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

Audit of

Indianapolis Private Industry Council

Welfare-to-Work Competitive Grant
Grant No. Y-6815-8-00-81-60
Interim Audit Period
July 1, 1998 through December 31, 2000

Audit Report No. 05-01-004-03-386
Date Issued: September 24, 2001

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Acronyms

CFR	Code of Federal Regulations
DOL	U.S. Department of Labor
ETA	Employment and Training Administration
OMB	Office of Management and Budget
IPIC	Indianapolis Private Industry Council
QFSR	Quarterly Financial Status Report
TANF	Temporary Assistance for Needy Families
WtW	Welfare-to-Work

Executive Summary

The U.S. Department of Labor, Office of Inspector General, has completed an interim financial and compliance audit of the $5,000,000 Welfare-to-Work (WtW) Competitive Grant awarded to the Indianapolis Private Industry Council (IPIC). The grant's original period of performance was July 1, 1998 through June 30, 2001. On July 16, 2001, the grant was extended until March 31, 2003. Our interim audit period was from July 1, 1998 through December 31, 2000. As of December 31, 2000, IPIC claimed $2,081,320 of expenditures in support of 405 WtW participants served. The cumulative Quarterly Financial Status Report (QFSR) is attached as Exhibit A.

The objective of this audit was to review the allowability of claimed cost and eligibility of WtW participants. The testing was not designed to express an opinion on the QFSR.

We identified five findings:

- During eligibility testing, we found one ineligible participant and one participant classified as a 70 percent participant who should have been classified as a 30 percent participant. The ineligible participant resulted in questioned costs of $5,374 and the misclassified participant resulted in improper classification of $3,858.

- In reviewing a claim submitted by one of IPIC's contractors, we noted that WtW costs for two participants, properly classified by IPIC as *Long-term Welfare Dependent (30%)*, were inaccurately assigned to *Hard-to-Employ (70%)* expenditure accounts. In total, $3,687 were misclassified.

- IPIC does not allocate WtW administrative and program expenditures to the 70 percent and 30 percent categories according to its cost allocation plan. As a result, the expenditures for *Required Beneficiaries (70% Minimum)*, per line 5a of the Quarterly Financial Status Reports, and *Other Eligibles (30% Maximum)*, per line 5b, are misstated.

- One contractor's invoice did not have supporting documentation. This resulted in $1,331 of unsupported expenditures.

- IPIC used the wrong indirect cost rates to calculate indirect costs. Indirect costs were overstated by $44,732.

We recommend that the Assistant Secretary for Employment and Training direct IPIC to:

- remove the ineligible participant from its participant database and disallow the costs of $5,374;

- adjust the participant database to reflect the participants' *Other Eligible (30%)* status and transfer $3,858 from the 70 percent to the 30 percent expenditure accounts;

- transfer misclassified participant costs of $3,687 from the 70 percent to the 30 percent expenditure accounts;

- follow its cost allocation plan to allocate expenditures to the 70 percent and 30 percent categories;

- obtain the necessary documentation to support a contractor's claim or disallow the $1,331; and

- adjust its overstated indirect costs by $44,732 to reflect the appropriate rates.

IPIC officials generally concurred with our findings but took exception to our recommendations concerning their cost allocation and indirect cost plans. Our findings and recommendations remain unchanged from our draft report. A complete copy of the response is attached as Appendix A.

Background

Objective of Welfare-to-Work

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 established the Temporary Assistance for Needy Families (TANF) program. The TANF provisions substantially changed the nation's welfare system from one in which cash assistance was provided on an entitlement basis to a system in which the primary focus is on moving welfare recipients to work and promoting family responsibility, accountability and self-sufficiency. This is known as the "work first" objective.

Recognizing that individuals in TANF may need additional assistance to obtain lasting jobs and become self-sufficient, the Balanced Budget Act of 1997 amended certain TANF provisions and provided for Welfare-to-Work (WtW) grants to states and local communities for transitional employment assistance which moves hard-to-employ TANF welfare recipients into unsubsidized jobs and economic self-sufficiency.

The Welfare-to-Work and Child Support Amendments of 1999 allow grantees to more effectively serve both long-term welfare recipients and noncustodial parents of low-income children.

