

U.S. Department of Labor

Office of Inspector General—Office of Audit

**BUREAU OF INTERNATIONAL
LABOR AFFAIRS**



**JESUS CARES MINISTRIES
REDUCING CHILD LABOR
THROUGH EDUCATION**

**Date Issued: September 8, 2005
Report Number: 03-05-001-01-070**

**U.S. Department of Labor
Office of Inspector General
Office of Audit**

BRIEFLY...

Highlights of Report Number: 03-05-001-01-070, to the Acting Deputy Under Secretary for International Labor Affairs.

WHY READ THE REPORT

The Bureau of International Labor Affairs (ILAB) administers U.S. Department of Labor grants and cooperative agreements for projects worldwide that remove and prevent thousands of vulnerable children from exploitation or hazardous work, and makes basic education accessible and relevant in order to meet their needs. In August 2002, ILAB awarded a cooperative agreement to Jesus Cares Ministries (JCM) located in Zambia, Africa. The cooperative agreement obligated \$652,000 for the period September 1, 2002, through August 27, 2006. The objective of the cooperative agreement was to support combating child labor through education. JCM's goal in the cooperative agreement was to serve 2,040 children and, as of November 2004, JCM reported to ILAB that they served 2,747 children.

WHY OIG DID THE AUDIT

The purpose of our audit was to obtain answers to concerns ILAB had regarding JCM's administration of the cooperative agreement. Specifically, our objectives were: (1) Did JCM obtain approval from ILAB for program funds used for building construction? (2) Did JCM use program funds for religious activities? and (3) Does JCM have adequate funding to sustain the program through the cooperative agreement period?

In addition to ILAB's concerns, we also reviewed costs to determine if JCM used program funds in accordance with Office of Management and Budget (OMB) Circular A-122 cost principles.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full agency and JCM responses, go to:
<http://www.oig.dol.gov/public/reports/oa/2005/03-05-001-01-070>.

August 2005

Jesus Cares Ministries

Reducing Child Labor Through Education Period September 1, 2002 to August 31, 2004

WHAT OIG FOUND

The OIG found JCM did not obtain approval for using DOL funds for building construction and did not expend DOL funds in accordance with cost principles; as a result, we questioned \$5,753 of costs. JCM used DOL funds for religious activities and inappropriately cited DOL in religious material; as a result, we question \$741 of unallowable religious activity costs. Finally, JCM does not have adequate DOL funds to sustain its Child Labor Education Initiative program through the remaining 2 years of the cooperative agreement. JCM reported that it spent most of its funds and exceeded its goal of removing over 2,040 children from the labor force and putting them into education due to the overwhelming needs of the children. At the time of our fieldwork, JCM had expended 86 percent of the DOL funds awarded even though there were 2 years remaining on the 4-year cooperative agreement. We also noted funding shortages because JCM had not budgeted for all its administrative costs and did not take into account Zambia's high inflation rate.

WHAT OIG RECOMMENDED

We recommended that the Acting Deputy Under Secretary for International Labor Affairs recover \$5,753 in questioned costs and direct JCM to obtain an approved indirect cost rate, recover \$741 of unallowable religious costs.

ILAB should require JCM to (1) become knowledgeable of OMB Circular A-122, (2) develop and implement procedures regarding religious activity costs, (3) budget for administrative costs and inflation, (4) comply with drawdown limits, and (5) provide detailed quarterly expenditure reports.

ILAB and JCM agreed with and plan to implement our recommendations.

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Executive Summary

The Bureau of International Labor Affairs (ILAB) administers U.S. Department of Labor (DOL) grants and cooperative agreements for projects worldwide that remove and prevent thousands of vulnerable children from exploitation or hazardous work, and makes basic education accessible and relevant in order to meet their needs. In fiscal year (FY) 2001, ILAB began funding the Child Labor Education Initiative. Under the Child Labor Education Initiative, ILAB awarded a cooperative agreement to Jesus Cares Ministries (JCM) located in Zambia, Africa. The cooperative agreement obligated \$652,000 for the period September 1, 2002, through August 27, 2006. The objective of the cooperative agreement is to support combating child labor through education. JCM's goal in the cooperative agreement was to serve 2,040 children and, as of November 2004, JCM reported to ILAB that they served 2,747 children.

The purpose of our audit was to obtain answers to concerns ILAB had regarding JCM's administration of the cooperative agreement. Specifically, our objectives were:

1. Did JCM obtain approval from ILAB for program funds used for building construction?
2. Did JCM use program funds for religious activities?
3. Does JCM have adequate funding to sustain the program through the cooperative agreement period?

In addition to ILAB's concerns, we also reviewed costs to determine if JCM used program funds in accordance with Office of Management and Budget (OMB) Circular A-122 cost principles. OMB Circular A-122 establishes the principles for determining costs of grants, contracts, and other agreements with nonprofit organizations.

Results

We found that:

1. JCM did not obtain approval for using DOL funds for building construction and did not expend DOL funds in accordance with cost principles. Specifically, JCM did not obtain approval from ILAB to use funds for the construction of a school; maintain adequate documentation for expenses; and allocate costs that benefited more than one funding source. These conditions occurred because JCM did not fully understand the requirements of OMB Circular A-122 cost principles on the need for obtaining approval to use funds for capital construction projects and allocating costs that benefited more than one funding source, and

therefore, did not have the necessary controls in place. Also, JCM did not follow its policies and procedures in ensuring that all expenses were adequately documented. As a result, JCM charged \$156,969 in costs to the DOL cooperative agreement that did not meet the cost principle requirements in OMB Circular A-122. This consisted of \$2,020 for construction costs not approved, \$3,733 for costs not supported, and \$151,216 for costs not properly allocated.

