million per year in appropriations to pay for new center construction, rehabilitation of existing centers, land acquisitions, and necessary maintenance to keep its centers in acceptable condition. One of our audits showed that Job Corps had allowed an estimated $9 million in maintenance funds that had been set aside for 149 repairs to expire without the repairs having been made. In response to our audit, Job Corps stated that in fact $15.8 million had expired, but that this represented 1.2 percent of total Construction, Rehabilitation, and Acquisition funding for program years 2002 through 2011, which it stated "is below average for the Department." The inability of Job Corps to expend these funds represents a lost opportunity to fund critical repairs and ensure safe conditions at those centers.

CURRENT AUDIT WORK

As previously stated, Job Corps is an important part of the Department's efforts to serve at-risk youth and young adults, and we continuously initiate audits to identify ways to improve the program.

In addition to our audit looking into the program year 2011 and program year 2012 budget overruns, our current reviews include an audit to determine if Job Corps' contracts for nationwide services, totaling approximately $95 million annually, were properly awarded. We are also looking at the expenditure of student travel funds.

Thank you for the opportunity to testify on our past and ongoing work. I would be pleased to answer any questions that you or any members of the subcommittee may have.

Senator CASEY. Thank you, Mr. Lewis.

I'll start with a predicate from part of the record to begin my questioning. I have a letter dated July 2012, directed to Senator Harkin, Chairman of the Committee on Health, Education, Labor, and Pensions, and Senator Shelby, the Ranking Member of the Committee on Appropriations. It is a 5-page letter that was signed by Brian Kennedy, and he is from the Office of the Assistant Secretary for Congressional and Intergovernmental Affairs at the Department of Labor. I'll make that letter part of the record.

[The information referred to can be found in Additional Material.]

I want to highlight some statements he made in that letter to set forth a timeline of some important developments. He says,

> "Since July 2011, Job Corps anticipated that it would be necessary to use a substantial portion of the authority provided by Congress in Public Law 112–10 to transfer funds between Job Corps' CRA account, and its operations account."
>
> "However, Job Corps did not recognize the full amount of the transfer needed for program year 2011 operations until April 2012. At that point, Job Corps concluded it would need to exercise its full transfer authority to transfer $26.2 million from the CRA account to the operations account."

He goes on from there on the same page to document the transfers of dollars from one account to another.

Then he says,

> "The full extent of the potential shortfall in the operations account went unrecognized"—that's the same word he used earlier—"through most of program year 2011 in large part because Job Corps lacked program monitoring tools, No. 1, and internal controls to sufficiently analyze contractual spending and trends developing during the course of the program year. In turn, this led to inadequate spending projections for the operating account."

I focus on that as a predicate because there are at least three basic problems he identifies there. No. 1 is lacking program monitoring tools. No. 2 is lacking internal controls. And then three is lacking the ability to project spending in a way that is appropriate. I think it comes down, really, to one fundamental issue or one fundamental position within the Department of Labor, and that's a comptroller.

Anyone who knows anything about running a public agency knows that you're in a lot better shape if you have a comptroller who can watch your spending, can put controls in place, can blow the whistle when people are misspending, can do periodic reporting, and because of all that work can actually make a reasonably accurate projection.

Now, I know, Assistant Secretary Oates, you started in the Department in April 2009. Is that correct?

Ms. OATES. I was confirmed in June 2009.

Senator CASEY. June 2009. The new position that was created to be filled by a comptroller was not put into effect until August 2012. Is that correct?

Ms. OATES. Actually, he started with us in May 2012. But you're correct in terms of 2012, sir, yes.

Senator CASEY. The first question I have is between the time you started, from June 2009 to 2012, when that comptroller began, on whom did you rely for these kinds of assessments, program monitoring, internal controls, spending projections? On whom did you rely in the Department?

Ms. OATES. Senator, if I could answer your question, I relied on a senior executive service person, an SES, who was in charge of my budget functions at that time. But I did not take Job Corps back into ETA until October 2010. So just so we're clear, I had ETA, which is a large enough budget, especially with the Recovery Act. We had a large budget but no comptroller.

Senator CASEY. So from October 2010 until what month in 2012?

Ms. OATES. He came on in May 2012.

Senator CASEY. In May. So in that time period, you relied upon that——

Ms. OATES. Senior executive service.

Senator CASEY. And tell us what that is, that person.

Ms. OATES. That's a senior career person, sir. But my person who was running that shop did not have adequate fiscal and financial management experience the way a comptroller would.

Senator CASEY. When did you make that assessment of what they lacked?

Ms. OATES. Well, when Job Corps came back into ETA in October 2010, the first thing I did was open a procurement office, because I lacked a senior level person who could do procurement. Job Corps at that time was $1.7 billion. The rest of my budget was $12 billion. And in order to take that back, I felt like I needed someone to focus on procurement. So the first year of Job Corps was really focusing on doing a more adequate monitoring of our procurement.

The second year was the re-engineering of our financial house, which involved first moving our accounting services from pure contract into Federal service and attracting a comptroller. I needed to get a new SES position for that—government mumbo-jumbo—I'm

sorry, Senator, to go with that, but I have only a certain number of SES. And what I could have done is just move another SES in there, but what I wanted to do was wait until I had an SES that I could recruit, a new position where someone would have those qualifications.

Senator CASEY. In addition to your office, does the Department of Labor have a comptroller now in place?

Ms. OATES. The Department of Labor has a chief financial officer, similar to a comptroller, yes.

Senator CASEY. But not one in place for Job Corps——

Ms. OATES. In ETA, at that time, we did not have our own.

Senator CASEY. I've got other questions for when I get back to my time. I'm over time. But in light of what you've testified to—and in your prepared testimony, you talked about "serious weaknesses in Job Corps financial management processes." That's a direct quotation from your testimony. "Job Corps lacked appropriate program monitoring tools and controls." Third, you said that there were inadequate spending projections.

Based upon all of those problems which undergirded the difficulties we're here to examine today and which has led to this enrollment freeze, you've been very clear about where responsibility lies. My question is—and I think this is a question taxpayers ask—who in the Department, if any, has been held accountable for these problems?

Ms. OATES. I'm being held accountable today and have been every day since I've started working with the staff on this committee and other committees when we had the problem. We've had frequent meetings with your committee. It's my responsibility.

But if you're talking about positions that have changed, there have been a number of position changes within my organization to better address the needs of what I consider and I hope you would consider adequate budget controls. We have a new budget officer for ETA. We have the comptroller. We have a new SES position in procurement. We have two GS–15s, which are high level career functions, one who oversees procurement outside of Job Corps and one who oversees procurement in Job Corps.

Senator CASEY. I think there's a good bit of skepticism on this committee among Senators in both parties, because we've been hearing for years now, several years, that the problem was recognized, the problem has been diagnosed, and there are corrective action efforts in place and this won't happen. And we thought we were there in maybe the middle or summer of 2012, and then we entered this year and we hear about enrollment freezes.

So I think you can understand the high degree of skepticism that this problem has been fixed, contained, dealt with, however you want to describe it. So I'm over time, but I'll come back to it.

Senator Isakson.

Senator ISAKSON. Thank you, Senator Casey.

Secretary Oates, as of today, March 12, what is the current budget shortfall of the Job Corps program?

Ms. OATES. Senator, we started with $61.5 million. I can give you some numbers that we've saved. But right now, we're in negotiations with contractors. The bulk of the savings will have to come from the contractors. And I can't discuss a number with you in

terms of what we need right now because my attorneys and my procurement people tell me that would negatively impact negotiations with the contractors. But as soon as I can, I will share those numbers as soon as the negotiations are done. We are hoping they will be finished in March so that by the end of March, I will be able to come back to the committee and give your staff and each of the members an adequate accounting of where we are.

Senator ISAKSON. I appreciate that answer, because it plays right into the next two questions that I have. How much money are you saving per week or per month with the current enrollment freeze?

Ms. OATES. Again, I can give you some hard numbers. I can tell you what I'm saving on student stipends. Last year, for instance, we spent just under $100 million on student stipends, both the money students get biweekly and the money they get as transition pay going out. So I can give you a hard number on what I'm saving on that every week. I can tell you an approximation of what I'm saving on things like travel.

But I think Senator Hatch painted a picture of a student with tremendous disabilities that had an amazing outcome. There's no one-size-fits-all in Job Corps. One kid could cost me X because they already had a high school diploma and just needed a vocational certificate, and another kid could cost me three times X.

So I don't know what I'm saving in terms of anything else but the accountables, like what we spend on work clothes, what we spend on stipends. The rest of that will all come from contractors. I'll be honest with you. I never dreamed until I saw the things coming out that there was one employee for every three kids at Job Corps.

I'm assuming that we're going to see tremendous savings in these negotiations. Sadly, that means reduced employment, either less hours or losing their job altogether. But I won't know that until my procurement people finish their negotiations with the contractors.

Senator ISAKSON. Is that answer the reason for your reference in your written statement that said you underestimated the allowable costs for contractors on student services?

Ms. OATES. I really think, Senator, that personnel could be part of it. I also want to be very clear that we have something called a program handbook that is, in my opinion, overly prescriptive, and we need to take some of the must-dos out of that in order to get the Job Corps program, at the same high quality it is, into a spending level that fits our appropriation.

It could be utility costs. It could be food costs going up. It could be personnel. But, quite frankly, in my opinion, we have too many things in the handbook that they have to do that may be duplicative. And the working group that we put together with contractors and some staff from this committee late summer or early fall brought to light two of those.

One, we gave more flexibility away from the overly prescriptive nature of our healthcare staffing requirements, and the second we did in terms of student-teacher ratio in GED. I can't tell you yet what savings those will produce. I haven't seen anything yet. I'm hoping the contractors will articulate those as they negotiate.

Senator ISAKSON. Let me make an observation here that $61.5 million is 4 percent of the Job Corps budget. Apparently, you never asked the contractors to meet that shortfall through their costs. You immediately went and cut enrollment to cut costs. Is that right?

Ms. OATES. No, sir, that is not right. Last July, we began negotiations with the contractors, letting them know that we had a shortfall, asking them to help us cut costs.

Senator ISAKSON. What about 2011?

Ms. OATES. In 2011, Senator, quite frankly, I didn't know we had a problem until the last week of April 2012.

Senator ISAKSON. Let me ask one more question before my time runs out, and this is an important one. The continuing resolution that was introduced last night and the Senate will begin debating through the bipartisan efforts of the Appropriations Committee includes an anomaly that would allow your Department the statutory authority to transfer up to $30 million from other accounts into the operating account. If this becomes law, can you commit to this subcommittee that you'll suspend the current enrollment freeze and allow centers to restore operation to their contract budget?

Ms. OATES. I can commit to this committee that I will come back to you after we have the negotiations with the contractors and tell you how we would do that before we do it.

Senator ISAKSON. Are you aware of the $30 million item in this current CR that we're getting ready to——

Ms. OATES. I have seen it, sir. I know that it's there.

Senator ISAKSON. I think one of the reasons that that question is so important is if you transfer within an agency money from other operating accounts to make up a shortfall and continue to not allow students to be enrolled, who are the purpose of the program, it seems like it's a backward way to go about doing it. The first people to benefit ought to be the people who are being denied enrollment. That's the way it looks to me. So I just want to make that observation.

Thank you, Mr. Chairman.

Ms. OATES. And, sir, let me just say to you that we want to suspend this enrollment freeze as soon as possible. But, clearly, it was a draconian choice, suspend enrollment and continue the commitment to the kids we already have enrolled there, or risk getting close to the end of the program year and having to, without warning suspend the program. We will do everything we can to suspend this enrollment freeze as soon as possible. That's in all of our best interests. We all care about these kids.

Senator ISAKSON. That's what I wanted to hear. Thank you.

Senator CASEY. Thank you, Senator Isakson.

