

**AUDIT OF
THE NATIONAL COUNCIL
ON THE AGING, INC.**

**Grant No. D-6134-7-00-81-55
July 1, 1997 through August 31, 1998**

**Grant No. D-6635-8-00-81-55
July 1, 1998 through June 30, 1999**

REPORT NO: 02-02-202-03-360
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TABLE OF CONTENTS

	<u>PAGE</u>
ACRONYMS	i
EXECUTIVE SUMMARY	1
INTRODUCTION	
BACKGROUND	3
AUDIT OBJECTIVE	4
AUDIT SCOPE AND METHODOLOGY	4
DEPUTY INSPECTOR GENERAL'S REPORT	5
FINDINGS AND RECOMMENDATIONS	8
EXHIBITS	
A FINANCIAL STATUS REPORTS, GRANT NOS. D-6134-7-00-81-55 AND D-6635-8-00-81-55	18
B SCHEDULE OF REPORTED AND QUESTIONED DIRECT COSTS JULY 1, 1997 THROUGH AUGUST 31, 1998	19
C SCHEDULE OF REPORTED AND QUESTIONED DIRECT COSTS JULY 1, 1998 THROUGH JUNE 30, 1999	20
D SCHEDULE OF REPORTED AND QUESTIONED INDIRECT COSTS JULY 1, 1997 THROUGH AUGUST 31, 1998	21
E SCHEDULE OF REPORTED AND QUESTIONED INDIRECT COSTS JULY 1, 1998 THROUGH JUNE 30, 1999	22
APPENDICES	
A NATIONAL COUNCIL ON THE AGING RESPONSE TO DRAFT REPORT - SEPTEMBER 4, 2001	23
B NATIONAL COUNCIL ON THE AGING RESPONSE TO DRAFT REPORT - OCTOBER 11, 2001	27

ACRONYMS

BOSS	Business Outreach Software System
CFR	Code of Federal Regulations
DES	Arizona Department of Economic Security
DOL	U.S. Department of Labor
EPA	Environmental Protection Agency
ETA	Employment and Training Administration
FSR	Financial Status Report
FY	Fiscal Year
G&A	General and Administrative
MFR	Monthly Financial Report
NCOA	The National Council on the Aging, Inc.
NYCDFTA	New York City Department for the Aging
OAA	Older Americans Act of 1965
OASAM	Office of the Assistant Secretary for Administration and Management
OIG	Office of Inspector General
OMB	Office of Management and Budget
SCSEP	Senior Community Service Employment Program

EXECUTIVE SUMMARY

The U.S. Department of Labor (DOL), Office of Inspector General (OIG), conducted an audit of costs claimed by The National Council on the Aging, Inc. (NCOA) under contracts D-6134-7-00-81-55 and D-6635-8-00-81-55 for the periods July 1, 1997 through August 31, 1998, and July 1, 1998 through June 30, 1999, respectively. The audit objective was to determine if costs claimed were reasonable, allocable and allowable in accordance with applicable Federal regulations, and Office of Management and Budget (OMB) Circular A-122, Cost Principles for Non-Profit Organizations.

NCOA was established in 1950 as a nonprofit education and research organization focused on improving the quality of life for older Americans. During FYs 1998 and 1999, NCOA had total revenues of \$51 million and \$50 million, respectively. Of these amounts, approximately \$40 million was provided annually by DOL to administer the Senior Community Service Employment Program (SCSEP) under Title V of the Older Americans Act (OAA). The purpose of SCSEP is to provide useful part-time community service assignments for persons who are 55 years or older with incomes at or below 125 percent of the Federal poverty guideline while promoting transition to unsubsidized employment.