Of the $3 billion budgeted for the WtW program in Fiscal Years 1998 and 1999, $711.5 million was designated for award through competitive grants to local communities.

Indianapolis PIC's Competitive Grant

On June 30, 1998, the IPIC received a 3-year WtW competitive grant in the amount of $5,000,000. The period of performance was July 1, 1998 through June 30, 2001. On July 16, 2001, the grant was extended until March 31, 2003, with no additional funding. Grant modifications also amended the number of participants from 750 to 625 and the indirect cost rate ceiling from 11 percent to 7 percent.

The purpose stated in the grant application was to place 750 welfare recipients in jobs in eight urban neighborhoods facing serious economic and social challenges.

Principal Criteria

In addition to the provisions of the Balanced Budget Act of 1997, the Department of Labor (DOL) issued regulations found in 20 CFR 645. Interim regulations were issued November 18, 1997. Final Regulations were issued on January 11, 2001, and became effective April 13, 2001. Also, on April 13, 2001, a new Interim Final Rule was effective, implementing the Welfare-to-Work and Child Support Amendments of 1999. This resulted in changes in the participant eligibility requirements, effective January 1, 2000, for competitive grants.

As a nonprofit entity, IPIC is required to follow general administrative requirements contained in Office of Management and Budget (OMB) Circular A-110, which is codified in DOL regulations in 29 CFR 95, and OMB Circular A-122 requirements for determining the allowability of costs.

Postaward Survey

In March 1999, we issued a report on the results of a postaward survey of 35 first-round competitive grantees. IPIC was included in that review. During this audit we followed up on the findings identified in the postaward survey. In general, based on our work, those findings have been adequately addressed.

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This report is intended for the information of the U.S. Department of Labor, Employment and Training Administration (ETA) and IPIC. However, upon issuance this report becomes a matter of public record and its distribution is unlimited.

Objective, Scope and Methodology

Objective

The objective of this audit was to review the allowability of claimed cost and eligibility of WtW participants.

Audit Scope and Methodology

Our interim audit included program activities that occurred from July 1, 1998 through December 31, 2000.

The extent of our audit testing was based on a vulnerability assessment of participant eligibility, financial management and selected categories of cost. We did not audit performance measurements.

We audited claimed expenditures totaling $2,081,320 reported on the QFSR of December 31, 2000 (Exhibit A). Using judgmental sampling techniques, we tested a limited number of transactions, including staff salaries and fringe benefits, other administrative expenditures, program costs and contractor costs. We reviewed indirect charges based on the approved indirect cost plan and the grant indirect cost ceiling. We examined allocations to the 70 percent and 30 percent cost categories. We also reviewed the grantee's procurement of contractors.

To test eligibility of the participants served, we created two universes of participants – those enrolled before January 1, 2000, and those enrolled January 1, 2000, and thereafter. Using judgmental sampling techniques, we selected 30 participants from each universe. As part of our eligibility determination, we reviewed the Eligibility Verification Forms provided by Indiana Family and Social Service Administration to determine whether each participant met TANF and/or Aid to Families with Dependent Children cash assistance requirements as of the date of WtW eligibility determination.

To accomplish the audit objectives, we interviewed grantee officials, and obtained and reviewed grantee policies and procedures, participant files, accounting records, and source documentation, such as contracts, invoices and payrolls to support claimed costs.

The results of our audit are listed in the Findings and Recommendations section, beginning on page 4.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted fieldwork from April 16, 2001 to June 15, 2001, at the IPIC's office.

Findings and Recommendations

1. Participant Eligibility

For our testing of eligibility, we judgmentally selected from a universe of 428[1] participants. There were 215 participants enrolled in WtW before January 1, 2000, and 213 participants enrolled January 1, 2000 through December 31, 2000. We selected a sample of 30 participants from each group. We tested 70 percent and 30 percent eligibility determinations made at enrollment. The eligibility testing revealed one ineligible participant and one misclassified participant.