Senator Murphy.

STATEMENT OF SENATOR MURPHY

Senator MURPHY. Thank you, Mr. Chairman, very much for allowing me to sit in on this hearing.

Secretary Oates, could you just give me a little bit deeper understanding of why your counsel says you can't share with this committee the data surrounding the amount of money that you have in shortfall for the rest of the year? I'm a new member of this com-

mittee, but that's tough to hear. When we're hearing these dire stories coming from our centers and from the kids that aren't going to receive services, it's tough to then turn around and tell them I don't really have an answer for them because I can't get the numbers to look for myself as to whether the cost savings that you're suggesting are actually going to meet the shortfall.

Ms. OATES. Senator, first let me try to explain why they say that. Each negotiation is done independently with each contracted center. So if a contractor runs 18 centers, we negotiate with them 18 times for each of the centers. And if they knew I needed to save a dollar, they would divide that instead of saying, "What are the real cuts I can make?" That is the impression of the folks that lead my procurement. They think that it would limit what they could talk to the contractors about as real savings. So I understand the position you're in.

Second, I think that everyone wants to know when we can end this enrollment freeze, including me. That's something we talk about at the Department every day. I have a daily meeting on this, not only with my internal people, but with the CFO and with the departmental budget office. But we have to be sure of them because of ADA violations. I have to be certain. I can't hope that they will come with a conclusion. I have to have that defined term.

Senator MURPHY. I'll just respectfully disagree. I certainly understand that keeping that data secret helps your negotiations. But you've got to weigh that against transparency, and you're at a moment right now where a lot of people are crying out for help and help from this body. I mean, frankly, before this crisis happened, these centers knew exactly how much money you had to negotiate with.

I guess you could argue that that's a negotiating advantage, that they knew ahead of time what your budget was. I'm not necessarily sure knowing what the new budget is is necessarily that much of a greater advantage. I would just hope that you'd rethink that and take a look at sharing that information with this committee.

Ms. OATES. We hope to get that to you no later than the beginning of April.

Senator MURPHY. Second, you talked a little bit about working with these centers rather than imposing an arbitrary freeze on enrollment. Can you talk a little bit about that? I've heard from some of the centers that I've talked to that that hasn't necessarily happened, that in this program year, if they were given a budget target, they could find savings other than an enrollment freeze that would get you to or close to where you need to get to.

They believe that the enrollment freeze is going to far surpass the amount of money that you actually need to save and that if there was some flexibility allowed to these program operators, they could find the savings other places. Can you talk a little bit about the flexibility that you've allowed or the negotiations separate and aside from the enrollment freeze that you've had with these program operators?

Ms. OATES. I'm very optimistic. A number of operators had a meeting with our chief financial officer yesterday, and they have been very willing recently to come to the table and talk about this.

But, Senator, one of the things I have to prove to everyone is that I'm sure that we're going to meet those numbers.

And many of the things that have been floated by members of this committee in our discussions about ideas to cut this just don't meet a fiscal standard. In fact, quite frankly, they meet the fiscal standard that got me into this problem in the first place.

People have suggested that I just take the overruns from the first quarter, the under-runs, and take the savings there and put them in for the rest of the year. Well, I can't do that with a cost reimbursable contract, because, basically, if they go over in the last three quarters of the year, if the costs are allowable and allocable, I have to pay them.

So I can't pretend—it's like a shell game. The second one—and I won't go through the whole list. The second one they said, basically, was to say that we could transfer the money, the 15 percent authority I have, up front from CRA. I could do that. But what if I don't have enough money at the end, and what about the construction projects?

When I come to you and say I want to fix the problem, I don't want to mask the problem. I don't want to hide behind anything. I want to have hard numbers that my comptroller can live with.

Senator MURPHY. Because of the way your contracts are structured, you don't have the ability to go to a program operator and say, "Instead of the enrollment freeze, here's your target number of savings that I need between now and the end of the year. You find a way to get those savings," rather than implementing the across-the-board enrollment freeze.

Ms. OATES. Senator, I did that in July 2012, and by November 2012, as I've told the committee staff in a number of meetings, I was 3.2 percent above what our work plan had been, which translated into about $36 million. That's why I hit a crisis point.

When I knew by the end of November I wasn't sticking with the plan that I thought we had negotiated, I knew we had to do something more drastic. That's when we decided to cut student stipends. That's when we looked at other options, and that's, unfortunately, how we came to January 28 when we had to temporarily suspend enrollment.

Senator MURPHY. Thank you, Mr. Chairman.

Senator CASEY. Thank you, Senator Murphy.

Senator Hatch.

Senator HATCH. Thank you, Mr. Chairman.

Welcome back to the committee.

Ms. OATES. Thank you, Senator. I wish it were under more pleasant circumstances.

Senator HATCH. We all do. What is the ETA's policy for reimbursing vendors at a higher rate than contracted? And can you help me understand how improving contract modifications significantly higher than the negotiated rate were allowed?

Ms. OATES. I think the audit that Elliot referenced was done before Job Corps came to ETA. So I couldn't really adequately address that. But let me give you some examples. We run on a thing called onboard strength, how many people you can have. You said at Clearfield, it's 1,000.

In the past, we've let Job Corps centers run at 103 percent of onboard strength. And because of the way we did programming, the same person was in charge of the program as was in charge of procurement, and they were like, "That's great that you have so many kids." And nobody was saying, "How are you going to pay for it?" So I think the higher levels of procurement—if I give you a $5 million contract, and you tell me that utility costs went up or food costs went up or you had a greater onboard strength, those are all allowable costs and I have to reimburse you at the higher level.

Senator HATCH. Isn't the nature of the cost reimbursement contract designed to prevent these negotiations at a significantly higher rate?

Ms. OATES. I think that's why we have to have better—and I believe we do now, but certainly the IG will tell me that for sure. I think we have better trained people in place so that they're, first of all, talking to contractors about what the problem is.

I know we have better checks and balances in place, because now that person can't make that decision without talking to someone that's a contracting officer. That contracting officer has to bring it up at the national office level, and three sets of eyes, procurement, program, and our comptroller, all go on that before a decision like that is made. But the investigation that the IG is doing right now is going to tell us what I can do to better improve that system.

Senator HATCH. On the new centers cost overruns, I'm not sure I understand from your statement how they impacted the operations budget. Why were new centers delayed, and what proportion of the cost overrun is attributable to the new centers?

Ms. OATES. The three new centers, Pinellas, Ottumwa, and Milwaukee—the way the funding cycle works in the appropriations world is they're built and equipped, and then we begin putting extra money in the operations budget for them. I believe—and I think the IG will be able to tell you more factually—that the reason we didn't see this problem the first 18 months that Job Corps was in ETA was because there was extra money there, and those new centers were not fully at onboard strength.

So if there were supposed to be 300 beds in the Ottumwa Center, the 300 beds weren't filled until program year 2011, which ended last year. But I'm looking for people to do the investigation to tell me whether that assumption is correct. So we had that fungible money so we didn't see this problem.

As Senator Isakson points out, it's 4 percent of the budget. It would be very easy for a little extra money to cover what was a flaw for years and was just uncovered when those three centers were fully at onboard strength and we no longer had any additional funds. It showed the problem.

Senator HATCH. Thank you.

Thank you, Mr. Chairman. I appreciate it.

Senator CASEY. Thank you, Senator Hatch.

I want to ask a question that would relate both to Assistant Secretary Oates as well as Mr. Lewis.

Secretary Oates, in your testimony you say,

> "In addition, in June 2012, then-Secretary Solis requested that the inspector general perform a comprehensive review of

the Job Corps financial control system. That review is ongoing, and we look forward to receiving the results."

So the request was made in June 2012. Is that correct?

Ms. OATES. Yes, sir.

Senator CASEY. And it's really a question for both. When will we see that?

Mr. LEWIS. We expect right now, and as it said in our testimony, barring any unforeseen circumstances, we expect to be done with the work in May, to have a report to you in May.

Senator CASEY. I don't understand. Why does it take a year?

Mr. LEWIS. Even though the request did come in in June, it was followed up shortly after that from the CFO's office, who had requested more time to reconcile the Job Corps accounts for that program year and asked us to wait, that it thought it would be more effective for us to start the audit in the fall. At that time, we thought that was a reasonable request, so the audit actually started in the fall.

Ms. OATES. And, Senator, if I may, the original request from Secretary Solis was to just look at the problem from last year, so ending June 30. I think in our discussions with the CFO and subsequently with the IG, we asked them to extend that. So they're actually looking up until November of this year.

So we may have caused some of that delay, because once I saw I still had the problem in July, I needed them to look further and said,

"Did anything improve, any of the things that we thought we put in place in June, which may not have been evidenced yet? Could you see any change in those in November?"

So I think by extending their look to November, I may have put Mr. Lewis and Mr. Petrole in that situation. I take the responsibility for that, Elliot.

Mr. LEWIS. We did modify the job twice, because when we got into it, we didn't have the problem with 2012. Once that became apparent, we expanded the look into it.

Senator CASEY. I'll tell you, the program would be better off, and this committee would be better informed, and I think taxpayers would have a better sense of what happened if you can expedite that.

Mr. LEWIS. We fully understand that.

Senator CASEY. I realize you do a lot of these, but I think there ought to be a way to expedite that, at least by a month or two, especially since we're in a budget season now. Next week, the Senate will be considering the 2014 budget, and it would be very helpful if we had some indication as to the origin of this specific problem on controls and projections and those basic questions.

I wanted to highlight as well, Mr. Lewis, some of your testimony as it relates to determinations you've made. And I realize that in the course of your written testimony you couldn't set forth conclusions about the current ongoing audit. That wouldn't be appropriate. But I think that you highlighted and summarized in a fairly detailed fashion what the results were of other audits that you've outlined. And I want to look at a couple of those right now.

You say in your testimony regarding procurement activity—and that was the subject of one of your audits. You say in the second paragraph under that, "Our work in this area has consistently identified procurements that did not ensure the best value for the taxpayers."

Mr. LEWIS. Correct.

Senator CASEY. To your knowledge—and I'd ask Secretary Oates this same question—has that problem been rectified? Is there a corrective action strategy in place, or is that still an ongoing problem?

Mr. LEWIS. Well, it's been a longstanding problem. We've certainly seen changes and improvements to it. More recently, we have seen change in personnel and ETA procurement that's encouraging. But, again, we've seen, over many years, and we just cite some of the most recent work in the testimony on various issues with procurement, whether it's at the ETA level, ETA procurement that they're conducting, or it's procurement that's being conducted out at the Job Corps centers themselves. They engage in a lot of procurement in this program.

We've seen improvement, but we continue to see problems. That's one of the areas we have a current audit going on to try to verify how much have we improved.

Senator CASEY. Just on procurement.

Mr. LEWIS. Just on procurement.

Senator CASEY. I want to move to another one, Secretary Oates, unless you have something to say on this.

Ms. OATES. I think that the OIG's work is really important to us, because what he's really been unearthing since 2002 is problems in subcontracting. We don't have anything to do with the Federal Government. FAR doesn't apply there. We don't have anything to do with that. But we do have a responsibility to our contractors to provide them with professional development and information. So his work has been very helpful in helping our procurement people figure out how we can help them follow the rules, and we intend to continue to do that.

Senator CASEY. I'll just cite—because we're running low on time, your report Mr. Lewis, which says,

> "We questioned whether the Government received the best value for $17.1 million in contracts issued by seven individual centers."

You also say,

> "In a series of audits issued in 2009 and 2010 covering 10 centers operated by six contractors, we found that four centers did not always convene fact-finding boards, and behavioral review panels, as required for students suspected of serious misconduct."

I'm just giving you kind of a series of problems that have been identified. Ultimately, this is going to affect the efforts that can be made here in the Senate and the House to make sure that we can continue to provide funding at the level that it should be.

