



State of Louisiana

**OFFICE OF
STATE INSPECTOR GENERAL**

**LABOR - UNO CONTRACT
LACKS ACCOUNTABILITY**

Report by

Inspector General Bill Lynch

Prepared for

Governor M.J. "Mike" Foster, Jr.

July 9, 1999

File No. 1-99-0083



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June 16, 1999

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Approved by

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Labor – UNO Contract Lacks Accountability

A \$555,000 job growth study contract by the Louisiana Department of Labor with the University of New Orleans contained artificially derived cost allocations. Billings by the university were on a cost reimbursement basis which did not correlate with contract projections.

The end result was a contract and performance that have limited accountability.

The UNO study was divided into four separate tasks, with each divided into sub-tasks. Specific cost projections were assigned to each of the tasks. The projected cost of each task should have been the cumulative cost of each sub-task. However, the projected cost of each sub-task was reached simply by dividing the number of sub-tasks into the task projection. The sub-task allocations were unrealistic and cannot be followed in an audit.

A substantial change in the contract was made verbally despite a requirement that amendments be by written agreement. The change reduced the number of sub-tasks, which resulted in lowering the contract payments to \$470,000. However, because of the billing method it is not possible to determine whether the reduction in the contract amount was sufficient to compensate for the sub-tasks that were not performed.

Background

Act 1 of the 1997 Regular Session of the Legislature created the “Comprehensive Labor Market Information System” and “Louisiana Workforce Commission,” both relating to workforce development. The act provided that there would be three components to the information system:

1. Consumer Information (on-line internet)
2. Occupational Forecasting (job growth and demand)
3. Scorecard on Schools (workforce development)

The Workforce Commission is charged with supervising and controlling the system. The Department of Labor is responsible for developing, implementing and maintaining the system.

To fulfill its responsibilities, the department contracted with UNO in 1997 to provide technical assistance in developing the information system.

1997 Contract Prices

Labor entered into an agreement with UNO in August, 1997, not to exceed \$555,000 to perform four specific tasks through September, 1998. The contract lists each task and assigns a dollar value to each: Task 1. \$54,392.50; Task 2. \$240,541.50; Task 3. \$87,262.50; Task 4. \$172,803.50.

The tasks are broken down into sub-tasks which are inexplicably assigned equal dollar values within their respective task. The sum of the sub-tasks equals the assigned values of the respective task. For example:

Deliverables listed under Task 2 total \$240,541.50. Task 2 has nine sub-tasks, each valued at \$26,726 or one ninth of the total value assigned to the task.

The contract does not provide an explanation for values assigned to the sub-tasks. Dr. Marc Chopin, Associate Professor of Economics at Louisiana Tech University and a member of the State Occupational Forecasting Conference, said that in his opinion it was obvious the numbers were not correct because the numbers were identical. The equal division of the larger task amounts gives the appearance the contract amounts were created from the top down, rather than from the bottom up, as one would expect to reach a cumulative cost estimate.

Raj Jindal, Assistant Secretary of Labor for Occupational Information Systems, confirmed that the value assigned to each sub-total did not correlate with the true cost of each sub-task. In response to Dr. Chopin's questions, Labor Secretary Garey Forster stated in a March 22, 1999, memo that, "...it was impossible in August, 1997, to specify the precise amount of time and other costs to what at that time were imprecise needs." He added, "Cost estimates by deliverables represented the best estimate available at the time. To conform to Office of Contractual Review recommendations regarding deliverables, the agreed upon task amounts were distributed among task deliverables." However, this explanation fails to state why the department used artificial costs for the sub-tasks.

Susan Smith, Director of the Office of Contractual Review stated that normally her office does not give advice on assigning detail price break-downs within contracts and could not remember meeting with anyone from Labor on this contract

Robert Dupont, Dean, Metropolitan College, UNO, oversaw the contract work and stated the contract price was accomplished by lengthy negotiations with Labor and approved by Contractual Review. The prices for the four primary tasks were a summation of costs assigned to the detailed elements of the original proposal after deletions and adjustments. UNO agreed to absorb any additional expenses. Dean Dupont failed to object to the use of artificially derived cost figures for the sub-tasks in his oversight role.