A. Ineligible Participant

> Ineligible participant resulted in questioned costs of $5,374

We found one ineligible participant. The sampled participant, enrolled April 2000, was determined eligible by IPIC for assistance as a 70 percent noncustodial parent. After reviewing the WtW Eligibility Verification Form, we found the participant ineligible because:

1) the minor child and custodial parent were not eligible for, or receiving, TANF for at least 30 months; and
2) the minor child was not eligible for, or receiving, Food Stamps, Supplemental Security Income, Medicaid or the Children's Health Insurance.

Nevertheless, the participant was determined eligible and received WtW assistance from The Indiana Plan for Equal Employment, Inc., one of IPIC's contractors.

20 CFR Part 645.212(c) states in part:

> *(S)he is a noncustodial parent of a minor child if:*
>
> *. . . (2) At least one of the following applies:*
>
> > *(i) The minor child, or custodial parent of the minor child, meets the long-term recipient of TANF requirements . . .*

[1] IPIC's December 31, 2000 QFSR reported 405 participants. IPIC stated that some contractors were late in reporting 23 participants to IPIC as of December 31, 2000.

> *(ii)* *The minor child is receiving or is eligible for TANF benefits and services;*
> *(iii)* *The minor child received TANF benefits and services during the preceding year; or*
> *(iv)* *The minor child is receiving or eligible for assistance under the Food Stamp program, the Supplemental Security Income program, Medicaid, or the Children's Health Insurance Program. . . .*

We believe this was an error that went undetected during IPIC's review process. This error resulted in $5,374 being spent on an ineligible *Primary Eligible (70%)* participant.

Recommendation:

We recommend that the Assistant Secretary for Employment and Training:

1) direct IPIC to remove this participant from its participant database; and
2) disallow the costs of $5,374.

Grantee Response:

IPIC officials agree with this determination and will replace the one ineligible client with an eligible client from the same contracted client service provider.

Auditor's Conclusion:

We concur with this planned action and resolve this finding. However, our recommendation cannot be closed until the ETA verifies that IPIC has fully implemented the required corrective actions.

B. Misclassified Participant

Our eligibility testing also disclosed one participant who was not properly classified. The participant should have been classified as an *Other Eligible (30%)* participant but was entered into IPIC's WtW participant database as a *Primary Eligible (70%)* participant.

We noted that this participant's file contained the correct information even though the participant was misclassified in the database. IPIC stated that the misclassification was a data entry error.

Primary Eligible statistics and expenditures overstated

IPIC's misclassification overstated their accomplishments in the 70 percent category of participants served, while understating the results in the 30 percent category. The improper classification of costs caused the QFSR expenditure for each category to be misstated by $3,858.

Recommendation:

We recommend that the Assistant Secretary for Employment and Training direct IPIC to:

1) adjust the participant database to reflect the participant's *Other Eligible (30%)* status; and
2) transfer $3,858 from the 70 percent to the 30 percent expenditure accounts.

Grantee Response:

IPIC officials concur that the misclassified participant should have been classified as a 30 percent participant. The $3,858 will be transferred to the proper cost category.

Auditor's Conclusion:

We concur with this planned action. However, IPIC must also adjust the participant database before we can resolve this finding.

2. Misclassified Participant Costs

Our financial testing of IPIC's contractors' costs disclosed two participants whose program costs were not properly classified.

Primary Eligibles expenditures overstated

In reviewing a claim submitted by Crooked Creek Multi-Service Center, we noted that WtW costs for two participants, properly classified by IPIC as *Long-term Welfare Dependent (30%)*, were inaccurately assigned to *Hard-to-Employ (70%)* expenditure accounts.

This oversight by IPIC resulted in the QFSR expenditures being misstated by $3,687 in the 70 percent and 30 percent expenditure accounts.

Recommendation:

We recommend that the Assistant Secretary for Employment and Training direct IPIC to transfer $3,687 from the 70 percent to the 30 percent expenditure accounts.

Grantee Response:

IPIC officials concur that the misclassified participant should have been classified as 30 percent. IPIC will transfer the $3,687 to the proper cost category.

Auditor's Conclusion:

We concur with this planned action and resolve this finding. However, our recommendation cannot be closed until the ETA verifies that IPIC has fully implemented the required corrective actions.