I would say to the Assistant Secretary that I would hope that all of these determinations that have been made by the auditors are the subject of intense—not just review, but intense action to correct these problems, because the best way to undermine a good program

is to have management problems, to have cost problems, and to have some of the problems identified in the audit.

Finally, in this segment—I know I'm over by a bit. Assistant Secretary Oates, I'm trying to get a sense of when—let me just ask it this way. You don't contest the statement I read from Mr. Kennedy's letter of July 20, 2012 where he said, "Since July 2011, Job Corps anticipated it would be necessary to use a substantial portion of the authority to transfer funds." You don't contest that that's the time period or the timeframe within which the Department and you were aware that there was a problem.

Ms. OATES. I do contest that, sir, basically, that we were given the 25 percent transfer authority in that budget in the program year. I did not know we were going to have to use that money until the last week of April in 2012.

Senator CASEY. Tell me when you knew that there was a substantial problem which we know now is the 2011 $39 million shortfall. When did you know that?

Ms. OATES. April 27, I believe, of 2012.

Senator CASEY. You didn't know that until 2012.

Ms. OATES. That's right, sir. That's the 2011 program year.

Senator CASEY. Right. So you didn't know in July 2011.

Ms. OATES. I did not, sir, no.

Senator CASEY. Once you were aware that there was a problem, what did you do next? If you can, just outline the series of steps you took after that.

Ms. OATES. Sir, I found out when my then national director went to the Deputy Assistant Secretary. They came into my office with the procurement person, and we immediately began to look into the problem and then within 48 hours made sure that everybody else, including the Secretary and the Deputy Secretary, were aware that we had a problem.

My new budget person had been on the job for 2½ weeks. We tried to get him to give us some modeling, and he began looking at things, and we began to try to figure out how we were going to respond to the program.

Senator CASEY. When you say a new budget person, who is that?

Ms. OATES. I have a new budget director. My former budget director was—we changed jobs, and I got someone who had run a budget at Energy. He's been with me—Ron Sissel—for almost a year now.

Senator CASEY. But that's not the comptroller we spoke about.

Ms. OATES. No. That's right.

Senator CASEY. Senator Isakson.

Senator ISAKSON. Thank you, Mr. Chairman.

Mr. Dixon, you said, I believe, the Forest Service implemented internal cost-cutting measures beyond those required by the Department of Labor. What exactly were those, and did you share them with the Department of Labor?

Mr. DIXON. Yes, we did share our efforts with the Department of Labor. Primarily, they included not filling many of our vacant positions. That's where we were able to get the greatest amount of savings to help with this particular problem.

Senator ISAKSON. And that was your own initiative at the Department. Is that right?

Mr. DIXON. Yes. Based on our discussions with the Department of Labor, looking at what types or levels of funding they were going to appropriate to the agency, we needed to figure out how we could get within that limit. And that was the best way to be able to do it with the time constraints that were provided.

Senator ISAKSON. So as a contractor, which—in effect, you are a contractor.

Mr. DIXON. Another Federal entity, but, in fact, we operate Job Corps centers just like other contractors under the same rules and regulations.

Senator ISAKSON. But the Department asked you to find savings and you found them.

Mr. DIXON. Exactly.

Senator ISAKSON. Secretary Oates, I understand that the National Job Corps Association published a list of $59 million in savings that the program could realize, one of them being, and I'm quoting here,

> "Every Job Corps operation currently has budget under-runs as a result of ETA implementing a hiring freeze and stopping student enrollment in June and July 2012."

Did you accept that $20 million back? Did you take it?

Ms. OATES. We did not, sir. The reason is that——

Senator ISAKSON. Why not?

Ms. OATES. Well, an under-run in one quarter doesn't necessarily give me savings at the end of the year, because they could—because these are cost reimbursable contracts, I would have to meet their demands if they had overruns in second, third, and fourth quarter. And that's when I run the danger of an ADA.

Senator ISAKSON. So you're saying that you didn't accept it because in the next quarter you might incur the cost?

Ms. OATES. That's correct. In my simple math mind, if you think of an under-run as being $100 and you only spent $90, the next quarter, they could spend $110 and I would have to reimburse that. So I would have no savings.

Senator ISAKSON. Well, I understand what you're saying. But if you had spent money, $20 million, that was not earned by the contractors, and they were willing to pay it back to you, although it was a one-time occurrence, it might not be long-term savings, but it's short-term relief until you get your program put together to not realize the cost overruns that you had.

Ms. OATES. Yes, sir. But I have to achieve the savings in the same program year, and none of them were willing to tell me they wouldn't overrun in other quarters.

Senator ISAKSON. Mr. Dixon's department at the Forest Service, in answer to the request from DOL to reduce costs, did not fill vacancies as they occurred in the department. Is that correct?

Mr. DIXON. Yes, Senator.

Senator ISAKSON. And they told you that's what they were doing to meet the goals you had given them. Did you at the Department consider doing that?

Ms. OATES. Many of the private contractors did the same thing. They didn't backfill positions.

Senator ISAKSON. What about Department of Labor employees?

Ms. OATES. That's a different operating budget. But, yes, we also have not filled—remember, Job Corps comes to us in three buckets, construction, operations, and PA. PA is the only account that I can use for employees, either in the regional or national office. And we have not, like with all ETA, backfilled positions. We're on a position management system where a position is not necessarily filled until we make sure we have the money to fill it.

Senator ISAKSON. So you can do $30 million in transfers from the operating account for savings or to help with a program. But you can't do it in terms of attrition?

Ms. OATES. I can't do any transfers without congressional authority and——

Senator ISAKSON. Which is in this current CR.

Ms. OATES. Well, whatever comes out of the CR, but last year, I could transfer up to 25 percent from construction to operations, no PA.

Senator ISAKSON. And PA stands for——

Ms. OATES. The payroll accounts.

Senator ISAKSON [continuing]. Payroll accounts?

Ms. OATES. For my own staff.

Senator ISAKSON. So you can from a maintenance and operation transfer, but you couldn't freeze employment within the Department to realize savings.

Ms. OATES. That's correct. I couldn't transfer anything I saved in my payroll account into operations. That's correct, Senator.

Senator ISAKSON. So you've got stovepipes in terms of those three sources of revenue.

Ms. OATES. Yes, sir.

Senator ISAKSON. Thank you very much, Madam Secretary.

Ms. OATES. Thank you, Senator.

Senator CASEY. Mr. Dixon, I wanted to ask you about how you see the program going forward. You've had probably a more direct exposure to the workings of this program than most people. Do you feel confident now that sufficient reforms have been undertaken for the program to move forward, or do you have any concerns going forward about what's in place at this stage?

Mr. DIXON. I don't necessarily have any concerns about what has taken place at this stage. I think there's still a lot of uncertainty about how we move forward. We're going to be working very closely with the Department of Labor to ensure that the Federal working relationship is intact and we understand the implications of any changes to the program. We don't know that to date, but we've made a commitment as Federal agencies to continue to work together closely to ensure that we do that in an effective way.

Senator CASEY. Assistant Secretary Oates, I wanted to ask you about some of the underpinning of your decision on the enrollment freeze. Prior to making that decision to institute an enrollment freeze, which I know you didn't want to do, did you or anyone in the Department engage in a kind of—for lack of a better word, kind of a systematic or systemic review of options? How did you approach that? How did you come to the conclusion to institute an enrollment freeze?

Ms. OATES. The decision was made because we had already made several cuts to students. We told you we cut the student stipends.

We cut the separation pay, and we made changes to the clothing allotment. I think we were, all of us, career and political, sure that we couldn't hit kids one more time. We couldn't cut the kids.

We had done a number of things that we could do. We cut our leases. We worked on our leases. We centralized the GSA fleet. We did a number of things. We cut our media——

Senator CASEY. What does that mean when you say you centralized——

Ms. OATES. Each center has vehicles.

Senator CASEY [continuing]. Vehicles.

Ms. OATES. And in program year 2011, each center did their own operations and their own contract with GSA to manage that fleet. We centralized that so we could better be sure of the cost for program year 2012. So we pulled these things together. We cut the media buy by $4 million. We had gotten everything we could that we had control over.

Basically, there were two things that we could do, Senator, two options that we had. One was to shorten the year, end Job Corps early. At that time, the decision was that we probably could, with that shortfall, keep Job Corps going until the end of April or early May instead of to June 30. Or we could freeze enrollment.

While neither of those is a good decision, we came to the decision to freeze enrollment, because we thought we had to stand to our commitment to students who were already enrolled. And, clearly, if we had to abruptly end the year prior to June 30, kids would be in the middle of getting their GED, would be 2 weeks from getting their vocational credential. We thought that was much more draconian than this draconian choice.

Senator CASEY. Can you make a determination or make an estimation for the committee as to how long you think the enrollment freeze will be in effect or needs to be in effect? I know there's a date attached to it, but what's your current assessment?

Ms. OATES. That is really determined by how our negotiations go with the contractors. As I said, I'm very optimistic that the contractors have a renewed willingness to work with us and cut costs the way Ag did. And I think that if we're able to come up with sufficient costs, I can come to you as a former auditor and say, "Do you think this is real, or is this imagined, or is this a shell game?" Between the IG and the OCFO and my departmental budget office and my comptroller, they have to think the numbers are real to get me to June 30. As soon as we're at that place, we'll begin enrollment again.

And enrollment will begin first with the outreach in admissions. Contractors have to staff up and start enrolling kids, and then the kids will go to contracts. But I can't do that until I'm sure I have enough money to get to June 30.

Senator CASEY. We have, I think, some limited time to rectify this in order to get young people enrolled in a program which they should be. I guess the program is normally 60,000 per year per student program and is now down below what—the current number is under 40,000, some 35 to 30?

Ms. OATES. When we suspended enrollment January 28, we had 44,000 kids and change, and we've dropped to about 6,000 right now. So we haven't dropped any kids, but we haven't filled 6,000

slots that normally would have been filled. I think you were correct. One of the Senators said we're losing about 1,000 a week. That's about correct.

Senator CASEY. One of the things that is particularly disturbing about this is not simply the impact, but the fact that there didn't seem to be an expert who could make accurate budget forecasts or projections, couldn't do kind of a real time assessment of how money was spent. And it's disturbing for a department, but I'm afraid there's probably some other departments that don't have this in place as well.

It's kind of stunning to try to comprehend that comptrollers aren't everywhere in an agency like Labor or any other department. I don't know how you can function without a comptroller. So this is going to lead to other questions about other departments.

But in the meantime, we're going to have to think of ways in the next couple of days to get an even more real time assessment of where things are. And, look, I understand these contract negotiations have to be subject to some appropriate secrecy. But there ought to be a way to inform people in a confidential way as to where things stand. That whole process, I think, is unacceptable when we're talking about taxpayer money.

We should explore that further. We don't have time today. We should explore that further, and maybe Senator Isakson and I cannot only work on that issue but work on others as well, because this is a problem that is affecting people right now, as you know, and we need to cure it.

Senator Isakson, do you have anything else?

Senator ISAKSON. I just have a closing comment. I appreciate all the witnesses' testimony and appreciate what they've done. I think this is a process oversight and management problem, from what I've heard, and I think Mr. Lewis referred to some of it. In one case, Mr. Lewis, you said there were no apparent guidelines for contractors bid or procurement policies.

You said, Ms. Oates, that you underestimated the allowable expenses of contractors. There were cases where we didn't take $20 million we could have. There were recommendations on attrition that we didn't take or couldn't take. It seems like to me the answers probably lie in some of the answers to the questions. We just need to implement the changes that allows those things to take place.

I will say this about the answer on the $20 million, and I understand your answer. But your answer portends that you're going to have a permanent $61 billion shortfall. And if you couldn't take a short-term payback of $20 million and then calculate for that in future contracting, even if it was a partial cut down in the program, I think you missed a chance to help remedy your problem and make it less bad, if you will.