2. JCM used DOL funds for religious activities and inappropriately cited DOL in religious material. Use of Federal funds for religious activities is unallowable. Federal law prohibits direct government support of “inherently religious” activities, including religious worship, or instruction. This prohibition is based upon the Establishment Clause of the First Amendment of the U.S. Constitution. Specifically, JCM charged to the cooperative agreement a portion of teachers’ salaries that included religious instruction. This occurred because although JCM was aware of the prohibition of using DOL funds for religious activities, JCM did not implement controls to ensure that DOL funds were not used for religious activities. As a result, JCM charged the cooperative agreement \$741 for unallowable teachers’ salaries. We also found that JCM inappropriately cited DOL in its newsletter and in a video that contained religious references by crediting DOL with funding JCM’s activities. Readers of the newsletter and viewers of the video might assume that DOL approves of using its funds to support JCM’s religious activities. JCM officials told us they plan to revise the video to omit the reference to DOL.
3. JCM does not have adequate DOL funds to sustain its Child Labor Education Initiative program through the remaining 2 years of the cooperative agreement. JCM reported that it spent most of its funds and exceeded its goal of removing over 2,040¹ children from the labor force and putting them into education due to the overwhelming needs of the children. At the time of our fieldwork, JCM had expended 86 percent of the DOL funds awarded even though there were 2 years remaining on the 4-year cooperative agreement. We also noted funding shortages because JCM had not budgeted for all its administrative costs and did not take into account Zambia’s high inflation rate (which ranged between 17 and 27 percent) when it developed the cooperative agreement budget. Subsequent to our fieldwork, in January 2005, ILAB officials informed us that JCM had expended all the cooperative agreement funds. In May 2005, ILAB received approval from the Office of Administration and Management’s Procurement Review Board to provide additional funding in the amount of \$750,000 to extend the cooperative agreement with JCM for 3 years. ILAB officials told us they were waiting for the results of our audit before awarding JCM the additional funding.

See Exhibit A for schedule of questioned costs.

¹ Our audit did not include participant eligibility or reported performance data and outcomes; therefore, this number was not audited.

Recommendations

We recommend that the Acting Deputy Under Secretary for International Labor Affairs take the following corrective action:

1. Recover the \$5,753 in questioned costs for the construction not approved and the costs not adequately documented. Concerning the \$151,216 in administrative costs whose allocation to the cooperative agreement was not supported, direct JCM to develop and submit for approval an indirect cost proposal, or other allocation methodology, for the cooperative agreement period covering those costs that benefited more than one program or activity. Based on the results of the approved indirect cost rate or other allocation methodologies, recover the amount of any administrative costs that JCM overcharged the cooperative agreement.
2. Recover \$741 of unallowable religious activity costs from JCM.
3. Verify that JCM revised the video tape cited in Finding Number 2, and instruct JCM to ensure that any media it produces, such as videotapes or literature, that credits DOL as JCM's primary funding source and simultaneously includes religious references, includes language so that it is clear that DOL is not funding religious activities.

If ILAB decides to continue with the cooperative agreement, we recommend the Deputy Under Secretary for International Labor Affairs direct JCM to take the following corrective action:

4. Review and become knowledgeable of OMB Circular A-122 principles, and develop and implement procedures and controls, or comply with existing procedures and controls, so that
 - a. approval is obtained from ILAB before incurring costs for capital construction projects;
 - b. costs are adequately supported; and
 - c. costs are allocated to the benefiting programs, including the submission of an indirect cost proposal or other allocation methodology to DOL for approval.
5. Develop and implement procedures to ensure DOL funds are not used for religious activity costs.
6. Budget for all administrative costs and factor in Zambia's inflation rates.
7. Comply with the limits stated in the cooperative agreement concerning fund drawdowns.

8. Provide detailed quarterly expenditure reports so that responsible ILAB officials can compare the budgeted costs to actual expenses and significant variances are identified and appropriate action is taken.

Agency Response

ILAB concurred with our eight recommendations and its response is attached as Appendix D.

JCM Response

Concerning our finding that JCM used DOL funds for religious activities, JCM officials responded that although they were aware of the prohibition of using DOL funds for religious activities, their understanding was narrow and they did not know that religious education, which is part of the Primary school education curriculum, was also forbidden. Otherwise, JCM officials responded that they agree with the rest of the report. JCM's response is attached as Appendix E.

OIG Conclusion

Recommendations 1 and 2 will be resolved through the audit resolution process. Recommendations 3, 4, 7, and 8 are resolved and recommendations 5 and 6 are resolved and closed.



Assistant Inspector General's Report

Ms. Martha Newton
Acting Deputy Under Secretary
for International Labor Affairs
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This report summarizes the results of our performance audit of a \$652,000 cooperative agreement awarded to Jesus Cares Ministries (JCM) by the Bureau of International Labor Affairs (ILAB) as part of its Child Labor Education Initiative. JCM is located in Zambia, Africa. The objective of the cooperative agreement, which covers the period September 1, 2002, through August 27, 2006, is to support combating child labor through education. JCM's goal stated in the cooperative agreement was to serve 2,040 children and, as of November 2004, JCM reported to ILAB that it served 2,747 children.

The purpose of our audit was to obtain answers to concerns ILAB had regarding JCM's administration of the cooperative agreement. Specifically, our objectives were:

1. Did JCM obtain approval from ILAB for program funds used for building construction?
2. Did JCM use program funds for religious activities?
3. Does JCM have adequate funding to sustain the program through the cooperative agreement period?

In addition to ILAB's concerns, we also reviewed costs to determine if JCM used program funds in accordance with Office of Management and Budget (OMB) Circular A-122 cost principles. OMB Circular A-122 establishes the principles for determining costs of grants, contracts, and other agreements with nonprofit organizations.

We conducted the audit in accordance with Government Auditing Standards for performance audits. Our audit scope, methodology, and criteria are detailed in Appendix B.

Objective 1 – Did JCM obtain approval from ILAB for program funds used for building construction and use program funds in accordance with cost principles?

Finding

JCM did not obtain approval for using DOL funds for building construction and did not expend DOL funds in accordance with cost principles. Specifically, JCM did not: obtain approval from ILAB to use funds for the construction of a school; maintain adequate documentation for expenses; and allocate costs that benefited more than one funding source. These conditions occurred because JCM did not fully understand the requirements of OMB Circular A-122 cost principles on the need for obtaining approval to use funds for capital construction projects and allocating costs that benefited more than one funding source, and therefore, did not have the necessary controls in place. Also, JCM did not follow its policies and procedures in ensuring that all expenses were adequately documented. As a result, JCM charged \$156,969 in costs to the DOL cooperative agreement that did not meet the cost principle requirements in OMB Circular A-122. This consisted of \$2,020 for construction costs not approved, \$3,733 for costs not supported, and \$151,216 for costs not properly allocated.

Construction Funds Were Not Approved

JCM did not obtain the required approval from ILAB to use \$2,020 in DOL funds to construct a new school in Nsanjika, Zambia.

OMB Circular A-122, Attachment B, Selected Items of Cost, 15(b)1 states that capital expenditures for general purpose equipment, building, and land are unallowable as direct charges, except where approved in advance by the awarding agency. Additionally, 15(b)3² states that capital expenditures for improvements to land, buildings, or equipment, which materially increase their value or useful life, are unallowable as a direct cost except with the prior approval of the awarding agency.