3. Misallocated Expenditures

IPIC does not allocate WtW administrative and program expenditures to the 70 percent and to the 30 percent categories according to its cost allocation plan. As a result, the expenditures for *Required Beneficiaries (70% Minimum)*, per line 5a of the Quarterly Financial Status Reports (QFSR), and *Other Eligibles (30% Maximum)*, per line 5b, are misstated.

20 CFR 645.211 states in part:

> *An operating entity . . . may spend not more than 30 percent of the WtW funds allotted to or awarded to the operating entity to assist individuals who meet the "other eligibles" eligibility requirements. . . .*

All WtW expenditures, including expenditures that are not directly allocable, must be allocated to the 70 percent and to the 30 percent categories in some reasonable and consistent manner.

IPIC's cost allocation plan for the WtW program states that they will allocate administrative and program expenditures incurred by IPIC to the 70 percent and 30 percent categories based on the percentage of 70 percent and 30 percent program expenditures claimed by the contractors each month. Instead, IPIC merely allocated these expenditures based on the

70 /30 percent ratio and included them with the contractor costs on lines 5a and 5b of the QFSR.

Recommendation:

We recommend that the Assistant Secretary for Employment and Training direct IPIC to follow its cost allocation plan to allocate expenditures to the 70 percent and 30 percent categories. IPIC should recalculate the 70 percent and 30 percent allocations of IPIC administrative and program expenditures for each quarter, since inception of the grant, based on the percentage of 70 percent and 30 percent contractor expenditures reported by the contractors each month. The sum of these quarterly calculations for IPIC and contractor expenditures in the 70 percent and 30 percent categories should be reported on lines 5a and 5b of future QFSRs.

Grantee Response:

IPIC officials agreed that IPIC is not following its cost allocation plan for allocating administrative and program costs. IPIC stated:

> *If IPIC were to allocate both administrative and program costs based on the numbers of 70% and 30% participants served, the resulting allocation would be charged almost entirely to 70%, since IPIC serves very few 30% clients. Such an allocation would almost certainly be questioned by auditors and/or monitors as to its reasonableness. . . .*

IPIC concluded that its methodology is conservative, reasonable, and the most fair and equitable method possible.

Auditor's Conclusion:

We do not agree with IPIC officials. IPIC should follow their cost allocation plan regardless of the resulting ratio of costs. In addition, the OMB Circular A-122, Cost Principles for Non-Profit Organizations, requires that for grantee costs to be allowable, they must be allocated to the correct cost category. Paragraph A.2 states, in part:

> *To be allowable under an award, cost must meet the following general criteria:*
>
> *a. Be reasonable for the performance of the award and be allocable thereto under these principles.*

> b. *Conform to any limitations or exclusions set forth in these principles in the award as to types or amount of cost items.*

Further, Paragraph 4.a states, in part:

> *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.*

Therefore, this finding will remain unresolved until IPIC agrees to apply its cost allocation plan to the expenditures.

4. Unsupported Claimed Cost

We selected a judgmental sample of 24 administrative and program costs transactions. As a result of this testing, we noted that one invoice did not have supporting documentation.

> Unsupported expenditure resulted in questioned cost of $1,331

One of IPIC's contractors, The Indiana Plan for Equal Employment, Inc., submitted a claim itemizing the expenses of a conference. The claim was for a conference in Dallas which the contractor indicated was attended from November 11-18, 1999.

Although no receipts accompanied the claim, the contractor's claim was paid. 29 CFR 95.21 *Standards for financial management systems,* states in part:

> *. . . (b) Recipients' financial management systems shall provide for the following:*
>
> > *. . . (7) Accounting records including cost accounting records that are supported by source documentation.*

This oversight by IPIC resulted in $1,331 of unsupported expenditures. The exact breakdown of this IPIC administrative expenditure into the 70 percent and 30 percent categories cannot be determined until the calculation recommended in Finding Number 3 above is completed by IPIC.

<u>Recommendation</u>:

We recommend that the Assistant Secretary for Employment and Training direct IPIC to obtain the necessary documentation in support of this claim or disallow the $1,331.

Grantee Response:

IPIC officials stated they will seek adequate documentation or disallow this expense.

Auditor's Conclusion:

We concur with this planned action and resolve this finding. However, our recommendation cannot be closed until the ETA verifies that IPIC has fully implemented the required corrective actions.