We want to work with the Department of Labor and work with you, Ms. Oates, in making sure that we get the type of systems in place in oversight and management disciplines. And, hopefully, Mr. Lewis' report that comes out in May—is that right? Hopefully, you're going to do some recommendations and make some best practices observations that will help us to do that.

But I think the meeting has been very helpful, and I appreciate the chair calling it.

Senator CASEY. Thank you, Senator Isakson. And just as a little amendment, if you can move that up, that would help everyone, if you can expedite that ongoing audit work. And we appreciate all of you being here today. It's not easy. These are tough issues, and you have difficult jobs. But we all work for taxpayers. Sometimes we need a little reminder of that around here.

What we'll do is leave the record open for a number of days for other members to submit questions for the record. I know I will have a number of those. All we expect is promptness in responding to those questions in a reasonable timeframe.

Thank you very much.

We're adjourned.

[Additional material follows.]

ADDITIONAL MATERIAL

U.S. DEPARTMENT OF LABOR,
WASHINGTON, DC 20210,
July 20, 2012.

Hon. TOM HARKIN,
U.S. Senate,
Washington, DC 20510.

Hon. RICHARD SHELBY,
U.S. Senate,
Washington, DC 20510.

DEAR SENATOR HARKIN AND SENATOR SHELBY: Thank you for your letter to Secretary Solis concerning funding for the Job Corps program in program year 2011, July 1, 2011–June 30, 2012. The Department of Labor (Department) appreciates the opportunity to respond to the questions that are raised in Senate Report 112–76.

As explained by Departmental officials from Job Corps and its parent agency, the Employment and Training Administration (ETA), during briefings for congressional staff on June 18, 2012, and on July 12, 2012, the Department has implemented the measures necessary to avoid a funding shortfall in the Job Corps Operations account in program year 2011. We are committed to putting in place the organizational, structural and personnel components to ensure that such a situation does not arise again. As we move into program year 2012, the leadership team from across the Department is continuing a full review of the circumstances that led to this situation, and is in the process of identifying and correcting weaknesses in Job Corps' and ETA's financial management processes.

The program year 2012 appropriation for Job Corps is $1,702,947,000. This includes funding for the Operations; Construction, Rehabilitation and Acquisitions (CRA); and Administration accounts. While some efficiencies will be required, the Department believes this funding level is sufficient to meet the needs of the Job Corps program in the coming program year. The increased management and oversight of the Job Corps program, as described below, will help ensure that program obligations remain within the appropriation level.

The Department regrets any delay in congressional notification. Information related to the shortfall was evolving, and the Department was hoping to provide a complete and accurate picture when notifying congressional committees, Job Corps Center operators and students.

THE PROGRAM YEAR 2011 OPERATIONS ACCOUNT SHORTFALL

The Department has identified programmatic, budgetary, and managerial factors which combined to produce a potential shortfall in the Job Corps program year 2011 operating budget that exceeded the transfer authority provided by Congress in Public Law 112–10. Among these factors was significant growth in student-related expenditures resulting from an increase in the average time students reside at Job Corps facilities, as well as student success in surpassing goals for attaining industry-recognized credentials. In addition, the Department opened three new Job Corps centers in program year 2010 and program year 2011 and faced a $3 million reduction in its operating budget below the 2010 level.

Since July 2011, Job Corps anticipated that it would be necessary to use a substantial portion of the authority provided by Congress in Public Law 112–10 to transfer funds between the Job Corps CRA account and its Operations account. However, Job Corps did not recognize the full amount of the transfer needed for program year 2011 operations until April 2012. At that point, Job Corps concluded that it would need to exercise its full transfer authority to transfer $26.2 million from the CRA account to the Operations account.

In the following weeks, as ETA further analyzed the financial situation, the estimated range of the potential shortfall in its Operations account continued to increase. At the end of May, it became apparent that the additional $26.2 million might not be adequate to meet program year 2011 operating needs. A subsequent re-analysis of financial operating plans against spending rates uncovered the need for Job Corps to take immediate steps to prevent a potential funding shortfall. Job Corps center operators were notified via a conference call on May 31, 2012, that they would be required to submit revised June spending plans. Job Corps sent operators written confirmation of this notification on June 1, 2012.

On June 4, 2012, the Office of Management and Budget (OMB) approved the transfer of $26.2 million from the Job Corps CRA account to the Operations account under the authority provided by Congress in Public Law 112–10. By that point, the

Department had already alerted the Senate and House Committees on Appropriations of the possible funding shortfall and the intention to transfer funds from the Job Corps CRA account to the Operations account previously authorized in Public Law 112–10.

To ensure continued program operations within appropriated funding, the Department continued to collaborate with program contractors to identify additional potential cost savings. ETA reached out to Job Corps center operators and Outreach and Admissions/Career Transition Services contractors on June 8, 2012, via telephone conference to discuss opportunities for additional savings. Both ETA and the contractors agreed that an additional 2 percent reduction of the June 2012 spending plans was feasible. Contractors then submitted revised June spending plans.

Because the Department recognized that the CRA transfer might not completely bridge the shortfall in the Job Corps Operations account, the Department sought and obtained approval from OMB to transfer up to an additional $5.37 million from the ETA/Training and Employment Services (TES) and ETA/State Unemployment Insurance and Employment Service Operations (SUIESO) accounts to the Job Corps Operations account. The Department notified the Appropriations Committees on June 12, 2012, of OMB's approval to transfer these funds, providing the 15-day advance notice required under the Department's general transfer authority.

The full extent of the potential shortfall in the Operations account went unrecognized through most of program year 2011, in large part, because Job Corps lacked program monitoring tools and internal controls to sufficiently analyze contractual spending trends developing during the course of the program year. In turn, this led to inadequate spending projections for the Operating account.

Ultimately, the Department only needed to transfer $2.237 million from the Dislocated Worker National Reserve Account in the TES appropriation. Sufficient funds remained in the National Reserve Account to meet National Emergency Grant needs for the remainder of program year 2011.

PROGRAM YEAR 2011 OPERATIONS ACCOUNT BALANCE

Through coordination and cooperation from program contractors, ETA saved $10.4 million, as a result of either deobligating or reducing contracts fully funded through June.

There remained $7.5 million in the Operations account at the conclusion of Program Year 2011. ETA exercised prudent management to determine this amount, which is comprised of $1.8 million in funds remaining from the CRA transfer, which will expire June 30, 2013. Additionally, it consists of $5.6 million, which is funding that expired on June 30, 2012, but does not immediately return to the Treasury and remains available as an "expired account" for 5 more years. During the 5-year period, the expired amount may be used to liquidate obligations properly chargeable to program year 2011.

As a result of the transfer from the TES appropriation to the Operations account, the savings generated by the reduction in spending by contractors, and other actions, the Department has completed the program year 2011 closeout process for Job Corps without a funding gap.

SPECIFIC STEPS TAKEN IN JUNE TO ADDRESS THE PROGRAM YEAR 2011 SHORTFALL WHILE MINIMIZING THE IMPACT ON STUDENTS AND CENTERS

The Department took a number of steps to minimize the effects that the program year 2011 shortfall mitigation measures had on new and continuing students in Job Corps programs. Each Job Corps center operator was provided with the same across-the-board cost-savings targets. The cost savings measures were focused on non-mission critical administrative expenses to ensure that student academic, career technical training, and post-graduation placement activities were not affected. In June, nearly 1,700 students completed their career technical training program or earned their high school diploma or GED, and over 3,100 students graduated from the program. These administrative cost savings did not affect center performance, which is based on the achievement and placement of students. ETA' s Contracting Officers and Contracting Officer's Representatives discussed the development of the revised June spending plans with each Job Corps center operator. Operators that could not meet the savings in targeted areas were given the flexibility to achieve approved cost savings in other areas, assuming those savings did not affect personnel or negatively impact services to students.

The Department implemented several additional cost-savings and oversight measures during June 2012:

• Modification of contracts to trim spending temporarily in non-mission critical areas such as administrative expenses, purchasing, and staff travel. This action in-

cluded the $10.4 million in deobligations cited above, along with reductions in contracts that were not fully funded through June 30, 2012.

• Instructions to all Job Corps center operators not to enroll new students in the month of June, just prior to the annual summer break, while allowing exceptions for homeless students to enter the program. This was communicated to operators in Program Instruction Notice 11–28 on June 2, 2012.

• Adjustment of the start of the summer break for current students by 3 days so that it would commence in early July instead of June. This eliminated student transportation costs at the end of program year 2011. This adjustment was communicated to Job Corps contractors nearly 30 days prior to the original summer break start date, and had minimal impact on students. The Department believes this cost saving measure has particular merit and will be considered again in program year 2012.

• Enrollment of new students after the summer break. The traditional practice of enrolling students just a few weeks before the summer break is very expensive, given the need to provide transportation for those students to return home and then back to their Center very shortly after admission. Instead, those students are enrolling after the summer break. In addition to cost savings, Job Corps will be reviewing whether this change may improve program retention.

• Department leadership appointment of a Job Corps Remediation Task Force within ETA to provide daily oversight of a vigorous remediation effort during the end of the program year. In addition, this team will provide ongoing oversight during fiscal year 2012.

• Notice from Secretary Solis to Acting Inspector General Daniel Petrole regarding this situation. The Secretary requested that the Office of Inspector General review the internal controls currently in place within the Job Corps program and make recommendations for how these processes can be improved.

• Instructions to Job Corps center operators regarding additional oversight on travel expenses throughout the remainder of program year 2011, including reporting all bus and airfare travel directly to the National Office of Job Corps, prior to arranging travel with ticketing agencies, to allow for full, near real-time accounting of June's travel costs. This was communicated to operators in Program Instruction Notice 11–33 on June 12, 2012. Closer monitoring of student travel ensured the most efficient use of funds.

• Requirement that Job Corps center operators increase the frequency of their submission of financial reports to allow the Department to more quickly compare accrued expenditures with the Job Corps centers' revised June spending plans.

LONG-TERM IMPROVEMENTS IN MANAGEMENT AND FISCAL CONTROLS

Even before ETA encountered the estimated program year 2011 Operations account shortfall, it had begun to integrate Job Corps budget and accounting functions into ETA's agency financial management structure, had implemented several initiatives to strengthen and coordinate existing internal controls, and had created new controls. For example:

• ETA created a centralized Office of Contracts Management (OCM) in October 2010 to improve oversight of procurement and contract activities in Job Corps and the other programs in ETA. ETA' s plan is to concentrate all ETA procurement authority and activities in OCM's national office operations, and to institutionalize uniform contract oversight practices across its national office and six regional offices.

• In fiscal year 2011, ETA initiated a financial management improvement plan that includes transfer of the stand-alone accounting and budget activities for the Job Corps program to ETA's Budget and Accounting Offices, and to fully integrate those activities within ETA. Before the projected shortfall was known, ETA completed several steps in the plan, such as assigning final obligation approval authority to the ETA Budget Office.

• In April 2012, the Department created a new senior executive service-level position of ETA Comptroller. In June 2012, ETA filled the position and expects to complete the establishment of an Office of the Comptroller later this calendar year. This Office will enable ETA to improve monitoring of critical contract award and administration responsibilities through enhanced internal controls, as well as ensure consistent budget execution oversight.

• ETA has begun reevaluating the number of program slots and the level of student services the Job Corps budget will support in future program years to right size Job Corps' Career Technical Training program.

The steps the Department has already taken to date to prevent the recurrence of a shortfall in the Job Corps Operations account will be supplemented even fur-

ther by management and oversight improvements and program efficiencies that the Department is in the process of identifying. The Department is committed to ensuring that Job Corps continues to meet its important mission. If you have questions or need technical assistance with respect to information necessary for the process of the annual appropriations bill, you can contact Teri Bergman of my office at 202–693–4608.