JCM operates eight schools located in three provinces in Zambia. JCM operates eight schools located in three provinces in Zambia. One of ILAB's concerns was that JCM was using the cooperative agreement funds for construction without ILAB's approval. In January 2004, ILAB officials were aware that one of the JCM schools incurred storm damage to a roof and JCM needed to have it repaired. ILAB gave JCM approval to use cooperative agreement funds to make the repair. In July 2004, ILAB officials noted other construction activity in JCM's progress report. ILAB officials requested additional information on the construction activity and directed JCM to stop any construction activity not approved by ILAB. After JCM provided the requested information, ILAB provided JCM approval for specific projects.

² The prior version of A-122, dated June 1998, had this requirement cited as 15(d). All other requirements were cited as the same in both versions.

Based on our audit, we found that JCM used \$11,713 of DOL funds for construction, repairs, and maintenance related to six schools. We reviewed the supporting invoices and visited four schools to verify the work performed. The following table shows the amount of DOL funds JCM used for construction or repairs and maintenance at the six schools.

Construction Activity	Amount
▪ Roof repair at the Kagoro school	\$6,263
Repairs and maintenance at the Chiparamba, Chulukusu, George, and Mtendere schools	3,430
▪ Construction of a new building at the Nsanjika school	<u>2,020</u>
Total	<u>\$11,713</u>

We found that JCM obtained approval from ILAB for the roof repair at the Kagoro school. The repairs and maintenance at the four schools cited in the above chart were not capital improvements, and therefore, did not require prior approval. However, the construction of a new school at Nsanjika was a capital expenditure for which it did not obtain prior approval from ILAB. During our visit to the Nsanjika school on September 17, 2004, we observed a new building under construction that is shown in the photograph below.



JCM officials stated that they currently teach students in Nsanjika at a building owned by the Zambian Ministry of Education; however, the school is operating at full capacity. To address the capacity problem and allow for a more stable presence in the community, JCM began construction on a new school on the same land as the public school. The community provided the bricks and contributed their labor towards the construction. JCM used the \$2,020 in DOL funds to prepare the site and assist with the construction. At the time of our audit, the school building construction was in progress

and JCM officials told us that they would not use any more DOL funds towards it. We concluded that this construction was a capital expenditure that required ILAB approval. However, since JCM did not obtain approval from ILAB to use cooperative agreement funds before the construction of the new school, we determined the \$2,020 were unallowable costs.

Payments to Several Vendors Were Not Adequately Documented

We selected a judgmental sample of 34 high-risk expense items totaling \$31,042 from JCM's general ledger to determine if the costs were allowable, reasonable, and allocable to the cooperative agreement. The items covered the time period from the inception of the cooperative agreement to August 31, 2004, and the total cost of these items represented 6 percent of the \$560,559 reported costs charged to the cooperative agreement at the time of our fieldwork. JCM was unable to provide us with adequate supporting documentation for ten invoices totaling \$3,733. This occurred because JCM did not follow its policies and procedures in ensuring that all expenses were adequately supported. Therefore, we question these costs.

OMB Circular A-122, Attachment A, A.2.g states that to be allowable under an award, costs must be adequately documented. JCM's Financial Accounting Manual on disbursements requires that all payments be supported by payment vouchers and receipts.

Indirect Costs Were Not Allocated by Benefits Received

JCM receives funding from multiple sources and operates activities other than those funded by the cooperative agreement. However, JCM did not maintain a system to properly allocate indirect costs to final cost objectives. This occurred because JCM did not have policies and procedures that required: (1) costs benefiting more than one program or activity be identified; (2) an allocation methodology be developed to ensure such costs are charged to each benefiting program or activity; and (3) the allocation methodology developed be submitted to DOL for approval. Therefore, we question the \$151,216 in administrative costs that JCM charged to the cooperative agreement.

OMB Circular A-122, Attachment A.4.a states that a cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. Also, OMB Circular A-122, Attachment A, Section D.1.b states:

Where an organization has several major functions that benefit from its indirect costs in varying degrees, allocation of indirect costs may require the accumulation of such costs into separate cost groupings which then are allocated individually to benefiting functions by means of a base that best measures the relative degree of benefit. The indirect costs allocated to each function are then distributed to individual awards and other activities included in that function by means of an indirect cost rate(s).

OMB Circular A-122, Attachment A, Section E.2.b, requires that a nonprofit organization which has not previously established an indirect cost rate with a Federal agency shall submit its initial indirect cost proposal immediately after the organization is advised an award will be made, and in no event, later than 3 months after the effective date of the award.

We found that JCM receives non-monetary donations and monetary funding from organizations other than DOL but does not have an indirect cost plan or allocation methodology for expenses that benefit the funding source of the programs it operates. The following schedule shows the sources and the amount of monetary funds provided to JCM for the period 2002 to 2004.

Funding Source	2002	2003	2004	Total
DOL	\$652,000			\$652,000
ILO/IPEC		\$11,500	\$93,850	\$105,350
Kinder Not Hilfe		\$100,000	\$294,500	\$394,500
UNICEF			\$20,700	\$20,700
Zambia Government	\$7,500	\$8,000	\$8,000	\$23,500
Firelight		\$10,000		\$10,000
Total	<u>\$659,500</u>	<u>129,500</u>	<u>417,050</u>	<u>\$1,206,050</u>

From the judgmental sample of 34 expense items previously mentioned, we found three items, totaling \$451, that benefited all of JCM's programs and activities. Subsequent to our audit period, JCM compiled a schedule of the indirect costs they charged to the cooperative agreement as of August 31, 2004. The amount totaled \$151,216. We did not perform any additional testing.

The JCM financial director told us they do not have an indirect cost plan and he charged all of JCM's indirect cost to the cooperative agreement. Additionally, JCM officials stated that they used the funds received from the other organizations to supplement the activities funded by the cooperative agreement. Therefore, they did not consider the indirect cost, such as administrative costs, to be shared costs. JCM officials stated that they have now made it a policy that funding received from organizations to supplement or fund any project must contribute a percentage to the administrative costs.

We questioned the total amount of indirect costs until JCM develops an indirect cost proposal or other allocation methodology and submits it to DOL's Office of Cost Determination for approval. The grant officer can then adjust the amount of questioned costs to reflect the difference between the amount of indirect costs charged to the cooperative agreement and the actual amount of indirect costs that benefit the cooperative agreement.

* * * * *

See Exhibit B for a schedule of the expenses audited and the amount questioned as not supported.

JCM officials told us that they were not fully aware of the cost principle requirements in OMB Circular A-122. The JCM financial director, who was not employed with JCM when the cooperative agreement was awarded, told us he was unsure if anyone in JCM received training on the cost principles. ILAB officials stated that their procurement office does ensure that grantees are aware of administrative standards and provisions as stated in 29 Code of Federal Regulations (CFR) part 95 titled Uniform Administrative Requirements Governing Department of Labor Grants and Agreements. Title 29 CFR Part 95 contains the administrative requirements for nonprofit organizations including a section on the allowability of costs and cites the applicable OMB Circulars.