Audit Results

In our opinion, except for questioned costs, the *Financial Status Reports* (Exhibit A) for Grant No. D-6134-7-00-81-55 (July 1, 1997, through August 31, 1998), and Grant No. D-6635-8-00-81-55 (July 1, 1998, through June 30, 1999) present fairly, in all material respects, the results of NCOA's operations in accordance with applicable Federal regulations, and OMB Circular A-122, Cost Principles for Non-Profit Organizations. The audit resulted in questioned direct costs of \$580,955 for FYs 1998 and 1999:

<u>Grant No.</u>	<u>Period</u>	<u>Reported</u>	<u>Questioned</u>	<u>Per Audit</u>
D-6134-7-00-81-55	7/1/1997 - 8/31/1998	\$39,829,444	\$516,652	\$39,312,792
D-6635-8-00-81-55	7/1/1998 - 6/30/1999	<u>\$39,755,191</u>	<u>64,303</u>	<u>39,690,888</u>
Total		<u>\$79,584,635</u>	<u>\$580,955</u>	<u>\$79,003,680</u>

Questioned direct costs of \$580,955 are summarized below:

- ! Administrative costs exceeded the statutory administrative ceiling by \$235,737.
- ! NCOA did not provide documentation to support \$136,589 paid to vendors.

- ! We question \$155,616 of costs, primarily due to expensed equipment that should have been capitalized, and other unallowable costs.
- ! We question \$53,013 of general and administrative (G&A) and subcontract administration costs associated with above questioned costs.

In addition, we questioned \$26,919 of indirect costs, due to missing documentation, unexplained travel, and unallowable gifts and alcoholic beverage costs. As a result, the proposed indirect cost rates should be reduced from 10.13 percent to 10.08 percent for Grant No. D-6134-7-00-81-55 and from 8.43 percent to 8.35 percent for Grant No. D-6635-8-00-81-55.

NCOA Response

The President and CEO responded to our draft report on September 4, 2001, and October 11, 2001. He agreed with questioned costs of \$135,539 for capitalization, subgrantee costs, unallocable costs, and associated G&A costs. However, he disagreed with questioned costs of \$445,416.

Based on the additional documentation provided by NCOA, we have reduced questioned direct costs by \$4,433,037 and indirect costs by \$6,269 as presented in the draft report. NCOA's response to the draft report has been incorporated in the report with our comments. It is also included in its entirety as an Appendix.

Recommendations

We recommend that the Assistant Secretary for Employment and Training:

1. Recover \$580,955 of questioned direct costs.
2. Require NCOA develop procedures to allocate costs between enrollee and administrative categories based upon benefits received and maintain documentation for procurements in excess of \$25,000.

We also recommend that the Director of the Office of Cost Determination (OCD), Office of the Assistant Secretary for Administration and Management (OASAM), ensure that NCOA applies the revised indirect cost rates of 10.08 percent for Grant No. D-6134-7-00-81-55, and 8.35 percent for Grant No. D-6635-8-00-81-55, and amends its billings accordingly.

INTRODUCTION

BACKGROUND

As authorized by Title V of the OAA, SCSEP fosters and promotes useful part-time opportunities in community service activities for persons with low incomes who are 55 years old or older. The Employment and Training Administration (ETA) administers the program by grant agreements with eligible organizations, such as governmental entities and public and private non-profit agencies and organizations.

NCOA was established in 1950 as a nonprofit education and research organization focused on improving the quality of life for older Americans. NCOA has two affiliates, the National Council on the Aging Foundation, Inc., and the National Council on the Aging Development Corporation. During FYs 1998 and 1999, NCOA had total revenues of \$51 million and \$50 million, respectively. Of these amounts, approximately \$40 million was provided annually by DOL to administer SCSEP. Other Federal funding sources include the Environmental Protection Agency, Department of Health and Human Services, and Department of Education.

For grant numbers D-6134-7-00-81-55 and D-6635-8-00-81-55, NCOA proposed indirect cost rates of 10.13 and 8.43 percent, respectively, to be applied to total direct costs (excluding subgrantee/subcontract costs and including fringe benefits on direct labor), as shown below:

	Grant No. D-6134-7-00-81-55	Grant No. D-6635-8-00-81-55
Indirect Costs Pool (Exhibits D & E)	<u>\$1,922,493</u>	<u>\$1,937,316</u>
Distribution Base:		
Total Direct Costs ¹	\$46,592,531	\$46,144,195
Add: Fringe Benefits on Direct Labor	1,571,339	1,558,959
Less: Subgrantee/Subcontract Costs	<u>(29,181,125)</u>	<u>(24,716,238)</u>
Distribution Base	<u>\$18,982,745</u>	<u>\$22,986,916</u>
Indirect Cost Rate Percentage	10.13	8.43

¹ Total direct costs includes costs from DOL, other Government agencies and non-government activities.

