

June 21, 2002

DIRECTIVE: PRH CHANGE NOTICE NO. 01-07

TO: ALL JOB CORPS NATIONAL OFFICE SENIOR STAFF
ALL JOB CORPS REGIONAL DIRECTORS
ALL JOB CORPS CENTER DIRECTORS
ALL JOB CORPS CENTER OPERATORS
ALL NATIONAL TRAINING AND SUPPORT CONTRACTORS
ALL OUTREACH, ADMISSIONS AND CTS CONTRACTORS

FROM: RICHARD C. TRIGG
National Director
Office of Job Corps

SUBJECT: PRH Chapter 5: Appendix 502 (Center Financial Management) and Appendix 503 (Outreach/Admissions and Career Transition Services Financial Management)

1. Purpose. To **revise and re-issue** PRH Appendices 502 and 503 in order to correct minor errors that have been discovered in the original issuance and, more significantly, to incorporate revisions in Appendix 502 that reflect recent Job Corps policy changes.

2. Background. Appendices 502 and 503 were issued on March 28, 2002 via PRH Change Notice 01-05. Since then, members of the Job Corps community have pointed out a number of errors and internal inconsistencies in these documents. This **re-issuance** is intended to resolve the errors that have been noted. In addition, further changes are needed in Appendix 502 in order to support the implementation of new Job Corps policy regarding performance based service contracting and new policy concerning the annual reporting of average budgeted staff salaries at contract centers.

3. Explanation of Major Changes Being Proposed.

a. Appendix 502.

- In Section C.5, the discussion of pre-paid insurance is corrected to eliminate duplicative treatment of outlays for pre-paid insurance on page 4 of the 2110 cost report. The revised language reads as follows:

On the “2110” cost report, if insurance is prepaid, the entire amount is vouchered, but the amount for future months is not expensed since the cost applies to a future period. Expense is reduced by the amount of prepaid insurance and this amount is reflected on the “Pre-Paid” line in Section G on page 4. In each succeeding month, the portion of prepaid insurance applicable to the period is expensed and the entry on page 4, Section G, is reduced by a like amount. Conversely, if insurance is billed at a later date (post-paid), the cost for the unbilled months must be accrued.

- In Section C.5, the discussion of Contractor Fee (Line 28) is revised to reflect new Job Corps policies concerning performance based service contracting. Corresponding revisions are being made in Section F.8. The new language in Section C.5 includes the following:

Base + Incentive Fee. The cost of a contractor’s Base Fee will, for each contract year, be an equal monthly proration of the Base Fee stated or reflected in the contract for that contract year (same as for fixed fee). The cost of a contractor’s Incentive Fee is determined as follows:

- *Cost prior to final determination of amount earned. The exact amount of incentive fee that is earned for performance achievements during a contract year cannot be determined until 2 or 3 or even 4 months after completion of the contract year. In order to mitigate cash flow hardships that would otherwise result from such a long lag-time, contractors are generally permitted to voucher provisionally for incentive fee during the performance of a contract year. The provisional monthly costs and billings of Incentive Fee prior to determination of final amount earned will therefore be an equal proration of the contractually stipulated incentive fee amount for average performance.*
- *Cost adjustment/reconciliation upon final determination of amount earned. When the contractor is notified as to the exact amount of incentive fee that has been earned for performance during a recently completed contract year, the notification will specify by what amount the earned incentive fee is above or below the amount of the provisional payments that were made to the contractor. The difference between provisional incentive fee payments and final amount earned will be treated as an adjustment to cost and billings in the succeeding contract year and reflected appropriately as such on the next available cost report and invoice that is submitted by the contractor. However, if performance of the contract has been*

fully completed, the adjustment to cost and billings will be reported and treated as post-termination activity.

Following is an example of expensing Base Fee, Provisional Incentive Fee, and Final Post-Contract Year Incentive Fee adjustment. In this example, the contract has been newly awarded with the standard base period of 24 months.

<i>Base Fee</i>	<i>\$450,000</i>
<i>Provisional Incentive Fee</i>	<i>\$150,000</i>
<i>Total</i>	<i>\$600,000</i>

In the first contract year, the monthly cost equals \$600,000 divided by 24 months, yielding a monthly expense of \$25,000. Total fee costs and billings in year 1 are \$300,000, consisting of \$225,000 base fee and \$75,000 provisional incentive fee.