Subsequent to our fieldwork, in January 2005, ILAB officials informed us that JCM had expended all the cooperative agreement funds. In May 2005, ILAB received approval from the Office of Administration and Management's Procurement Review Board to provide additional funding in the amount of \$750,000 to extend the cooperative agreement with JCM for 3 years. ILAB officials told us they were waiting for the results of our audit before awarding JCM the additional funding.

Objective 2 – Did JCM use program funds for religious activities?

Finding

JCM used DOL funds for religious activities and inappropriately cited DOL in religious material. Use of Federal funds for religious activities is unallowable. Federal law prohibits direct government support of “inherently religious” activities, including religious worship, or instruction. This prohibition is based upon the Establishment Clause of the First Amendment of the U.S. Constitution. Specifically, JCM charged to the cooperative agreement a portion of teachers’ salaries that included religious instruction. This occurred because although JCM was aware of the prohibition of using DOL funds for religious activities, JCM did not implement controls to ensure that DOL funds were not used for religious activities. As a result, JCM charged the cooperative agreement \$741 for unallowable teachers’ salaries. We also found that JCM inappropriately cited DOL in its newsletter and in a video that contained religious references by crediting DOL with funding JCM’s activities. Readers of the newsletter and viewers of the video might assume that DOL approves of using its funds to support JCM’s religious activities. JCM officials told us they plan to revise the video to omit the reference to DOL.

Federal law prohibits direct government support of “inherently religious” activities, including religious worship, or instruction. The Supreme Court had established the contours of the doctrine commonly known as the “separation of church and state.” This doctrine is based upon the Establishment Clause of the First Amendment of the U.S. Constitution that states:

Congress shall make no law respecting the establishment of religion.

Section IV of the Cooperative Agreement, Acknowledgement of DOL's Role, requires JCM to acknowledge DOL's role on all items produced using DOL funds; however, language of the acknowledgement should be limited to "Funding Provided by the U.S. Department of Labor under cooperative agreement number E-9-K-2-0064".

Teachers' salary costs for religious instruction charged to the cooperative agreement.

Zambian law requires religious education be taught in schools. We found that students enrolled in JCM transitional schools must attend religious education classes. Religious education includes reading and discussing passages of the Bible and quoting Christian scriptures for the spiritual and religious development of the child.

To determine if JCM used DOL funds for religious activities, we judgmentally selected invoices totaling \$22,729 and identified the purpose of the expense. We also visited schools and interviewed teachers to determine the amount of time teachers spent teaching religion. The only exception found was the teacher's salary costs.

Through interviews with various JCM staff and teachers and analysis of class schedules, we determined that approximately 7.5 percent of a teacher's time is spent teaching religious education. Using payroll records and an employee listing, we determined that the teachers' salaries for the eight JCM schools totaled \$9,877 for the period November 2002 through August 2004. Applying the 7.5 percent allocation for religious education, we calculated that JCM used \$741 of DOL funds for teaching religious classes and, therefore, the costs are unallowable.

JCM officials stated that Zambia law requires religious education be taught in all schools. Since religious education is included in the standard syllabus, they were not aware that this portion of the education was not allowable under the cooperative agreement. JCM officials held discussions with the Community Schools Secretariat who told them that the syllabus is flexible. JCM officials stated that starting January 2005, they revised the syllabus so that religious education will not be charged to the cooperative agreement.

Newsletter and videotape could be interpreted as DOL promoting religious activities.

JCM issued a newsletter dated August 2003, that identified DOL as the funding source for the publication. Included in the newsletter was an acknowledgement that read, as follows:

We thank the Lord our God for an opportunity to serve and impact lives.
Jesus really cares!!!
We thank God for the knowledge, wisdom and strength to do the child
labour projects.

Glory and Honour goes back to Him who made all things possible. And appreciation goes to all JCM staff and the community for their commitment and hard work towards the child labour programmes. Again thank you USDOL and ILO/IPEC for supporting the children of Zambia through education.

The newsletter also cited in several places that participants in JCM schools will receive spiritual counseling. We concluded that this was a religious activity.

ILAB had concerns about JCM's spending of DOL funds for a videotape that JCM produced entitled "Ray of Hope." The videotape contained segments that were devoted to religious activities, such as children singing and reciting prayers. Frequent references to Jesus Christ permeated the text. We examined the invoices and interviewed JCM officials, and determined that JCM did not use DOL funds to produce the video. However, the videotape often cited DOL as the primary funding source for JCM programs.

Based on consultation from OIG's legal counsel, it is our position that the language in the newsletter and the videotape could be viewed as DOL supporting the use of cooperative agreement funds for religious activities. Specifically, the statement in the newsletter thanking the USDOL and ILO/IPEC for "supporting the children of Zambia through education" along with the references to spiritual counseling could give the impression that DOL is funding JCM's religious activities.

Although JCM did not finance the video with DOL funds, the video raises concerns about whether viewers are given the impression that DOL funds JCM's religious activities. JCM should revise the video to ensure that statements about DOL funding are omitted, or that the text concerning DOL funds made clear that they were used only for secular, not religious, activities. JCM officials told us that they have decided to remove religious references from the video. They also told us they would not use DOL funds to revise the video.

ILAB officials told us they recently revised their standard cooperative agreement format to address this issue. We found the standard cooperative agreement format used by ILAB now contains a clause in the special program requirements section that specifically prohibits the use of Federal funds for religious activities. ILAB also developed Management Procedures and Guidelines (MPG) and incorporated this into the standard cooperative agreement format as an additional requirement to be followed by recipients. Section 12 of the MPG also contains a clause concerning the prohibition of using DOL funds for religious activities. We concluded that this action should help ensure that recipients of DOL funds from ILAB are aware that they are prohibited from using DOL funds for religious activities.

Objective 3 – Does JCM have adequate funding to sustain the program through the cooperative agreement period?

Finding

JCM does not have adequate DOL funds to sustain its Child Labor Education Initiative program through the remaining 2 years of the cooperative agreement. JCM reported that it spent most of its funds and exceeded its goal of removing over 2,040 children from the labor force and putting them into education due to the overwhelming needs of the children. At the time of our fieldwork, JCM had expended 86 percent of the DOL funds awarded even though there were 2 years remaining on the 4-year cooperative agreement. We also noted funding shortages because JCM had not budgeted for all its administrative costs and did not take into account Zambia's high inflation rate (which ranged between 17 and 27 percent) when it developed the cooperative agreement budget. Subsequent to our fieldwork, ILAB officials informed us that by January 2005, JCM had expended all the cooperative agreement funds. In May 2005, ILAB received approval from the Office of Administration and Management's Procurement Review Board to provide additional funding in the amount of \$750,000 to extend the cooperative agreement with JCM for 3 years. ILAB officials told us they were waiting for the results of our audit before awarding JCM the additional funding.