5. Indirect Costs Overstated

IPIC used the wrong indirect cost rates to calculate indirect costs.

Indirect costs overstated by $44,732

The initial grant document, dated June 30, 1998, provided for an Indirect Cost Rate ceiling of 11 percent. The grant document was modified on November 28, 2000, to limit the ceiling to 7 percent for the entire grant period. However, on June 5, 2001, IPIC signed a negotiated Indirect Cost Rate Agreement with DOL, its cognizant agency. As a result, the applicable rates for the grant period, are as follows:

Rate Type	Period	Agreement Rate	Ceiling in Grant	Applicable Rate
Final	7/1/98 - 6/30/99	7.47%	7.00%	7.00%
Final	7/1/99 - 6/30/00	6.00%	7.00%	6.00%
Provisional[2]	7/1/00 - 6/30/02	6.00%	7.00%	6.00%

Nevertheless, IPIC used indirect cost rates for these periods based on actual indirect costs incurred. We computed the applicable rates and compared the indirect costs with the amounts claimed to show the amount overstated, as follows:

[2] Subject to final rate.

Base	Rate Used	Claimed Costs	Applicable Rate	Costs, Per Audit	Adjustment Required
6/30/99					
$238,297	9.49%	$22,621	7.00%	$16,681	$5,940
6/30/00					
$1,230,215	6.57%	$80,859	6.00%	$73,813	$7,046
12/31/00					
$450,549	13.05%	$58,779	6.00%	$27,033	$31,746
Total					$44,732

Recommendation:

We recommend that the Assistant Secretary for Employment and Training direct IPIC to adjust its overstated indirect costs by $44,732 to reflect the appropriate rates.

Grantee Response:

IPIC officials disagree with OIG's assertion that IPIC used the wrong indirect cost rate to calculate indirect costs and overstated indirect costs by $44,732. IPIC stated:

> *The sole purpose for including this percentage is to present the average percent of indirect costs that are projected to be charged to its programs in total, to provide a test of reasonableness to our cognizant agency, i.e. DOL. The rate was never intended as a cap for any given program.* (See Appendix A)

Auditor's Conclusion:

We do not agree with IPIC officials. Our calculation of $12,986 overstated indirect costs for the periods ending June 30, 1999 and June 30, 2000, is based on the final DOL approved rates. However, the grant has a ceiling of 7 percent, which restricts the application of indirect costs for the period ending June 30, 1999. For the period ending December 31, 2000, our calculation of $31,746 overstated indirect costs is based on the provisional rate of 6 percent. We accept that this rate may change when final costs are submitted and the indirect cost rate is finalized. However, indirect costs would be limited to the 7 percent ceiling in the grant. The calculation of overstated indirect costs for the

6 months ending December 31, 2000, will be considered by the grant officer once a final approved indirect cost rate has been negotiated. Our finding remains unchanged.

Exhibit A

U. S. DEPARTMENT OF LABOR - Employment and Training Administrative
WTW COMPETITIVE GRANT
Cumulative Quarterly Financial Status Report - ETA 9068-1

GRANT NO. Y68158008160 **REPORTING PERIOD** 12/31/2000 **Date Submited** 02/02/2001

Reporting Grantee Information

Grantee Name: INDIANAPOLIS PRIVATE INDUSTRY COUNCIL

Address: 17 WEST MARKET ST, SUITE 500

City: INDIANAPOLIS State: IN Zip: 46204

Grantee Contact Information

Contact Name: Connie J. Markwell Ahlers

Address: 17 WEST MARKET ST., SUITE 500

City: INDIANAPOLIS State: IN Zip: 46204

Phone: 317-684-2313

FY 1998

Section I. GRANT TOTAL

1. Federal Grant	5000000
2. Federal Expenditures	2081320
3. Federal Administrative Expenditures (15% Max)	335226
4. Federal Technology/Computerization Expenditures	0
5. Expenditures for:	
a. REQUIRED BENEFICIARIES (70% Minimum)	1647740
b. OTHER ELIGIBLES (30% Maximum)	433580
6. Unliquidated Obligations	0