Sincerely,

BRIAN V. KENNEDY.

RESPONSE TO QUESTIONS OF SENATOR CASEY, SENATOR ISAKSON, SENATOR MURRAY, AND SENATOR MURKOWSKI BY JANE OATES

SENATOR CASEY

Question 1. How is Job Corps funding allocated/suballocated? Geographically, by function, or some combination?

Answer 1. The Employment and Training Administration (ETA) allocates Job Corps operations funding at the national and regional level. The regional allocations are broken down between each of the six regions in the Department of Labor. The regional allocations are provided for center operations based on the contract value and projected costs for each center contract. The national office allocation is used for items such as student payroll and travel, national training center (NTC) contracts, the Job Corps Data Center, and other academic support type contracts.

Question 2. How does the Department of Labor currently track the pace of obligations and expenditures as compared to its budget projections?

Answer 2. The Office of Financial Administration (OFA) within ETA, established in August 2012, headed by a senior executive service-level comptroller, oversees the now-centralized budget and financial operations of Job Corps. OFA works with ETA's Office of Contracts Management (OCM), established in 2010, to ensure that Job Corps monitors costs incurred, and is continuing to improve the timeliness and accuracy of the reporting. The added cooperation between OFA and OCM has resulted in significant improvements in the financial oversight of Job Corps. Together, OFA, OCM and the Office of Job Corps (OJC) provide a system of checks and balances on expenditures and obligations in the Operations account.

In program year 2012, the Department used a control process for obligations that compared the actual obligations recorded in the Department's financial systems of record and a projection based on Job Corps history and current operating decisions to stay within the appropriation level. This comparative analysis was conducted monthly by the national office. In program year 2013 this process of comparing actuals versus educated projections will continue, but ETA has also established budget targets for each center (in conjunction with the reduced student slot levels), and also for each national office contract prior to the start of the program year. This further refinement of the measurement of obligations and projections is a significant improvement that will allow Job Corps to start the program year with its total commitments for program year 2013 within the appropriation.

In addition, during program year 2012, the Department implemented a new control process for expenditures. At the start of a contract year, center contractors are required to submit to ETA spend plans aligned with the value in their contracts. Each contractor then submits monthly expense reports for the center on the Job Corps Contract Center Financial Report (Report 2110), which is comprised of 29 different expense categories. The submitted monthly center financial reports are analyzed by OFA in the national office against the center's overall budget to ensure that they are within the contractor submitted spend plans. When OFA identifies a budget discrepancy, OFA requests the contracting officer (CO)—acting under the direction of the OCM at the national office and the contracting officer's representative (COR) at the OJC regional level—investigate the discrepancy and highlight any issues for the national office. In addition, CORs—who are officially responsible for monitoring one or more contracts, including the financial aspects of those contracts—compare the spend plan against the actual expenditures and monitor the centers' expenses on a monthly basis to ensure expenses are valid under the contract. The COR then compares this information with payment vouchers submitted by the contractor and either certifies the voucher for payment or returns it for correction. It is returned if it does not coincide with the information the COR sees on the financial report or if the voucher itself has unallowable or otherwise inappropriate costs. When a contractor unjustifiably exceeds its budget in any of its contracted budget lines, CORs are trained to alert their CO, so that the CO can address the matter with the contractor. This entire control process coordinated between the

three offices—OJC, OFA and OCM—provides assurances that spend plans submitted by contractors are aligned with the center's budget, the actual valid expenses, and the payments made to contractors.

Together, these controls allow Job Corps not only to more effectively plan contracts and obligations at the beginning of the year to match its appropriation, but also to monitor spend rates throughout the year so that OJC is more able to respond should unpredicted changes occur.

Question 3. What costs in program years 2011 and 2012 exceeded projections? When was the Department able to detect these shortfalls?

Answer 3. Although Job Corps has faced financial pressures in the past, it experienced particular problems in program year 2011. Several factors contributed to the problems in program year 2011, including growth in expenditures, such as student-related expenditures and those associated with the opening of three new Job Corps centers in program year 2010 and program year 2011. While these and other costs increased during the course of program year 2011, the extent of Job Corps' financial difficulties went unrecognized because of serious weaknesses in Job Corps' financial management processes that led to a failure to identify and adjust for rising costs in a timely manner. This is largely because Job Corps lacked appropriate program monitoring tools and control protocols, including those to sufficiently analyze contractual spending trends. In turn, this led to inadequate spending projections for the Operations account. Furthermore, Job Corps operates primarily through cost-reimbursement contracts. Cost-reimbursement contracts require close, ongoing oversight by Job Corps in order to manage or predict costs for future periods.

The weaknesses in Job Corps program monitoring tools and protocols combined with its heavy reliance on cost-reimbursement contracts contributed to the challenges we faced and continue to face in addressing these difficulties. In April 2012, we became aware that we did not have sufficient funds in the Operations account to finish the program year ending June 30, 2012 within appropriated levels. After identifying the problem, Job Corps quickly implemented several cost-saving measures and transferred funds from the CRA account into the Operations account to address the program year 2011 financial difficulties.

In program year 2012, Job Corps is again experiencing financial difficulties because the initial cost-savings measures taken were not sufficient to allow the program to stay within its appropriated amount without additional actions. At the outset of program year 2012, we understood that we needed to take measures to ensure that program obligations for the entire program year remained within Job Corps' appropriated levels. Even before the program year started, we began to develop a comprehensive plan for cost-cutting measures, which we updated throughout the program year. From September 2012 to November 2012, we implemented several cost-savings measures to reduce Job Corps' expenses although they ultimately were insufficient, so we implemented additional measures from November to December. Notwithstanding these efforts to reduce costs for program year 2012, in January 2012, we continued to project insufficient savings for program year 2012 spending to remain within budgeted levels for the program year. The decision to temporarily suspend enrollment at all centers, beginning January 28, 2013, was seen as a balanced and efficient way to achieve the savings needed to ensure we stay within our program year 2012 budget. The decision was extremely difficult and came after we implemented many alternative cost-savings measures and examined other alternatives. In the end, this difficult decision was made to ensure that we would be able to keep our commitment to students who are already in the program.

Question 4. What cost-savings has the Department implemented in the Job Corps program, both in the short-term to address the shortfalls, and in the longer-term? Do you anticipate a shortfall in program year 2013?

Answer 4. In program year 2011, the Department implemented a variety of programmatic changes to control costs. These changes focused on non-mission critical administrative expenses to ensure that student academic, career technical training, and post-graduation placement activities were not affected. Among other things, these included negotiating across-the-board cost-savings targets with each Job Corps center to de-obligate program year 2011 funds and suspending enrollment for new students in the month of June, except for homeless youth. At the same time, we implemented several initiatives to strengthen and coordinate existing controls and created new controls where appropriate to track contractor expenditures and ensure adequate funding throughout the rest of program year 2011.

At the outset of program year 2012, we understood that we needed to take measures to ensure that program obligations remained within Job Corps' appropriated levels. Even before the program year started, we began to develop a comprehensive

plan for cost-cutting measures, which we updated throughout the program year. After OFA began operating in August 2012, we developed initial targets for both savings and what we believed would be a sufficient reserve for the Job Corps program. From September 2012 to December 2012, we implemented several cost-savings measures including reducing new student biweekly stipend and transition pay, suspending enrollments in late November and December (a period of the lowest student retention), centralizing student transportation costs, reducing select national academic support contracts and career technical support contracts, reducing health care-related costs, reducing the clothing stipend, and increasing the student-to-teacher ratio. We also eliminated a contract for accounting services within the Job Corps Operations account, reduced USDA costs, and negotiated with contractors to identify additional cost-savings measures. Notwithstanding these efforts to reduce costs for program year 2012, as of the beginning of January 2013, we continued to project insufficient cost savings to remain within budgeted levels for the program year. The decision to temporarily freeze enrollment was extremely difficult and came after we implemented many alternative cost-savings measures, albeit insufficient ones. The decision to temporarily suspend enrollment at all centers is a balanced and efficient way to achieve the savings needed to ensure we stay within our program year 2012 budget and is sustainable in program year 2013 and beyond.

To date, we have realized significant savings from cost-cutting initiated during the current program year, including: $4 million from reducing Job Corps' national media buy, $600,000 from eliminating a contract for accounting services within the Job Corps Operations account, $500,000 from reducing the Job Corps data center contract, and over $1.2 million from ending stipend pay when a student is on leave. In addition, we are currently negotiating cost reductions to the Job Corps contracts resulting from the various cost savings measures that have been implemented, including the enrollment suspension. The Department is currently evaluating the proposals from the various Job Corps contractors, and we will be happy to provide more detailed information about the savings associated with these measures once negotiations are complete.

With the added cooperation between OFA and OCM beginning when OFA was created in August 2012, the Department has established an improved system to align contract values to the appropriated dollars and to improve the quality of the management of those contracts. Job Corps administers 147 contracts, most of which are cost-reimbursement contracts. These contracts are multi-year contracts with a 2-year base period with up to 3 additional option years. Although Job Corps operating costs are incurred by contract year, Job Corps funding operates on a program year schedule that begins July 1. These complications make it more important to have multiple checks and balances on financial and contract maintenance. We believe that we have put in place a system that will provide much greater protection against shortfalls in the future.

The Department will also actively engage the Job Corps community in discussions about their suggested changes to the Policy and Requirements Handbook (PRH). Over the years, the PRH has become the basis of Job Corps operations and the foundation for contract activity. We believe that there may be requirements in the PRH that force contractors to expend funds in ways that are not directly related to the health and safety of students or the implementation of a high-quality academic and career and technical education program. We intend to examine suggestions for both cost-savings and improved management and quality and make changes to the PRH where appropriate. As these efficiencies are realized, they will be invested back into the Job Corps program.

In addition, for program year 2013 we have negotiated a reduced On-Board Strength (OBS) for each center contract that will ensure that we are operating within our appropriations until we can find additional efficiencies that will allow us to explore the possibility of growing the program.

Question 5. Do these cost-savings include the closure of low-performing centers? What cost-savings do you project from these closures?

Answer 5. The initiative to close a small number of chronically low-performing centers is part of a broader reform effort to improve program quality and strengthen accountability—it was not a response to the financial problems in this program. Until a final decision identifies which centers will be closed, we will not be able to determine how much money will be saved as a result of closure.

Question 6. What steps is the Department taking to improve its financial monitoring and controls to prevent unanticipated spending and respond to potential shortfalls more quickly?

Answer 6. Through the joint work of the Office of Job Corps (OJC) and the Office of Financial Administration (OFA) there is now a process established to better track expenditures. For example, this process allows Job Corps to match on a monthly basis, or more frequently if needed, expenditures against the contractually agreed spend plan. Expenditures such as utilities or food often experience an unpredictable cost increase, but the improved monitoring will allow the Job Corps program and procurement staff to identify and discuss how to adjust for those unexpected costs. The Department and the Office of Contracts Management (OCM) has improved both the training and the supervision of contracting officer's representatives (CORs), who are the direct liaisons to Job Corps contractors. CORs are now trained to alert their contracting officer (CO) when a contractor unjustifiably exceeds its budget in any of its contracted budget lines so that the CO can address the matter with the contractor. OFA adds another layer of oversight by assessing the impact of any additional spending across the entire Operations budget. Weekly updates are provided by all three offices' senior executives in meetings with the Assistant Secretary.

Recognizing that this is a new system of financial management and control, the leadership of OJC, OCM, and OFA also engage in regular meetings with DOL's Office of the Chief Financial Officer (OCFO) and the Departmental Budget Office (DBO), so that we gain the insight and advice of other budget and finance experts.