ILAB awarded JCM \$652,000 for the Child Labor Education Initiative cooperative agreement. The cooperative agreement term is September 1, 2002, through August 27, 2006. Due to rapid use of grant funds, ILAB expressed concerns to JCM regarding the financial sustainability of the project for the 4-year grant period. Our analysis of JCM's budget and expenditure data showed that as of August 31, 2004, JCM charged \$560,559 to the cooperative agreement, leaving a balance of only \$91,442 for the last 2 years of the agreement.

We found three factors that contributed to the rapid use of grant funds – JCM served more children than was expected within the timeframe of the cooperative agreement, JCM over-spent its administrative budget, and JCM did not account for Zambia's high rate of inflation in its budget.

Children Served

The project document in the cooperative agreement states that JCM will remove 2,040 children from the labor force and put them in education within the 4-year period of the agreement. In January 2005, JCM reported that it exceeded its goal by removing 2,747³ children from the labor force and putting them into education with 2 years remaining in the cooperative agreement period.

³ Our audit did not include participant eligibility or reported performance data and outcomes; therefore, this number was not audited. ILAB officials reviewed JCM's performance data and told us they did not find any problems with the reported data.

Administrative Costs

JCM did not budget for all their administrative costs. We compared JCM's budget to a schedule of administrative costs that JCM charged to the cooperative agreement for our audit period and determined there were expenses that were not in the budget. These expenses, which totaled \$36,445, were for administrative items such as utilities, fuel, motor vehicle maintenance, per diem allowances, and stationery

Inflation

JCM officials told us they did not budget for inflation when it submitted its original budget request. Zambia's inflation rate for 2002 and 2003 was 27 and 17 percent, respectively. The inflation rate is the overall annual percentage change in consumer prices compared with the previous year's consumer prices. For example, in 2002, children shoes cost \$10 (52,100 kwacha); in 2004, the same shoes cost \$17 (87,000 kwacha). This translates into about a 70 percent increase.

We also found that JCM exceeded the allowable amount of drawdowns of cooperative agreement funds within the 2-year timeframe. According to Section II, paragraph E of the special provisions in the Notice of Award, advances shall not be requested for amounts in excess of the amount determined by dividing the approved funding level for the grant by the number of months approved for operation, unless specified amounts have been approved in advance and are incorporated in the grant. In no case shall the total amount advanced exceed the currently approved funding level of the grant. We performed an analysis of JCM's drawdowns of the cooperative agreement's funds and found that starting in November 2002, JCM's drawdowns exceeded the approved funding level divided by the number of months approved for the cooperative agreement.

* * * * *

JCM officials told us they are confident that the project will be sustained for the entire grant period and into future years. In the event that ILAB funding will not be sufficient to continue to the end of the grant, JCM officials told us they have considered obtaining additional resources from other funding streams. However, JCM officials also told us they have not started the application process to obtain these funds.

Subsequent to our fieldwork, in January 2005, ILAB officials informed us that JCM had drawn all the cooperative agreement funds. In May 2005, ILAB received approval from the Office of Administration and Management's Procurement Review Board to provide additional funding in the amount of \$750,000 to extend the cooperative agreement with JCM for an additional 3 years. ILAB officials told us they were waiting for the results of our audit before awarding JCM the additional funding.

If ILAB officials decide to continue the cooperative agreement with JCM, they need to ensure that JCM develops a realistic budget that includes all allowable and reasonable administrative costs. Presently, the only cost data that JCM provides to ILAB officials is

the quarterly Financial Status Report. This report is not sufficient for monitoring purposes because the Financial Status Report only contains total outlays. ILAB officials agreed with our conclusion that the Financial Status Report is not sufficient for monitoring, however, OMB Circular A-110⁴, is restrictive in granting exceptions for recipients subject to the Circular's requirements. Therefore, it is difficult to request information not required under the Circular.

Recommendations

We recommend that the Acting Deputy Under Secretary for International Labor Affairs:

1. Recover the \$5,753 in questioned costs for the construction not approved and the costs not adequately documented. Concerning the \$151,216 in administrative costs whose allocation to the cooperative agreement was not supported, direct JCM to develop and submit for approval an indirect cost proposal, or other allocation methodology, for the cooperative agreement period covering those costs that benefited more than one program or activity. Based on the results of the approved indirect cost rate or other allocation methodologies, recover the amount of any administrative costs that JCM overcharged the cooperative agreement.
2. Recover \$741 of unallowable religious activity costs from JCM.
3. Verify that JCM revised the video tape cited in Finding Number 2, and instruct JCM to ensure that any media it produces, such as videotapes or literature, that credits DOL as JCM's primary funding source and simultaneously includes religious references, includes language so that it is clear that DOL is not funding religious activities.

Agency Response

ILAB agrees with recommendations 1, 2, and 3.

JCM Response

JCM agrees with recommendations 1, 2 and 3.

OIG Conclusion

Recommendations 1 and 2 will be resolved through the audit resolution process. Recommendation 3 is resolved and will be closed when ILAB provides documentation that it notified JCM of the requirement in the ICLP Management and Procedures Guidelines to seek approval prior to the release of awareness raising materials produced with DOL funds.

⁴ Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations.

We recommend that the Deputy Under Secretary for International Labor Affairs direct JCM to take the following corrective action:

4. Review and become knowledgeable of OMB Circular A-122 principles, and develop and implement procedures and controls, or comply with existing procedures and controls, so that:
 - a. approval is obtained from ILAB before incurring costs for capital construction projects;
 - b. costs are adequately supported; and
 - c. costs are allocated to the benefiting programs, including the submission of an indirect cost proposal or other allocation methodology to DOL for approval.
5. Develop and implement procedures to ensure DOL funds are not used for religious activity costs.
6. Budget for all administrative costs and factor in Zambia's inflation rates.
7. Comply with the limits stated in the cooperative agreement concerning fund drawdowns.
8. Provide detailed quarterly expenditure reports so that responsible ILAB officials can compare the budgeted costs to actual expenses and significant variances are identified and appropriate action is taken.

Agency Response

ILAB agrees with recommendations 4, 5, 6, 7, and 8.

JCM Response

JCM agrees with recommendations 4, 5, 6, 7, and 8.