Section II. EXPENDITURES BY ACTIVITY

7. Community Service	0
8. Work Experience	36393
9. Job Creation Employement Wage Subsidies	
a. Public	0
b. Private	0
10. On-the-Job Training	3034
11. Job Readiness Services	
a. Vouchers	0
b. Contracts	795973
12. Job Placement Services	
a. Vouchers	0
b. Contracts	151588
13. Post Employment Services	
a. Vouchers	0
b. Contracts	74592
14. Job Retention Services and Support Services	211628
15. Intake, Assessment, Eligibility Det. & Case Mgmt.	472886
16. Total	1746094

Section III. FEDERAL PROGRAM INCOME

17. Earned	0
18. Expended	0

Section IV. FEDERAL PARTICIPANT SUMMARY

19. Total Participants Served	
(1) Required Beneficiaries (70% of $ Minimum)	298
(2) Other Eligibles (30% of $ Maximum)	107
20. Total Participants Terminated	
(1) Required Beneficiaries (70% of $ Minimum)	18
(2) Other Eligibles (30% of $ Maximum)	20
21. Place in Unsubsidized Employment	
a. Great than or Equal to 30 Hours Per Week	164
b. Less than 30 Hours Per Week	1
22. Employed In Unsubsidized Employement When Entering WtW	
a. Great than or Equal to 30 Hours Per Week	38
b. Less than 30 Hours Per Week	15
23. Placed In Subsidized Employement	
a. Great than or Equal to 30 Hours Per Week	281
b. Less than 30 Hours Per Week	0
24. Retained 6 mos (2 qtrs) in Unsubsidized Employement	45
25. Earnings gained in 6 mos (2 qtrs) following Placement in Unsubsidized Employement	
a. Sum of Earnings of those Retained In 2nd Subsequent Qtr. (2nd Qtr. following Base Qtr.)	
b. Sum of Earnings of Same Group in Base Qtr.	

Section V. REMARKS

Grantee's Remarks:

Remark by ETA:

ETA Accept By bdale

ETA Accept On 03/01/2001

Appendix A

Indianapolis Private Industry Council

Response to Draft Report

PRIVATE INDUSTRY COUNCIL
INDIANAPOLIS
The Workforce Investment Board for Marion County

The Indianapolis Private Industry Council is a business-led organization serving as advisor, advocate and agenda setter for workforce development by integrating resources and leveraging funding based on the needs of employers and job seekers.

September 7, 2001

Mr. Preston Firmin
Regional Inspector General for Audit
Office of Inspector General
230 South Dearborn Street
Chicago, Illinois 60604

Dear Mr. Firmin:

Please find enclosed the Indianapolis Private Industry Council's written response to the Office of the Inspector General's interim financial and compliance audit. Please include this response, along with your office's evaluation, in the final report your office will soon issue.

The Indianapolis Private Industry Council takes our fiduciary responsibilities very seriously as documented by our outstanding audit record to date. In that spirit we take comfort in substantially agreeing with your office's report.

Should any questions or follow-up be appropriate please call me at 317-684-2313.

Sincerely,

Domenick Jervis

Domenick Jervis
Accounting Manager

Enclosure

Cc: Kelley D. Gulley
Thomas Orr
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PRIVATE INDUSTRY COUNCIL
INDIANAPOLIS
The Workforce Investment Board for Marion County

The Indianapolis Private Industry Council is a business-led organization serving as advisor, advocate and agenda setter for workforce development by integrating resources and leveraging funding based on the needs of employers and job seekers.

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RESPONSE TO THE OFFICE OF INSPECTOR GENERAL

The Office of Inspector General (OIG) has completed an interim financial and compliance audit of the $5,000,000 WtW Competitive Grant awarded to IPIC identifying five reportable conditions. IPIC is in substantial agreement with the first four, but contests the fifth condition, that IPIC used the wrong indirect cost rates. Each of these cited conditions is addressed below.

OIG recommends that the Assistant Secretary for Employment and Training direct IPIC to:

Condition 1: **remove the ineligible participant from its participant database and disallow the costs of $5,374.** We agree with this determination and will replace this one ineligible client with an (unbilled) eligible client from the same contracted client service provider.