Question 7. Would these new monitoring tools have prevented the 2011 and 2012 shortfalls?

Answer 7. While it is not possible to say that our structural improvements could have prevented the problems in program year 2011 or program year 2012, we believe that the improvements would have allowed us to identify the program year 2012 concerns at an early enough stage where less disruptive actions could have been taken to address the problem.

SENATOR ISAKSON

Question 1. What caused the delays in the three centers that were scheduled to begin construction in program year 2010 and 2011? You stated that those delays further complicated your financial situation. Why and how was that not properly accounted for?

Answer 1. In program year 2010 and program year 2011, Job Corps opened three new centers on a delayed schedule, which contributed to the financial problems the program faced in program year 2011. Funding from the Operations account that had been provided to Job Corps to cover the costs of operating these centers in prior years was no longer dedicated to these sites as a result of the delays, and we did not appropriately plan for the increased operations costs resulting from opening these centers when we did. Serious weaknesses in Job Corps' financial management processes led to a failure to identify and adjust for these rising costs in a timely manner. This is largely because Job Corps lacked appropriate program monitoring tools and control protocols, including those to sufficiently analyze contractual spending trends. In turn, this led to inadequate spending projections for the Operations account. The weaknesses in Job Corps program monitoring tools and protocols combined with its heavy reliance on cost-reimbursement contracts that were not adequately managed contributed to the challenges we faced.

Question 2. In a February 19, 2013, correspondence to our subcommittee you stated that several factors contributed to the financial problems with Job Corps in program year 2011, including "growth in expenditures such as student-related expenditures and those associated with the opening of three new Job Corps centers in program years 2010–11 . . ." If this was the case, why did the program year 2012 or 2013 budget requests not reflect the true costs of the program? In fact, if there were such cost growth to warrant two transfers of funds into the program, why did the Department ask for a reduction in both operations and construction funding in fiscal year 2013?

Answer 2. When the budget request was submitted in February 2012 for fiscal year/program year 2013, the full extent of Job Corps' financial problems were not known.

Question 3. What happens to students who have been on waiting lists for months to begin their training programs at Job Corps?

Answer 3. Now that regular enrollment has resumed, we will work with our Outreach and Admissions contractor community to review waiting lists and then begin an orderly process of enrolling eligible students, including those on waiting lists.

Question 4. I support the Department's efforts to hold Job Corps centers more accountable through performance measures as indicated in your proposed center closure methodology. What troubles me is that it seems as though these metrics would be simply used to close centers for simple budgetary reasons rather than lack of performance. Your testimony mentions that you "expect savings" from center closures. Does that mean that you have assumed that some centers will be closing immediately upon final rulemaking? Why has the Department not spent more time on considering center improvement plans to help them improve performance for the sake of our students? Closing centers may help your budget but will ultimately hurt the students they are aimed at serving.

Answer 4. The initiative to close chronically low-performing centers is part of a broader reform effort to improve program quality and strengthen accountability—it was not a response to the financial difficulties in this program. While the majority of centers meet program standards, some centers are chronically low-performing and have remained in the bottom cohort of center performance rankings for multiple years despite extensive DOL interventions including corrective measures. Given the resource intensiveness of the Job Corps model, DOL has determined that it can no longer continue to expend resources on the small number of chronically low-performing centers. We intend to begin to implement the selection and closure process by program year 2013, following the legislatively mandated activities pertaining to center closure required by the WIA and as stipulated in the DOL/USDA Interagency Agreement. We estimate that it will take a minimum of 6 months to execute closure of a center. In addition, until a final decision identifies which centers will be closed, we will not be able to determine how much money will be saved as a result. Once low-performing centers are identified for closure, the Department will work on a transition plan for each center. As additional resources are recaptured from this process, they will be reinvested into the program.

SENATOR MURRAY

Question 1. Can you assure me today that the causes for the financial shortfall have been clearly identified, are being fixed, and that there will not be another shortfall in upcoming years? And if not, what has to happen to provide that assurance?

Answer 1. The Department has established an improved system to align contract values to the appropriated dollars and to improve the quality of the management of those contracts. Job Corps administers 147 contracts, most of which are cost-reimbursement contracts. These contracts are multi-year contracts with a 2-year base period with up to 3 additional option years. Although Job Corps operating costs are incurred by contract year, Job Corps funding operates on a program year schedule that begins July 1. These complications make it more important to have multiple checks and balances on financial and contract maintenance. We believe that we have put in place a system that will provide much greater protection against shortfalls in the future.

The Department will also actively engage the Job Corps community in discussions about their suggested changes to the Policy and Requirements Handbook (PRH). Over the years, the PRH has become the basis of Job Corps operations and the foundation for contract activity. We believe that there may be redundant requirements in the PRH that force contractors to expend funds in ways that are not directly related to the health and safety of students or the implementation of a high-quality academic and career and technical education program. We intend to examine suggestions for both cost-savings and improved management and quality and make changes to the PRH where appropriate. As these efficiencies are realized, they will be invested back into the Job Corps program.

In addition, for program year 2013 we have negotiated a reduced On-Board Strength (OBS) for each of center contract that will ensure that we are living within our appropriations until we can find additional efficiencies that will allow us to explore the possibility of growing the program.

We are also committed to reviewing the contracting approaches for the program, and determining what type of contracts will allow us to deliver services at the lowest risk and best value to the Federal Government.

Question 2. What alternatives are there for the current use of cost-reimbursable contracts, and what are the relative tradeoffs of switching to a new model of contract? I understand there are discussions about a hybrid-contract. What are the details of such a contract model? When and how might it be introduced on a pilot basis?

Answer 2. Under cost-reimbursement contracts, ETA bears all the risks of changes to contract costs, such as increased food or utility costs. Generally, costs

incurred by contractors that are "allowable, allocable or reasonable" must be reimbursed to the extent prescribed in the contract. These contracts establish an estimate of total cost for the purpose of obligating funds and establishing a ceiling that the contractor may not exceed (except at its own risk) without the approval of the contracting officer. We also recognize that prior to award of a cost reimbursement contract or order, adequate government resources must be available to award and manage a contract other than firm-fixed-priced. This includes appropriate government monitoring during performance to provide reasonable assurance that efficient methods and effective cost controls are used and designation of at least one qualified contracting officer's representative has been made prior to award of the contract or order.

On the other hand, in a fixed-price contract, the contractor bears maximum risk and full responsibility for all costs and resulting profit or loss. It provides maximum incentive for the contractor to control costs and perform effectively and imposes a minimum administrative burden upon the contracting parties. We have converted three Outreach and Admissions contracts from cost-reimbursement to fixed-price contracts. We are tracking these actions carefully to evaluate cost impact and are analyzing if there are appropriate opportunities to consider such conversions.

We are also looking at hybrid models, as a possible approach to our center operations contracts. In that scenario, certain line items may be priced on a fixed-price basis and others may be priced on cost-reimbursement, to attain a better level of certainty and predictability on our Job Corps contracts.

Any changes in contract type will have to be phased in as contracts expire, as modifying existing contracts is more difficult.

Question 3. To what extent has the Department of Labor coordinated with the Department of Agriculture to address the shortfall?

Answer 3. USDA's operation of 28 Job Corps centers provides a unique opportunity for young people to learn about good jobs in the forestry sector. In addition, these young people get to provide critical service on our public lands as they learn employment skills.

Since Job Corps returned to ETA in October 2010 we have had several conversations with USDA leadership on both center quality issues and on budgetary issues. USDA has worked with us on the program improvement plans for the lowest performing USDA centers and in conversations about the impacts of their reduced budget on program quality. USDA will be involved in all discussions on efficiencies and cost-savings moving forward and all discussions focusing on student outcomes.

Question 4. Generally, how are funds apportioned within the three Job Corps accounts: administration, operations, and construction? Once funds have been apportioned by OMB, does DOL allocate and suballocate funds for contract centers by region and/or center, by functional category, or some combination of the two? Is information available on apportionments for these three accounts for fiscal year 2011 and fiscal year 2012? Did DOL and/or OMB monitor the pace of obligations and expenditures for the three Job Corps accounts against the levels that had been apportioned?

Answer 4. All apportionments are approved by the Office of Management and Budget (OMB). The quarterly apportionment for Operations is based on the aggregate value of center contracts and Outreach and Admissions/Career Transition Services contracts. The Office of Financial Administration (OFA) monitors its quarterly funding of Job Corps center contracts throughout the program year to ensure funding is consistent with the level of funding appropriated. This control was instituted in program year 2012.

The annual CRA appropriation is apportioned using facility surveys for each center that document the condition of facilities, identify deficient conditions, and provide recommendations and estimates for correction and long-term plans for rehabilitation and expansion. The annual apportionment for Program Administration is based on prior staff salaries and travel.

The Office of Financial Administration (OFA) within ETA, established in August 2012, headed by a senior executive service-level comptroller, oversees the now-centralized budget and financial operations of Job Corps. OFA works with ETA's Office of Contracts Management (OCM), established in 2010, to ensure that Job Corps monitors costs incurred, and is continuing to improve the timeliness and accuracy of the reporting. The added cooperation between OFA and OCM has resulted in significant improvements in the financial oversight of Job Corps. Together, OFA, OCM and the Office of Job Corps (OJC) provide a system of checks and balances on expenditures and obligations in the Operations account.

In program year 2012, the Department used a control process for obligations that compared the actual obligations recorded in the Department's financial systems of

record and a projection based on Job Corps history and current operating decisions to stay within the appropriation level. This comparative analysis was conducted monthly by the national office. In program year 2013 this process of comparing actuals versus educated projections will continue, but ETA has also established budget targets for each center (in conjunction with the reduced student slot levels), and also for each national office contract prior to the start of the program year. This further refinement of the measurement of obligations and projections is a significant improvement that will allow Job Corps to start the program year with its total commitments for program year 2013 within the appropriation.

In addition, during program year 2012, the Department implemented a new control process for expenditures. At the start of a contract year, center contractors are required to submit to ETA spend plans aligned with the value in their contracts. Each contractor then submits monthly expense reports for the center on the Job Corps Contract Center Financial Report (Report 2110), which is comprised of 29 different expense categories. The submitted monthly center financial reports are analyzed by OFA in the national office against the center's overall budget to ensure that they are within the contractor submitted spend plans. When OFA identifies a budget discrepancy, OFA requests the contracting officer (CO)—acting under the direction of the OCM at the national office and the contracting officer's representative (COR) at the OJC regional level—investigate the discrepancy and highlight any issues for the national office. In addition, CORs—who are officially responsible for monitoring one or more contracts, including the financial aspects of those contracts—compare the spend plan against the actual expenditures and monitor the centers' expenses on a monthly basis to ensure expenses are valid under the contract. The COR then compares this information with payment vouchers submitted by the contractor and either certifies the voucher for payment or returns it for correction. It is returned if it does not coincide with the information the COR sees on the financial report or if the voucher itself has unallowable or otherwise inappropriate costs. When a contractor unjustifiably exceeds its budget in any of its contracted budget lines, CORs are trained to alert their CO, so that the CO can address the matter with the contractor. This entire control process coordinated between the three offices—OJC, OFA and OCM—provides assurances that spend plans submitted by contractors are aligned with the center's budget, the actual valid expenses, and the payments made to contractors.

Together, these controls allow Job Corps not only to more effectively plan contracts and obligations at the beginning of the year to match its appropriation, but also to monitor spend rates throughout the year so that OJC is more able to respond should unpredicted changes occur.

Question 5. To what extent would DOL's proposal to close a number of "chronically low-performing centers" achieve cost savings for the programs? Please include any cost projections prepared by DOL related to the closures.

Answer 5. The initiative to close a small number of chronically low-performing centers is part of a broader reform effort to improve program quality and strengthen accountability—it was not a response to the financial problems in this program. Until a final decision identifies which centers will be closed, we will not be able to determine how much money will be saved as a result.