OIG Conclusion

Recommendation 4 is resolved and will be closed when ILAB provides documentation that it notified JCM of the requirement to comply with OMB Circular A-122 when the new cooperative agreement is awarded.

Recommendations 5 and 6 are resolved and closed.

Recommendation 7 is resolved and will be closed when ILAB provides documentation that it gave JCM on limits on drawdown of project funds when the new cooperative agreement is awarded.

Recommendation 8 is resolved and will be closed when ILAB provides documentation that it required JCM to provide detailed quarterly expenditures by budget line item as a special condition in the new cooperative agreement.



Elliot P. Lewis
May 20, 2005

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Exhibits

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EXHIBIT A

Schedule Of Questioned Costs		
<u>Cost Principles Not Followed</u>		
Construction Costs Not Approved	\$2,020	
Inadequate Supporting Documentation	3,733	
Costs Not Allocated	<u>151,216</u>	
Total		\$156,969
<u>Unallowable Costs Related to Religious Activities</u>		
Teachers' Salaries for Religious Education	\$741	
Total		741
TOTAL QUESTIONED COSTS		<u>\$157,710</u>

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EXHIBIT B

**Schedule Of Costs Tested For
Reasonableness, Allowability, and Allocability**

JESUS CARES MINISTRIES

Category	Amount Tested	Inadequate Support Documentation	Check Number
Strength (School Rent and Repairs)	\$10,501	\$210	661804
Professional Fees (Consulting, Legal, and Audit)	5,799	529	895447
Withdrawal (School Fees for Children)	2,968		
Insurance (Vehicle Insurance)	2,751	31	895533
Staff Compliments (Salaries and Wages)	2,056	275	882628
		217	661929
		159	895434
Uniforms (School Uniforms)	1,502		
Monitoring (Salary for Monitor)	1,465	1,465	97945
Motor Vehicle (Fuel, Repairs, and Insurance)	1,337	597	882653
Awareness (Outreach Preparations)	1,174		
Rent (Security of Main Office)	943		
General Administrative	296		
Income Skills (Skills for Training Parents)	165	165	756509
Equipment (Bicycle)	<u>85</u>	<u>85</u>	661956
Total	<u>\$31,042</u>	<u>\$3,733</u>	

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EXHIBIT C

Map of Zambia



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Appendices

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BACKGROUND

ILAB's Child Labor Education Initiative

From Fiscal Year 2001 through Fiscal Year 2005, appropriations for the Bureau of International Labor Affairs (ILAB) have included \$182 million to support international efforts to eliminate child labor through programs that will improve access to basic education in international areas with a high rate of abusive and exploitative child labor.

The overall purpose of DOL's Child Labor Education Initiative (EI) is to work toward the elimination of the worst forms of child labor through the provision of basic education. In addition to providing direct education and training opportunities to working children and those at risk of engaging in exploitive work, EI projects support the following goals:

1. To raise awareness of the importance of education for all children and mobilize a wide array of actors to improve and expand education infrastructures.
2. To strengthen formal and transitional education systems that encourage working children and those at risk of working to attend schools.
3. To strengthen national institutions and policies on education and child labor.
4. To ensure the long-term sustainability of these efforts.



Stone Crushing

Jesus Cares Ministries

JCM was registered in 1996 in Zambia under their Social Societies Act as a community-based non-governmental organization with a vision to uplift the living standards and protect the rights of vulnerable children. In September 2002, ILAB awarded JCM a cooperative agreement based on a DOL competitive procurement. The effective period of the cooperative agreement was from September 1, 2002, through August 27, 2006. ILAB's Education Initiative funds the agreement, originally limited to \$553,000. On January 2, 2003, the cooperative agreement was increased to \$652,000 to fund additional activities, services, equipment, and supplies deemed essential for project success in achieving its stated goals, purpose, and objectives. JCM's goal in the cooperative agreement was to serve 2,040 children. In January 2005, JCM reported to ILAB that they served 2,747 children.⁵

JCM's goals for the cooperative agreement consists of: (1) Making parents, teachers, and community members aware of the importance of education and the negative effects of child labor; (2) Strengthening transitional education systems; (3) Sensitizing national institutions that make policy on child labor and education; and (4) Sustaining the JCM vulnerable children program on a long term basis. To achieve these goals, JCM uses ILAB's Education Initiative funds to operate eight transitional schools in the Copperbelt Province, Eastern Province, and Lusaka Province. (See Exhibit C for a map of Zambia.)



Students in front of JCM school

Zambia

In the early 1890s, the British South Africa Company (BSAC) laid claim to the land currently occupied by Zambia, located in the sub-Saharan region of Africa, for mining

⁵ Our audit did not include participant eligibility or reported performance data and outcomes; therefore, this number was not audited.

enterprises. The British Government backed BSAC in 1895 to combat slavery and prevent Portuguese expansion in the region. The colony was put under direct British control in 1924. Upon independence in October 1964, the name was changed to the Republic of Zambia.

The economic and health statistics of Zambia depict a harsh life. The life expectancy is only 40 years old. Approximately 17 percent of the 11.3 million population is infected with AIDS. Half of the children under the age of 16 have lost at least one parent to the AIDS epidemic.

As of 2000, it was estimated that the unemployment rate was 50 percent. Of those employed, 85 percent work in agriculture. The monthly average wage rate for skilled workers is \$60 US and \$25 US for unskilled laborers. Inflation from 2000 to 2003 fluctuated from a high of 32 percent (2000) to a low of 17 percent (2003).

Zambia's culture is very religious. Between 50 to 75 percent of its population is Christian, predominately Catholic. The remaining 25 to 50 percent practice either Muslim, Hindu, or indigenous beliefs. The preamble to Zambia's Constitution declares Zambia as a Christian nation. According to U.S. Embassy officials, Zambian law requires public school children to attend Christian religious training.

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APPENDIX B

OBJECTIVES, SCOPE, METHODOLOGY, AND CRITERIA

Objectives

The purpose of our audit was to obtain answers to concerns ILAB had regarding JCM's administration of the cooperative agreement. Specifically, our objectives were:

1. Did JCM obtain approval from ILAB for program funds used for building construction?
2. Did JCM use program funds for religious activities?
3. Does JCM have adequate funding to sustain the program through the cooperative agreement period?

In addition to ILAB's concerns, we also wanted to review additional costs to determine if JCM used program funds in accordance with Office of Management and Budget (OMB) Circular A-122 cost principles. OMB Circular A-122 establishes the principles for determining costs of grants, contracts, and other agreements with nonprofit organizations.