AUDIT OBJECTIVE

The audit objective was to determine if costs claimed under Grant No. D-6134-7-00-81-55, for the period July 1, 1997 through August 31, 1998, and Grant No. D-6635-8-00-81-55, for the period July 1, 1998 through June 30, 1999, were reasonable, allocable and allowable in accordance with the Code of Federal Regulations (CFR) Title 20 Part 641, Senior Community Service Employment Program and OMB Circular A-122, Cost Principles for Non-Profit Organizations.

AUDIT SCOPE AND METHODOLOGY

We audited NCOA's costs of \$39,829,444 claimed under Grant Number D-6134-7-00-81-55 for the period July 1, 1997 through August 31, 1998, and \$39,755,191 claimed under Grant Number D-6635-8-00-81-55 for the period July 1, 1998 through June 30, 1999.

We obtained an understanding of internal controls through inquiries with appropriate personnel, inspection of relevant documentation, and observation of NCOA's operation. The nature and extent of our testing were based on our risk assessment.

We audited Financial Status Reports and indirect cost proposals under Grant No. D-6134-7-00-81-55 for the period July 1, 1997 through August 31, 1998, and Grant Number D-6635-8-00-81-55 for the period July 1, 1998 through June 30, 1999. We examined general ledgers, journals and supporting documents such as canceled checks, vouchers, and invoices. We used a combination of random and judgmental sampling to test individual account transactions and balances. We examined participant files from a judgmental sample of six resource centers (Los Angeles, Fort Lauderdale, San Francisco, West Palm Beach, San Jose and Maine) to determine participant eligibility. We did not audit third party contributions or performance measurements of NCOA.

The audit was performed using criteria we considered relevant. Criteria included 20 CFR Part 641, Senior Community Service Employment Program and OMB Circular A-122, Cost Principles for Non-Profit Organizations. Also, requirements of the grants were used as criteria in evaluating the allowability of claimed costs.

We conducted our audit in accordance with generally accepted auditing standards and standards applicable to audits of financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our fieldwork was conducted at NCOA's headquarters located in Washington, D.C., and subgrantees located in New York, New York, and Phoenix, Arizona. Audit results were discussed with NCOA's management on October 12, 2001.

Ms. Emily Stover DeRocco
Assistant Secretary for Employment and Training
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington, D.C. 20210

DEPUTY INSPECTOR GENERAL'S REPORT

We audited *the Financial Status Reports* (Exhibit A) for the period July 1, 1997 through August 31, 1998, under grant number D-6134-7-00-81-55 and for the period July 1, 1998 through June 30, 1999, under grant number D-6635-8-00-81-55. Reported costs are the responsibility of NCOA's management. Our responsibility is to express an opinion on the reported costs based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the reported costs are free of material misstatement. An audit includes examining, on a test basis, evidence supporting reported costs. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the costs reported. We believe our audit provides a reasonable basis for our opinion.

The *Financial Status Reports* (Exhibit A) were prepared in conformity with accounting practices prescribed by 20 CFR Part 641, "Senior Community Service Employment Program" which is a comprehensive basis of accounting other than generally accepted accounting principles. Allowable costs are established by OMB Circular A-122, Cost Principles for Non-Profit Organizations.

Opinion on Financial Statement

As discussed in the *Findings and Recommendations* section, excess administrative costs, insufficient documentation, and general administrative costs associated with questioned costs largely contributed to questioned direct costs of \$580,955, consisting of \$516,652 related to grant number D-6134-7-00-81-55 and \$64,303 related to grant number D-6635-8-00-81-55. Unallocable, unallowable, and other unsupported costs also resulted in reducing the Indirect Cost Rate from 10.13 to 10.08 percent for grant number D-6134-7-00-81-55 and from 8.43 percent to 8.35 percent for grant number D-6635-8-00-81-55. ETA and OCD are responsible for resolving these questioned costs. The total effect of their determinations cannot be estimated at this time.