1997 Contract Payments

Payments to UNO were actually handled on a cost reimbursement basis. Labor chose not to have all the work performed so the full contract amount was not expended. There were nine payments made totaling \$470,454, which is \$84,546 less than the maximum contract amount.

The elimination of some of the sub-tasks was done verbally although the contract compensation and payment terms state, “Any modification of either the statement of work or total compensation and payment to be made must be evidenced by a signed agreement to said modification by both parties to this contract.”

All progress payments were made on expenses identified only to the overall contract, not to task or to sub-task deliverables. This makes it impossible to determine the relationship between the projected task and sub-task costs and the actual costs appearing on the invoices. For example, one of the four tasks could have been overspent \$10,000 and another task underspent \$10,000. Neither event, would have been shown by the net figure used although both should require explanation. Similarly, it is not possible to determine whether the elimination of several sub-tasks was appropriately reflected in the overall contract price reduction.

Ms. Jindal stated the department did not ask UNO for a breakdown of expenses by task or sub-task since it was satisfied with the deliverables received. However, the contract terms state, “...consideration will be paid to the Contractor by the State in accordance

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with the schedule set forth in exhibit B...” Exhibit B contains a separate amount for each of the 21 separate sub-task descriptions.

Dean Dupont stated that the billing was done by their Grants and Accounting office. This, like other contracts, was given a restricted account code for expense charges and the billing information was taken off the ledgers. He said their accounting system did not capture any more detail than by contract.

Conclusions:

1. The equal allocation of costs associated with each sub-task is misleading and could cause confusion to someone reading the contract.
2. Labor paid over \$470,000 on this contract without following contract terms relating to compensation.
3. Modifications were made verbally rather than written as required.
4. The end result was a contract and performance that have limited accountability.

Recommendations:

1. Contracts should reflect best estimate costs for each deliverable.
2. In the future, the Department of Labor should enforce the provisions of its contracts.

Management Response:

Responses from Secretary Garey Forster and Dean Robert Dupont are attached.

IG Comment:

While we recognize the difficulties involved in developing study contracts, if there is to be any accounting of expenditures then procedures must be devised to provide an adequate paper trail. This did not occur in this contract.

BL/CW/fs
File No. 1-99-0083



M.J. "MIKE" FOSTER, JR.
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GAREY FORSTER
SECRETARY

June 14, 1999

Mr. Bill Lynch
Inspector General
Post Office Box 94095
Baton Rouge, LA 70804-9095

Re: Response of Audit Finding

Dear Mr. Lynch

This letter is in response to the recent finding that this Department entered into an interagency agreement with the University of New Orleans that contained arbitrary cost allocations which complicated audit procedures.

As I am sure you are aware, Act 1 of the 1997 Regular Session of the Legislature provided for the creation of Louisiana's Occupational Information System (LOIS) as well as the Louisiana Workforce Commission (LWC). As part of the Department's responsibility for the system and in consultation with LWC, LDOL entered into the subject agreement with UNO in August of 1997 which expired in September 1998. The contract was reviewed by all parties, approved under normal Division of Administration contractual review process, and subsequently, approved under the Commission for the Review and Improvement of Services Procurement (CRISP) procedures.

At the time this contract was being negotiated, it was unclear precisely what it would take both in tasks and dollars to bring LOIS from a system created on a piece of paper to one functioning on a website. A lot of time and effort went into evaluating and thinking through the tasks necessary to do so. The Department and LWC negotiated a price for each major task, and it was determined early on that, since the Department did not have any history in this type of endeavor, the contract would be financed on a "cost reimbursement" basis and not on a "fee for service" basis. The scope of the major tasks was agreed upon and a dollar amount was budgeted for each. When the contract was actually being drafted, the Department's attorneys asked for deliverables to be included

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in the contract. Personnel from LDOL and LWC who were involved in the project identified the subtasks associated with each major task and the attorneys listed the subtasks as the deliverables. The budget for the task was then divided by the number of subtasks. At the end of the contract, a breakdown of expenses by tasks was provided to the Department by UNO.