Scope

The scope of the audit was the cooperative agreement entitled "Combating Child Labor Through Education" that ILAB awarded to JCM. Our audit covered expenditures and activities for the period September 1, 2002, to August 31, 2004. Our audit did not include participant eligibility or JCM's reported performance data and outcomes.

Because our objective was limited to the three issues identified by ILAB and our concern about additional costs, we determined if JCM established written policies and procedures that addressed the internal controls related to our objectives. We performed limited testing of JCM's internal controls, as they related to our objectives. We reviewed a sample of expenditures to determine if they were allowed, authorized, approved, and supported. We also reviewed controls relating to the preparation of the budget. We do not provide any assurances over the extent to which internal controls were properly designed or operating in JCM other than those we tested. The testing we performed is described in the following section.

We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States, and included such tests, that we considered necessary to satisfy the objectives of the audit.

Methodology

We conducted audit fieldwork between September 13, 2004, and May 20, 2005. To accomplish our objectives, we conducted interviews with ILAB and JCM staff, affiliated parties, and US Embassy officials. We reviewed materials related to project implementation and observed off-site operations that were instrumental to meeting cooperative agreement requirements.

We performed audit work at JCM headquarters located in Lusaka, Zambia from September 13, 2004 to September 24, 2004. We also visited four of the eight schools operated by JCM: Mtendere, Nsanjika, Chiparamba, and Kagoro.

To determine if expenses charged to the cooperative agreement met OMB Circular A-122 cost principles, we reviewed all the construction costs because these costs were a specific concern of ILAB. We also tested a sample of non-construction expenditures. To test construction costs, we examined vouchers, general ledgers, and supporting documentation, including invoices. We tested 100 percent of the \$11,713 of construction costs to confirm costs charged to the cooperative agreement. We reviewed the general ledger for posting to other accounts to determine if JCM charged any construction costs to other accounts. In addition, we performed a physical observation of the construction work performed at four of the six schools that had recorded construction costs. The four schools were judgmentally selected based on location and the amount of construction costs at the school. To test nonconstruction costs, we traced our judgmental sample of expenditures to the general ledger and examined supporting documentation including vouchers and invoices and charges. We tested 34 invoices and charges totaling \$31,042, or 6 percent, of the \$560,559 reported costs charged to the cooperative agreement as of August 31, 2004. Our judgmental sample consisted of transactions that were high-risk based on the dollar value or appeared to contain elements of risk based on the purpose or payee.

To test whether any costs charged were for religious activities, we examined vouchers, general ledger accounts, and supporting documentation. Through observations, we identified materials with religious references including the videotape, a newsletter, T-shirts, and other items of clothing. We identified general ledger accounts that potentially included posting of these and other religious costs, such as school materials, billboards, and flyers. We judgmentally selected invoices totaling \$22,729 from these accounts totaling \$27,331, examined the invoice, and using auditor judgment, determined if the costs were related to religious activities or purchases. In addition, we visited schools and interviewed teachers to determine the amount of time teachers spent teaching religion. Using an employee roster, salary schedule, and results of our interviews, we calculated the total amount of teachers' salary for religious instruction during the audit period.

We interviewed appropriate officials from JCM to determine their role within the organization and actions taken to support sustainability of the program. We compared

JCM's budget to actual expenses as of August 31, 2004, to compute the remaining funding by budgeted line item.

We did not review participant files to determine if there was adequate documentation to support eligibility, services received, or outcomes obtained. Therefore, we cannot report on eligibility, services delivered, or outcomes obtained. However, we discuss with ILAB officials their review of performance and outcome data.

We performed audit work subsequent to our visit to JCM in Zambia. During the period January 19, 2005 through May 20, 2005, we obtained additional information from JCM officials on budgeted line items and clarification of administrative costs items. We also discussed with ILAB officials the adequacy of monitoring reports, JCM's funding status, and plans for providing additional funding. ILAB officials provided us revised policies and procedures for administering and monitoring their grants and cooperative agreements. Finally, we consulted with OIG legal counsel regarding religious activity costs.

Criteria

We used the following criteria to accomplish our audit:

- Cooperative Agreement Solicitation, Cooperative Agreement, and all Modifications
- U.S. Constitution's First Amendment
- Uniform Administrative Requirements:
29 CFR part 95, for Institutions of Higher Education, Hospitals and other Non-Profit Organizations, effective July 27, 1994
- OMB Circular A-122,
Cost Principles for Non-Profit Organizations dated June 1, 1998 and May 10, 2004.

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ACRONYMS AND ABBREVIATIONS

CFR	Code of Federal Regulations
DOL	United States Department of Labor
FY	Fiscal Year
ILAB	Bureau of International Labor Affairs
ILO	International Labor Organization
IPEC	International Program on the Elimination of Child Labor
JCM	Jesus Cares Ministries
OIG	Office of Inspector General
OMB	Office of Management and Budget

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AGENCY RESPONSE TO DRAFT REPORT

U.S. Department of Labor

Bureau of International Labor Affairs
Washington, D.C. 20210



August 9, 2005

MEMORANDUM FOR ELLIOT P. LEWIS

Assistant Inspector General for Audit

FROM:

Martha Newton

Acting Deputy Under Secretary

SUBJECT:

Response to Draft Audit Report: Jesus Cares Ministries
Report Number: 03-05-001-01-070

I would first like to note my appreciation to the Office of the Inspector General (OIG) for agreeing to undertake this audit and for the thoroughness and professionalism of the audit team that developed the Jesus Cares Ministries (JCM) audit report.

The Bureau of International Labor Affairs (ILAB) is committed to ensuring that all recipients of contracts, grants and cooperative agreements awarded by the Bureau adhere to U.S. Government regulations. ILAB has made it a priority to award cooperative agreements through competitive procurement processes. We have sought to encourage a broad range of organizations to participate in our procurement competitions, including local and faith-based organizations in the countries where our projects are to be implemented. To ensure that organizations less familiar with U.S. Government regulations adhere to these requirements, ILAB provides various forms of technical assistance to the organizations implementing DOL-funded cooperative agreements to build their capacity. ILAB also monitors its grantees closely throughout the life of the project. It was this commitment to proper oversight that led us to seek the assistance of the OIG to investigate various areas of concern we had with respect to this grantee.