Condition 2: **adjust the participant database to reflect the participants' Other Eligible Status and transfer $3,858 from the 70 percent to the 30 percent expenditure accounts. Transfer misclassified participant costs of $3,687 from the 70 percent to the 30 percent expenditure accounts.** In total, three clients were found to be misclassified as 70 percent participants when, in fact, they should have been classified as 30 percent participants. This resultant expense of $7,545 will be transferred to the proper cost category.

Condition 3: **follow its cost allocation plan to allocate expenditures to the 70 percent and 30 percent categories.** If IPIC were to allocate both administrative and program costs based on the numbers of 70% and 30% participants served, the resulting allocation would be charged almost entirely to 70%, since IPIC serves very few 30% clients. Such an allocation would almost certainly be questioned by auditors and/or monitors as to its reasonableness, especially as it would pertain to administrative expenses.

In summary, IPIC's methodology for allocating these expenses is conservative, reasonable, and the most fair and equitable method possible.

Condition 4: **obtain the necessary documentation to support a contractor's claim or disallow the $1,331.** We concur and will seek adequate documentation or disallow this expense.

Condition 5: **adjust its overstated indirect costs by $44,732 to reflect the appropriate rates.**
We disagree with the OIG's assertion that IPIC has, "used the wrong indirect cost rate to calculate indirect costs" and "overstated indirect costs by $44,732". However, we

understand why there may have been some confusion concerning our approach. IPIC is in the process of striking the provisional rate from our cost allocation methodology for the current year. While the provisional rate cannot be "withdrawn" from past fiscal years, the same interpretation may be applied.

IPIC uses a DOL-approved methodology to allocate, on a monthly basis, its indirect administrative costs (IACs) and indirect program costs (IPCs). IACs are allocated to grants based on percentages of total direct costs charged to each grant within the given month. IPCs are allocated based on the number of participants within each program as of the end of the given month.

When IPIC has applied for an indirect cost rate, we have included a detailed narrative describing the specific steps taken to allocate IACs and IPCs. After the narrative, IPIC estimates both indirect and direct costs for the upcoming year. The indirect costs are then divided by the direct costs, resulting in a percentage. The sole purpose for including this percentage is to present the average percent of indirect costs that are projected to be charged to its programs in total, to provide a "test of reasonableness" to our cognizant agency, i.e. DOL.

The rate was never intended as a "cap" for any given program. Using it for this purpose would virtually guarantee that the percentage could never be recovered in total. Using the OIG auditors' methodology, the indirect costs to be charged to any program within any given month could never be more than 6% of the direct costs, regardless of the direct administrative costs or number of participants within each program. Any program in which the correct amount of allocable costs would be higher than 6% would simply have to be absorbed by a non-federal funding source. Any program in which the correct amount of allocable costs would be less than 6% would receive only the amount due to it. Such a program could not be allowed to recoup any additional indirect costs in order to compensate for a program barred

from recovering indirect costs in excess of 6%. As a result, using the OIG's methodology, it would be virtually impossible for IPIC to ever fully recover 6% of its direct costs via the allocation process. This is not, and has never been, the intention of the indirect cost methodology.
Given IPIC's methodology, which the OIG auditors have not deemed inappropriate, it is apparent that the IACs and IPCs to be allocated among IPIC's various programs in any given month are "at the mercy" of the total administrative costs incurred by IPIC within each program, and the number of participants in each program at the end of the given month. Constraining each and every program within the allocation process to 6% is not correct, it is not fair, and it is non-compliant with our DOL-approved methodology.

<u>In order to eliminate confusion now and in the future, IPIC has asked DOL to remove the provisional rate of 6% from its indirect cost allocation proposal.</u> IPIC anticipates that, this request will be approved. Upon such approval, the OIG report cite for the time period ending 12/31/00, in the amount of $31,746, will then become moot. Given that the indirect cost allocation methodology for the time periods ended 6/30/99 and 6/30/00 is essentially the same as for the period ending 12/31/00, we ask for a determination that the overriding criterion for IPIC indirect cost allocation procedure be the approved methodology, noting that the resulting percentage is merely provided as a test of reasonableness based on projected direct and indirect expenses.

In summary, IPIC's streamlined method of allocating indirect costs is in full compliance with procedures as prescribed by DOL, and repeated approvals of our applications by that agency stand in support of our statement.