In summary, the Department acknowledges that instead of negotiating a price for each major task and then dividing the amount budgeted by subtasks, the Department could have negotiated for each subtask. The creation of LOIS is a developing process and the Department is committed to learning from experiences and doing better each time. The Department does appreciate though that you did not find any evidence to indicate any intent on the part of any of the participants to engage in any irregular activity.

If you have any questions or comments, please do not hesitate to contact me.

Cordially,



Garey Forster
Secretary of Labor

GF/rmg

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University of
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June 14, 1999

Mr. Bill Lynch
State Inspector General
State of Louisiana
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Post Office Box 94095
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RE: File Number 1-99-0083

Dear Mr. Lynch:

Thank you for taking the time to meet with representatives from the Louisiana Department of Labor and me last week in Baton Rouge. Secretary Forster informed me the next day of your proposed revisions to the draft. The attached response from the University of New Orleans, Metropolitan College, takes those revisions into account. I appreciate your efforts to accommodate our concerns.

Please let me know if there is any other information you need.

Sincerely,



Robert L. Dupont, Dean
Metropolitan College
University of New Orleans

**Response to Draft Report
Regarding
Department of Labor and UNO Contract**

The draft report of the Inspector General (IG) reaches two conclusions with which the University of New Orleans, Metropolitan College, respectfully disagrees.

I. Limited Accountability

The draft report concludes that the payment terms of the contract between the Louisiana Department of Labor (LDOL) and the University of New Orleans (UNO) resulted in limited accountability.

UNO contends that the entire process of the contract--preparation, implementation, etc.--provided sufficient guarantees to the state regarding performance and accountability. All requests for payment submitted to LDOL followed standard accounting procedures and provided sufficient detail. In addition, UNO submitted monthly progress reports to LDOL which detailed the status of deliverables. UNO only billed for expenses actually incurred, and total compensation to the University was approximately \$80,000 less than the amount originally negotiated.

Although the IG disagrees with the method used to project contract costs, there is no evidence that the method chosen by LDOL diminished in any way the ability of LDOL to maintain control of and accountability for the contract tasks and deliverables. At one point in the draft report, the IG endorses the construction of contracts "from the bottom up, as one would expect . . ." without evidence regarding the superiority of this method.

The draft report presents the IG's version of events without reporting evidence presented that would demonstrate the efforts of LDOL and UNO to maintain oversight and a high level of performance. In particular, the universities involved in the project accepted indirect rates far lower than normal in order to help the state in this important effort. There is no evidence that the state did not receive full value for the fund spent and a complete report would offer that conclusion to the readers of the report.

II. The Contract Approval Process

The draft report does not give sufficient weight to the rigorous approval process the LDOL-UNO contract successfully completed. The contract negotiations included personnel from LDOL and the Workforce Commission. As with all state contracts, the agreed-upon product was subsequently reviewed by the Office of Contractual Review (OCR). The role of OCR is dealt with in one sentence at the top of page three of the draft. The IG report implicitly agrees that the

contract was properly reviewed and approved by OCR, though the office “does not give advice on assigning detail price break-downs . . .” In other words, the IG has found objectionable what was approved by the state agency with primary responsibility for contractual review.

III. Conclusion

The IG draft report makes a case for more careful allocation of costs among deliverables in a project. UNO can certainly agree with such a goal. However, the weight of the draft seems out of proportion to the sincere efforts that were made by LDOL and UNO personnel to carefully negotiate a contract, specify tasks to be accomplished and monitor the results.