In the first two months of the second contract year, the monthly fee costs and billings continue at \$25,000. However, in third month, the contractor is officially notified, via contract modification, that its final incentive fee earnings based on achievements in the first contract year are \$85,000. The notification specifies that the final amount earned is \$10,000 above its provisional billings and that the contractor may include the \$10,000 fee increase on its very next voucher and should reflect the \$10,000 of additional fee expense on its very next cost report. This adjustment process also includes a revised 2181 centeroperating budget for the current (second) contract year. The fee expense reported in the third month of the second contract year would therefore be \$35,000, or \$10,000 above the normal level of \$25,000. Thereafter, monthly fee expense and billings would return to the normal level of \$25,000 for the duration of the second contract year.

- In Section D.11, the instructions for completing page 2 of the 2110 form the discussion on variance thresholds to be displayed in column (f) is being corrected as follows:

Variance thresholds (over or under) will be 3% of the Annual Budget (b) for each category of expense. In any expense category where the 3% yields less than \$2,500, the threshold should be displayed as \$2,500.

- In Section D.6. Error Corrections, language is added to permit the submittal of corrected reports under certain conditions. This section is changed to read as follows:

If a submitted report for a given month contains material errors, the contractor may submit a corrected report for that month, but only if the report for the succeeding month has not yet been submitted. Otherwise, any adjustments made to correct erroneous information on past reports (contract to date adjustments) must be reflected in the current month's expenses and the adjustment must be explained on the Variance Exceptions/Comments section. It is not permitted to simply adjust the Contract to Date Actual totals. The total of all monthly reports (or quarterly reports for federal centers) must agree with the Contract to Date Actual. Errors are always to be avoided, of course; but it is particularly important to ensure that reports submitted for the ending dates of contract years are as free from errors as possible.

- In Section G.3, a new paragraph (i) is added which establishes a requirement for submittal of a Staff Compensation Supplement when a contractor submits the initial 2181 budget for a given contract year.
- In Section G, a new subsection 10 is added to provide detailed instructions and facsimile for the Staff Compensation Supplement.

b. Appendix 503.

- In Section B.5. Display and Evaluation of Variances, the discussion on variance thresholds is being corrected as follows:

*Contractors must attach a narrative explanation of cause and corrective action for any line item variance that exceeds an amount that is **5.0%**, or **\$2,500** whichever is more, (plus or minus) of the current year budget for that line item.*

- Similarly, In the instructions for completing page 1 of the 2110-OA/CTS form, the discussion on variance thresholds to be displayed in column (f) is being corrected as follows:

Variance thresholds (over or under) will be **5.0%** of the Annual Budget (b) for each category of expense. In any expense category where the **5.0%** yields less than \$2,500, the threshold should be displayed as \$2,500. The threshold for Total O/A or CTS Expense (Line 10) will be **1.0%** of the annual budget. If any variance exceeds these limits, in any category, the cause and corrective action must be reported on page 3 of this report.

- In Section D.6. Error Corrections, language is added to permit the submittal of corrected reports under certain conditions. This section is changed to read as follows:

*If a submitted report for a given month contains material errors, the contractor may submit a corrected report for that month, but only if the report for the succeeding month has not yet been submitted. Otherwise, any adjustments made to correct erroneous information on past reports (contract to date adjustments) **must be reflected in the current month's expenses** and the adjustment must be explained on the Variance Exceptions/Comments section. It is not permitted to simply adjust the Contract to Date Actual totals. The total of all monthly reports (or quarterly reports for federal centers) must agree with the Contract to Date Actual. Errors are always to be avoided, of course; but it is particularly important to ensure that reports submitted for the ending dates of contract years are as free from errors as possible.*

- In Section D, the instructions for page 1 of the 2110 OA/CTS are corrected to agree with the sequence of data entry blocks on the form.

4. Action Required. Addressees are to ensure that a copy of this Change Notice is distributed to the appropriate staff.

REMOVE	REPLACE WITH
Chapter 5, Appendix 502, dated May 2002	Chapter 5, Appendix 502, dated June 2002
Chapter 5, Appendix 503, dated May 2002	Chapter 5, Appendix 503, dated June 2002

5. Effective Date. June 2002.

6. Inquiries. Questions, comments, and suggestions concerning these new guidelines may be referred to Steve Puterbaugh at (202) 693 3126, or email to sputerbaugh@doleta.gov.

Attachment A - Appendix 502

Attachment B - Appendix 503

Electronic Excel Spreadsheet Attachments:

110_ctr.xls	2181_oa.xls
2110_oa_ct.xls	2181ctr.xls
2110f.xls	2181_cts.xls
2110s.xls	staf_comp_supp1.xls