In response to the audit team's recommendations, ILAB intends to work with the Grant Officer and grantee in the following ways:

Recommendation # 1:

- Recovery of \$5,753 in construction costs for which JCM should have obtained prior approval from ILAB and costs not adequately documented: ILAB's Grants Officer's Technical Representative (GOTR) has reviewed the nature of the \$2,020 in construction costs incurred by JCM as explained in the audit report and assessed the likelihood that ILAB would have approved or not approved such costs had JCM sought prior approval. Based on the information provided to date by the auditors, ILAB would have approved these costs, but we will consider JCM's response to the audit report and OIG's conclusions in the final audit report in finalizing our position in conjunction with the Grant Officer. The construction was necessary to expand JCM's

capacity to serve additional children in Nsanjika where the Zambian Ministry of Education's building currently used by the grantee can no longer accommodate both organizations' programs. With respect to the \$3,733 in costs not adequately supported by documentation, the Grant Officer will request that JCM submit invoices, receipts or other documentation to resolve the questions raised by the auditors and will reiterate to JCM the requirements for documenting all expenses charged to the grant. ILAB will review any additional documentation submitted by the grantee for acceptability and DOL will seek to recover any costs that cannot be adequately supported.

- Recovery of any administrative costs that JCM overcharged the cooperative agreement: ILAB is working with DOL's Division of Cost Determination and JCM to determine appropriate indirect cost rates for fiscal years 2002, 2003 and 2004. Once these indirect cost rates are determined, DOL will seek to recover from JCM any costs overcharged to the cooperative agreement.

Recommendation # 2:

- Recovery of \$741 of unallowable religious activity costs: ILAB has recommended to the Grant Officer that DOL seek to recover these costs.

Recommendation # 3:

- Revision of video tape: As recommended by the audit team, ILAB has worked with JCM to ensure that the video tapes in question are revised to remove any reference to USDOL. In its July 6, 2005 comments on the preliminary draft audit report, JCM advised that the video has been edited to remove the religious statements, and ILAB will request a copy to verify the revisions by August 12, 2005. When the new cooperative agreement is transmitted to the grantee, ILAB will remind JCM of the requirement, as stipulated in ICLP's Management and Procedures Guidelines, to seek USDOL's approval prior to the release of awareness raising materials produced with USDOL funds.

Recommendation # 4:

- Ensuring JCM's understanding of OMB Circular A-122: Guidance concerning compliance with OMB Circular A-122, including those requirements related to obtaining prior approval for construction costs, ensuring adequate support for costs, and allocating costs appropriately to benefiting programs, will be repeated in writing when the new cooperative agreement is transmitted to JCM.

Recommendation # 5:

- Develop and Implement Procedures Ensuring USDOL funds are not used for religious activities: The Management Procedures and Guidelines (MPG) for ILAB Cooperative Grant Agreements updated and reissued to all non-ILO grantees in June 2005, includes the following restrictions with respect to Inherently Religious Activities: "The U.S. Government is generally

prohibited from providing direct financial assistance for inherently religious activities. Federal funds provided under a USDOL-awarded Cooperative Agreement may not be used for religious instruction, worship, prayer, proselytizing or other inherently religious activities.” (See page 21 of attached copy of MPGs.) ILAB has also worked closely with JCM, in particular, to ensure that its staff is fully aware of restrictions related to the use of USDOL funds to support religious activities. ILAB has received assurances from JCM that it has taken steps to ensure that JCM adheres fully to U.S. Government regulations in this area in the future.

Recommendation # 6:

- Budgeting for administrative costs and factoring in Zambia’s inflation rates: ILAB has been actively working with JCM to ensure it understands and takes fully into account its administrative costs and the Zambian inflation rate when developing project budgets. We have requested additional information from JCM regarding the budget for the new cooperative agreement to ensure that the grantee has included a 5 percent contingency for inflation and the costs associated with Zambia’s Value Added Tax (VAT) in the development of the new project budget.

Recommendation # 7:

- Complying with limits on drawdowns of project funds: ILAB has discussed this issue with JCM and sent JCM written communications explaining ILAB’s expectations with respect to projects drawing down DOL-allocated funds at a pace in keeping with the overall strategy outlined in a grantee’s project document. This guidance will be repeated in writing when the new cooperative agreement is transmitted to JCM.

Recommendation # 8:

- Providing ILAB with detailed quarterly expenditure reports: ILAB intends to maintain close monitoring of JCM financial and technical reports to ensure JCM expends DOL-allocated funds in an appropriate way, in keeping with its cooperative agreement and U.S. government regulations. We will include a requirement for detailed quarterly expenditure reporting by budget line item as a special condition in the new JCM cooperative agreement. We have also requested OIG’s assistance in persuading OMB officials to increase the flexibility available to ILAB and other grantor agencies to obtain information to strengthen accountability for all grantees.

I would again like to note my appreciation to the OIG for its work on this audit of JCM. In terms of performance, ILAB has been impressed by the success that JCM has had in achieving its goal of providing assistance and educational opportunities to over 2,000 children engaged in or at-risk of involvement in the worst forms of child labor. Nevertheless, the findings and recommendations of the audit team reflect some

significant issues that need to be addressed. ILAB is committed to working with the grantee, the Grant Officer and the OIG to reach an appropriate resolution on each of these issues.

cc: V. Veatch (OASAM)
L. Harvey (OASAM)
M. Eugenio (ILAB)

Attachment (USDOL's Grantees' Management Procedures and Guidelines)

Use of DOL Funds for Religious Activities.

It is true that JCM was aware of the prohibition of using DOL funds for religious activities. However, JCM's understanding was narrow and erroneously limited the definition of religious activities to include evangelism, religious worship and prayer only. JCM did not know that religious education which is part of the education curriculum for Primary education was also forbidden. We would like #2 under results on page 4 to reflect this truth of lack of full understanding. As for the rest of the audit report we do agree to it.

JCM.

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JCM RESPONSE TO DRAFT REPORT

Jesus Cares Ministries International

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Provincial Offices:- Lusaka - Mtendere,
Kalingalinga, Kamanga, Chawama, George

Central: Kabwe, Nakoli
Eastern: Chipata, Katete, Kagoro
Copperbelt: Ndola, Kitwe, Chingola
Northern: Kasama, Lunte
Luapula: Mansa, Bangweulu
Cell: 097-82-03-22


August 16, 2005

Dear Mr. M. Elliott,

REF: - USE OF DEPARTMENT OF LABOR FUNDS FOR RELIGIOUS ACTIVITIES.

We wish to confirm that JCM was aware of the prohibition of using DOL funds for religious activities. However, JCM's understanding was narrow and erroneously limited on the definition of religious activities to include evangelism, religious worship and prayer only. JCM did not know that religious education which is part of the education curriculum for Primary education was also forbidden. We would like number 2 under results on page 4 to reflect this truth of lack of full understanding. As for the rest of the audit report we do agree to it.

Yours faithfully
JESUS CARES MINISTRIES


Godfrida Sumali (Mrs)
PROGRAMME DIRECTOR