Question 6. How does Job Corps' financial management program conform to standards promulgated by the Federal Accounting Standards Advisory Board (FASAB), OMB guidance, and other Federal standards, rules and procedures? What procedures are in place to ensure that objectives of internal controls are met?

Answer 6. The Office of Financial Administration (OFA) within ETA, established in August 2012, headed by a senior executive service-level comptroller, oversees the now-centralized budget and financial operations of Job Corps. OFA works with ETA's Office of Contracts Management (OCM), established in October 2010, to ensure that Job Corps accounts in a more timely and accurate way for costs incurred in its cost reimbursement contracts. Financial management practices implemented by OFA adhere to the requirements of all Federal financial regulations and practices including OMB guidance, FASAB, and the Federal Acquisition Regulation, and reflect the guidelines set forth in the Job Corps Policy and Requirements Handbook (PRH). Both OFA and OCM ensure the rules and regulations applicable to cost reimbursement contracts are adhered to in order to account for costs incurred. The added cooperation between OFA and OCM has resulted in significant improvements in the financial oversight of Job Corps and helped Job Corps identify potential funding concerns at an earlier stage than last year. ETA has also enlisted the partnership of the Office of the Chief Financial Officer (OCFO) and the Departmental Budget Office (DBC) to act as another level of oversight. OCFO and DBC meet with

ETA staff weekly to review financial developments and provide advice to ETA offices.

In addition, in June 2012, then-Secretary Solis requested that the Inspector General perform a comprehensive review of the Job Corps financial control system. That review is ongoing and we look forward to receiving the results.

Question 7. Does each contract center have its own financial management system, or does each use a standard, common system that is integrated with DOL's financial management system? Does the financial management system track expenditures against contract budgets to determine whether funds are used appropriately?

Answer 7. Each center contractor maintains its own financial management system. Contractors are required to submit a spend plan detailing their annual budget. During program year 2012, we implemented a new control process for expenditures. At the start of the contract year, center contractors were required to submit spend plans aligned with the value in their contracts. Each contractor then submits monthly expense reports on the Job Corps Contract Center Financial Report (Report 2110) for their center, which is comprised of 29 different expense categories. Contracting officer's representatives (CORs) at the OJC regional level, who are officially responsible for monitoring one or more contracts including the financial aspects of those contracts, monitor the centers' expenses on a monthly basis. The submitted monthly center financial reports are analyzed against the center's overall budget to ensure that they are within the spend plans and expenses are valid in accordance with the contract. The COR then compares this information with payment vouchers submitted by the contractor and either "certifies" the voucher for payment or returns it for correction if it does not coincide with the information the COR sees on the financial report or if the voucher itself has invalid costs. CORs are trained to alert their contracting officer (CO) when a contractor unjustifiably exceeds its budget in any of its contracted budget lines so that the CO can address the matter with the contractor. This entire control process provides assurances that "spend plans" submitted by contractors are aligned with their actual valid expenses and payments made to contractors are accurate.

SENATOR MURKOWSKI

Question 1. As result of funding shortfalls that you acknowledged were the result of Department mismanagement in a letter dated February 19, 2013, Job Corps Centers around the country were ordered to suspend all new enrollments beginning January 28, 2013 (see, *Directive: Job Corps Program Instruction No. 12-25* re: Temporary Suspension of New Student Enrollments dated January 18, 2013). Exceptions from the enrollment suspension included homeless individuals. It is my understanding that the definition of homeless as it is being applied by Job Corps includes students "living in uninhabitable conditions or staying in a shelter." This narrow definition nearly prevented the Alaska Job Corps Center from assisting a homeless teen because that individual was not actually in a homeless shelter. This individual was couch-surfing from friend's home to friend's home without a fixed, regular nighttime residence. This was neither an "uninhabitable condition" nor a "shelter." There are no homeless shelters in the area where the Alaska Job Corps Center is located. The nearest homeless shelter is in Anchorage, AK, more than 40 miles away. Through a large concerted effort, the teen was transported to a shelter in Anchorage to meet the admission criteria for Job Corps. But this solution will not be available in every situation. In Alaska, and I'm sure in many other less urban areas around the country, homelessness is a real problem regardless of the availability of and access to shelters. Why is Job Corps applying such a narrow definition of homelessness to its admissions guidelines and not, for example, the McKinney-Vento Homeless Assistance Act of 1987, as amended (42 U.S.C. §§ 11301 *et seq.*), which takes homeless shelters into consideration but is not required, in light of Job Corps mission? This seems especially problematic during enrollment suspensions. Will you amend the definition applied by Job Corps so that it is more in line with other Federal definitions and takes other forms of homelessness into consideration?

Answer 1. Homeless youth, in addition to foster and runaway youth, were exempted from the temporary suspension of enrollment lifted on April 22, because of our concern for these vulnerable populations. In determining whether an applicant meets homeless eligibility requirements, the Office of Job Corps references existing criteria included in the Policy and Requirements Handbook, as well as Federal definitions of homeless such as McKinney-Vento. To ensure that the Job Corps program is following Federal standards for defining homelessness, we have revised the PRH to incorporate the McKinney-Vento homeless definition.

Question 2. In light of a 2-year budget management problem experienced by the Job Corps program, why did ETA build new centers when funding was limited while making decisions to close other centers?

Answer 2. Funding for the new construction of the New Hampshire and the Wyoming centers was appropriated in the Construction, Rehabilitation, and Acquisition account in fiscal year 2009 and fiscal year 2010, respectively, while the separate Operations account which provides the funding necessary to operate Job Corps centers has been the account in which costs have exceeded budgeted amounts. The Administration and the Department continue to believe that having a center in every State is an important goal. However, our top priority in the very near term is to address the current funding situation. The changes we are initiating are to ensure that we build a Job Corps program that has the financial controls and tools to operate within its appropriation moving forward.

While the program changes we are initiating are to ensure that we build a Job Corps program that has the financial controls and tools to operate within its appropriation moving forward, the initiative to close a small number of chronically low-performing centers is part of a broader reform effort to improve program quality and strengthen accountability—it was not a response to the financial problems in this program.

Question 3. The Office of Job Corps' operations budget has remained level since fiscal year 2009 based on estimates made in the Department's budget request. However, during this 4-year period, two new centers have opened and two more are under construction. Why don't the Department of Labor's budget requests reflect additional operations funding for new centers?

Answer 3. In program year 2010 and program year 2011, Job Corps opened three new centers on a delayed schedule, which contributed to the financial problems the program faced in program year 2011. Funding from the Operations account that had been provided to Job Corps to cover the costs of operating these centers in prior years was no longer dedicated to these sites as a result of the delays, and we did not appropriately plan for the increased operations costs resulting from fully enrolling these centers.

Question 4. The Senate's fiscal year 2013 funding bill includes additional funding for the Job Corps. If approved and signed by the President, what will be done to ensure the budget mismanagement problems that have plagued Job Corps for the past 2 program years will not continue? In other words, what steps are you taking to solve this problem so that Job Corps is not in this same situation in a few months when the next program year begins?

Answer 4. The Department has established an improved system to align contract values to the appropriated dollars and to improve the quality of the management of those contracts. We believe that we have put in place a system that will provide much greater protection against shortfalls in the future.

The Department will also actively engage the Job Corps community in discussions about their suggested changes to the Policy and Requirements Handbook (PRH). Over the years, the PRH has become the basis of Job Corps operations and the foundation for contract activity. We believe that there may be requirements in the PRH that force contractors to expend funds in ways that are not directly related to the health and safety of students or the implementation of a high-quality academic and career and technical education program. We intend to examine suggestions for both cost-savings and improved management and quality and make changes to the PRH where appropriate. As these efficiencies are realized, they will be invested back into the Job Corps program.

In addition, for program year 2013 we have negotiated a reduced On-Board Strength (OBS) for each center contract that will ensure that we are living within our appropriations until we can find additional efficiencies that provide greater financial assurance that we can grow the program.

Question 5. After the fiscal year 2013 funding bill with this additional funding becomes public law, when do you expect to begin re-enrolling new students?

Answer 5. The Department appreciates the authority included in the enacted Continuing Resolution to transfer unobligated funds available to ETA from other programs to Job Corps Operations. The transfer authority allowed us to lift the partial stop work order on outreach and admission contracts executed on January 28, 2013 before its expiration date on April 28 and to take the steps necessary to resume enrollment. With the support from Congress to help us address our funding challenges, we were able to lift the suspension of enrollment on April 22, 2013.

Question 6. It is my understanding that the Alaska Job Corps Center will soon reduce the number of trades available to trainees. Was that decision based on labor market information, comparison of performance of available trades, or other reasons? Please describe the process that was used to reach the decision within the National Office of Job Corps. For example, was the decision to eliminate training in some trades at the center made in consultation with employers of trainees or other stakeholders?

Answer 6. As part of our overall costs savings efforts, we reviewed all of our national training contracts, including those at the Alaska Job Corps center, for possible financial savings, and eliminated unnecessary programs across the country. Factors considered in reviewing these programs for elimination included assessing whether a center had more training slots than students, duplication of programs at a center, needs for facility rehabilitation, whether there were multiple trade instructors for a program, proximity of similar programs at nearby centers, and the success of the program in placing students in employment. We will continue to work with the Alaska center to make sure that there are sufficient training slots in areas where there are jobs in the local economy.

RESPONSE TO QUESTIONS OF SENATOR CASEY AND SENATOR MURRAY BY ELLIOT P. LEWIS

SENATOR CASEY

Question 1. Please describe the scope and methodology of the audit presently underway into the Job Corps budgetary shortfalls.

Answer 1. The audit scope will cover obligations and expenditures of Job Corps' operational, construction and administrative funds during program year 2011 (July 1, 2011 through June 30, 2012) and the first 5 months of program year 2012 (July 1, 2012 through November 30, 2012), including focused efforts on the root causes which led to the Department's need for a budget transfer request during program year 2011.

To accomplish the audit objective of determining whether the Department has implemented a properly designed system of internal controls over Job Corps funds and expenditures, including contracting activities, we are:

- Obtaining and reviewing (a) ETA policies and procedures applicable during the period July 1, 2012 through November 30, 2012 regarding Job Corps funds management, contracting activities, and expenditure/payment processes and (b) currently available documentation related to DOL's Office of Management and Budget (OMB) Circular No. A–123, Management's Responsibility for Internal Control, activities over Job Corps funds and expenditures.
- Identifying processes and relevant internal controls related to funds management and expenditures, including contracting activities. These include, but are not limited to understanding:
  - Involvement of various DOL offices in the funds management, expenditures and contracting activities;
  - Competence of individuals performing manual controls;
  - Assessment of risks;
  - Preparation and review of SF–132s;
  - Preparation and review of recording of apportionment;
  - Preparation and review of allotments;
  - Factors involved in determining any potential transfers between accounts;
  - Funding of Job Corps contracts;
  - Preparation and review of Job Corps contracts;
  - Preparation and review of obligations associated with Job Corps contracts;
  - Reconciliation of Job Corps contracts recorded in various applicable systems;
  - Monitoring of Job Corps cost overruns;
  - Preparation and approval of payments/expenditures;
  - Reconciliation of actual costs to estimated costs; and
  - Monitoring controls.
- Conducting interviews with DOL officials, including high ranking officials, to determine when officials were made aware of the insufficient funding that led to the budget transfer requested during program year 2011, who they told, and what actions were taken.
- Evaluating audit evidence gathered to determine the root cause which led to DOL's need for a budget transfer request during program year 2011 and comparing the design of internal control processes over Job Corps funds and expenditures, including contracting activities, to the stated criteria and assessing whether they were placed in operation during the first 5 months of program year 2012.

Question 2. What previous audits have you conducted with regard to the Federal oversight of the performance of Job Corps centers? What conclusions did these audits reach?

Question 3. How has the Department responded to your previous audits? What steps have they taken to taken to respond to the recommendations made in your prior audits?

Answer 2 and 3. Summarized below are the results of Job Corps audits the OIG has conducted during the period October 1, 2011 through March 31, 2013.

The Department's responses and corrective actions planned or taken in response to our recommendations follow the findings outlined in the summaries below.

SUMMARY REPORT OF SUB-CONTRACTING AT SIX PRIVATELY OPERATED JOB CORPS CENTERS—REPORT NO. 26–13–001–03–370 (NOVEMBER 8, 2012) [1]

From March 31, 2011, through June 22, 2012, we issued a series of performance audit reports on sub-contracting for six Job Corps centers operated by private contractors. For all six centers audited, we found that the center operators did not always ensure best value to the Federal Government when awarding sub-contracts and purchase orders. Additionally, two centers did not support claimed costs by consistently obtaining required documentation. In aggregate, we identified $8.7 million in questioned costs—the total value of the sub-contracts and purchase orders awarded without ensuring best value. These conditions occurred because the center operators were not aware of the Federal and contractual requirements applicable to their procurement activities and did not establish the necessary controls to ensure compliance with their own standard operating procedures for procurement. Additionally, Job Corps did not effectively enforce the center operators' adherence to the procurement requirements for Job Corps centers and did not provide adequate oversight of their sub-contracting practices.

The Department generally agreed with our findings and recommendations and indicated it has made programmatic changes to improve guidance and oversight over center sub-contracting. These changes comprise updating its policy handbook to address sub-contracting responsibilities and procedures, including procedures for administration of cost reimbursable contracts and their associated sub-contracts. The Department also stated it has provided guidance and training to its contracting officers on proper oversight and monitoring of contractors purchasing systems, including ensuring contractors are held accountable for managing sub-contracts. During center assessment and monitoring visits, the Department stated it will review subcontracts for FAR compliance. In certain cases, the Department has withdrawn the approval of center operators' contracting purchasing systems and now requires the contractor to obtain Departmental approval before awarding any sub-contracts. Finally, the Department has disallowed $443,064 of contractor claimed sub-contracting costs.

CONFLICT OF INTEREST COMPLAINT ON A JOB CORPS CENTER OPERATOR SUBCONTRACT AWARD HAD MERIT—REPORT NO. 26–12–004–03–370 (SEPTEMBER 28, 2012) [2]

The Department referred to the OIG an anonymous complaint concerning a subcontract to provide academic and career technical training services at the Homestead Job Corps Center, which is operated by ResCare, Inc. Our audit found that ResCare did not advertise or open the subcontracting opportunity for competition to other subcontractors, and did not justify the sole source procurement as required. Moreover, we found that ResCare allowed an executive vice president to award the subcontract to a company owned and operated by a subordinate, which represented a significant conflict of interest.

In response to our recommendations, the Department directed ResCare to repay the Government $76,431 in disallowed costs. ResCare has repaid the disallowed costs, terminated the subcontract in question, and awarded a new sub-contract to a different company. The Department stated that it may seek to suspend or debar both companies involved in the procurement including the principal individuals involved. The Department also revoked ResCare's purchasing system approval, and stated it would conduct a full Contractor Procurement System Review of ResCare and provide Job Corps program staff with tools to spot check ResCare's purchasing activities during center assessments and monitoring visits. Finally, the Department sent a memorandum to all Job Corps operators informing them of the consequences of the actual occurrence, or the appearance of a conflict of interest in subcontracting and stated it will require all Employment and Training Administration prime con-

[1] *http://www.oig.dol.gov/public/reports/oa/2013/26–13–001–03–370.pdf.*
[2] *http://www.oig.dol.gov/public/reports/oa/2012/26–12–004–03–370.pdf.*

tractors to include a non-conflict of interest certification statement in all subcontracts awarded.

JOB CORPS MUST STRENGTHEN CONTROLS TO ENSURE LOW-INCOME ELIGIBILITY OF APPLICANTS—REPORT NO. 26–11–005–03–370 (SEPTEMBER 30, 2011) [3]

Secretary Solis requested an audit of the Office of Job Corps' outreach and admissions process after the Department found that a service provider had admitted ineligible students at the Gadsden Job Corps Center in Alabama. Our audit found that Job Corps did not ensure outreach and admissions service providers enrolled only eligible students because of significant and systemic control weaknesses at both the Job Corps and contractor levels. Job Corps policy allowed potential students to self-certify their family income levels. Further, admission counselors obtained income documentation from potential students only if what students provided verbally was questionable or the potential student's social security number ended in one of five two-digit sequences. The latter criterion resulted in requiring documentation from only 5 percent of applicants to verify reported income. As a result of these insufficient enrollment procedures, ineligible students took slots intended for at-risk and low-income youth. Based on our statistical sample of the 5,504 students enrolled at Job Corps centers in March 2011, we estimated that 472 ineligible students enrolled in the program during that month, and $13.9 million in DOL funds would be spent to train them.

In response to our recommendations, the Department made changes to its student enrollment process—including an enhanced low-income eligibility verification process, elimination of income self-certification, and requiring outreach and admissions service provider to obtain income documentation from all potential students.

JOB CORPS NEEDS TO IMPROVE RELIABILITY OF PERFORMANCE METRICS AND RESULTS—REPORT NO. 26–11–004–03–370 (SEPTEMBER 30, 2011) [4]

Our audit objective was to determine the extent to which Job Corps had metrics in place to assess the program's performance. Our scope covered Job Corps' performance metrics and outcomes for program year 2009 and the month of October 2010. The audit found that while Job Corps had 58 performance metrics in place, these metrics did not always provide a clear and accurate assessment of the program's performance. More than 15 years ago, GAO first expressed concerns about the reliability of Job Corps' metric for job training match. While Job Corps has made some improvements since that time, such as reducing the number of allowable broad placement categories that were considered matches for several vocations, we found that reliability continues to be an issue. For example, problems with how Job Corps calculated its job training matches led to an overstatement of 7,517 (42.3 percent) of the 17,787 matches reported for the periods reviewed. Further, 3,226 of these matches either did not relate or poorly related to the vocational training received (e.g., students trained in office administration placed in fast food restaurants).

In response to our recommendations, the Department stated it would launch a revised Job Training Match crosswalk and a new safeguard in its student data base electronic system that will require career transition service contractors to validate the relevance of a student's placement to his or her training. The Department also launched an online interactive map that shows the performance of every center, and plans to publish additional performance metrics and an annual report on the metrics required by the Workforce Investment Act.

JOB CORPS OVERSIGHT OF CENTER PERFORMANCE NEEDS IMPROVEMENT—REPORT NO. 26–12–006–03–370 (SEPTEMBER 28, 2012) [5]

We conducted a performance audit to determine the extent to which Job Corps ensured that its centers managed their academic and career technical training (CTT) programs in order to meet performance goals and maximize student achievements. The scope of the audit included Job Corps performance data for program year 2008 through 2010 (July 1, 2008–June 30, 2011). Our audit found that Job Corps initiated several major programmatic shifts and policy changes that resulted in improved performance across all three of its Government Performance and Results Act performance indicators during program years 2008 through 2010. However, we also found that individual centers did not consistently meet established Career Technical Training program completion and High School Diploma/General Educational Development Certificate (HSD/GED) attainment goals. We also found that

[3] *http://www.oig.dol.gov/public/reports/oa/2011/26–11–005–03–370.pdf.*
[4] *http://www.oig.dol.gov/public/reports/oa/2011/26–11–004–03–370.pdf.*
[5] *http://www.oig.dol.gov/public/reports/oa/2012/26–12–006–03–370.pdf.*

Job Corps did not provide sufficient oversight at the center level to improve performance.

In response to our recommendations, the Department revised its Policy and Requirements Handbook in program year 2012 to clarify processes and procedures for the issuance of Performance Improvement Plans for underperforming CTT programs and stated that for centers with Performance Improvement Plans, related oversight activities such as Regional Office Center Assessments and monitoring visits will be more tightly aligned, documented and coordinated. The Department also redesigned its evaluation scale to reflect a more balance distribution of overall trade performance, and is developing a report card format to track the performance of center academic programs. Finally, the Department stated it has made a concerted effort to conduct its Regional Office Center Assessments on schedule and will be in full compliance by fiscal year 2013.

JOB CORPS NEEDS TO IMPROVE TIMELINESS OF AND ACCOUNTABILITY FOR MAINTENANCE REPAIRS AT ITS CENTERS—REPORT NO. 26–13–002–03–370 (DECEMBER 7, 2012) [6]

During program years 2009–11, Job Corps received, on average, $108.3 million per year in appropriations to pay for new center construction, rehabilitation of existing centers, land acquisitions, and necessary maintenance to keep its centers in acceptable condition. Our audit found Job Corps did not always ensure center maintenance deficiencies were repaired in a timely manner, exposing students, staff, and visitors to potential safety and health hazards. We identified 202 critical and funded maintenance deficiencies involving life, safety, and health issues that remained unrepaired more than 1 year after they had been identified. We also identified 605 critical maintenance deficiencies that had been repaired, but it took an average of 2.4 years to complete those repairs. We also found Job Corps did not effectively manage its maintenance funds and $32.9 million in unused funds were expired or approaching expiration. The inability of Job Corps to expend these funds represented a lost opportunity to fund critical repairs and ensure safer Job Corps centers. These conditions occurred because Job Corps did not have an effective process to ensure maintenance deficiencies were addressed appropriately and timely, and did not place sufficient emphasis on tracking and monitoring the status of obligated funds.

In response to our recommendations, the Department stated it had begun Policy and Requirements Handbook changes to ensure deficiencies are accurately identified and repaired in a timely manner. Final policy changes are expected to be completed by June 30, 2013. Additionally, the Department presented a series of webinars to all regional and center staff responsible for recording accurate data in the Funded-Not-Corrected data base, and stated that policy changes will include the requirement that Funded-Not-Corrected projects should be completed within 1 year unless reasonable circumstances delay the process. The Department continues to disagree with our finding that $32.9 million in unused maintenance funds were expired or approaching expiration, maintaining that the cancellation of funds rate is not significant. Nonetheless, the Department stated it will continue efforts to improve and has realigned budget functions to provide increased oversight of financial management processes in the new Job Corps Division of Budget.

SENATOR MURRAY

Question 1. Can you assure me today that the causes for the financial shortfall have been clearly identified, are being fixed, and that there will not be another shortfall in upcoming years? And if not, what has to happen to provide that assurance?

Answer 1. The Job Corps program is administered by DOL's Employment and Training Administration (ETA). The OIG's role is to review DOL programs and operations such as those of Job Corps, and to make recommendations to the Department on ways to improve program efficiency and effectiveness.

As we noted in our written testimony, our audit of the Job Corps program is determining why the budget overruns happened, what control issues allowed this to happen, what changes the Department has made, and what additional changes are still needed to ensure this does not happen again.

However, while the OIG audit may identify Job Corps management issues as well as reasons for the budget overruns over the past 2 years, it is the Department's responsibility to fix any issues identified and to make sure that there are no overruns in upcoming years.

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[6] *http://www.oig.dol.gov/public/reports/oa/2013/26–13–002–03–370.pdf.*

Question 2. What alternatives are there for the current use of cost-reimbursable contracts, and what are the relative tradeoffs of switching to a new model of contract? I understand there are discussions about a hybrid-contract. What are the details of such a contract model? When and how might it be introduced on a pilot basis?

Answer 2. The Employment and Training Administration, as the administrator of the Job Corps program, is best positioned to address this question, given that the OIG's role is limited to audit and investigative oversight of these programs.

[Whereupon, at 3:55 p.m., the hearing was adjourned.]

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