In our opinion, except for the matters discussed in the preceding paragraph, the *Financial Status Reports* (Exhibit A) present fairly, in all material respects, the results of NCOA's operation in accordance with applicable Federal regulations and OMB Circular A-122 under grant number D-6134-7-00-81-55 for the period July 1, 1997 through August 31, 1998, and grant number D-6635-8-00-81-55 for the period July 1, 1998 through June 30, 1999.

Report on Internal Control

In planning and performing our audit, we considered NCOA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on reported costs and not to provide assurances on the internal control over financial reporting. However, we noted certain matters involving the internal controls over maintaining adequate support for claimed costs that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect NCOA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the *Findings and Recommendations* section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable conditions described in the *Findings and Recommendations* section are material weaknesses.

Report on Compliance With Laws and Regulations

Compliance with laws, regulations and grant agreement provisions are the responsibility of NCOA. As part of obtaining reasonable assurance about whether the reported costs are free of material misstatement, we performed tests of NCOA's compliance with certain provisions of laws, regulations and the grants. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the *Findings and Recommendations* section of this report.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the costs claimed by NCOA for the periods July 1, 1997 through August 31, 1998 and July 1, 1998 through June 30, 1999. The accompanying Schedules of Reported and Questioned Direct Costs (Exhibits B & C) and Schedules of Reported and Questioned Indirect Costs (Exhibits D & E) are presented for the purpose of additional analysis. Such information has been subjected to the auditing procedures

applied in the audits of direct and indirect costs, and, in our opinion, is fairly stated in all material respects, in relation to the direct expenses and indirect costs taken as a whole.

This report is intended solely for the information and use of NCOA, ETA and OCD, and is not intended to be and should not be used by anyone other than these specified parties.

Elliot P. Lewis
Acting Deputy Inspector General
for Audit

May 12, 2000

FINDINGS AND RECOMMENDATIONS

For the period July 1, 1997 through August 31, 1998, NCOA claimed costs of \$39,829,444 under grant number D-6134-7-00-81-55 (Exhibit B). For the period July 1, 1998 through June 30, 1999, NCOA claimed costs of \$39,755,191 under grant number D-6635-8-00-81-55 (Exhibit C). We question \$580,955 of direct costs, primarily as a result of administrative costs in excess of statutory limits, insufficient documentation, and applicable administrative costs, as summarized below:

	<u>Grant Number</u> <u>D-6134-7-00-81-55</u>	<u>Grant Number</u> <u>D-6635-8-00-81-55</u>	<u>Total</u>
Excess Administrative Costs	\$235,737	0	\$235,737
Insufficient Documentation	104,840	\$31,749	136,589
Capitalization	72,133	25,351	97,484
Subgrantee Costs	20,152	0	20,152
Collected Registration Fees	29,275	0	29,275
Misclassified Costs	6,501	0	6,501
Unallocable Costs	0	2,204	2,204
Applicable Administrative Costs	<u>48,014²</u>	<u>4,999³</u>	<u>53,013</u>
Total Questioned Costs	<u>\$516,652</u>	<u>\$64,303</u>	<u>\$580,955</u>

Excess Administrative Costs - \$235,737

For FY 1998, NCOA claimed administrative costs of \$5,612,712 or 14.09 percent of the grant amount, \$39,829,444. This amount exceeded the statutory administrative ceiling rate of 13.5 percent of the grant. As a result, we question \$235,737 of administrative costs. The Older Americans Act of 1965 (OAA) Title V, 502 (c) (3) states:

*Of the amount for any project to be paid by the Secretary under this subsection, **not more***

² Consists of general administrative (\$47,567) and subgrantee administrative (\$447) costs. (See Exhibit B.)

³ Consists of general administrative costs. (See Exhibit C.)

than 13.5 percent for fiscal year 1987 and each fiscal year thereafter shall be available for paying the costs of administration for such project. . . . [Emphasis added]

Furthermore, 20 CFR 641.405 (b)(1) states:

Administration. The amount of federal funds expended for the cost of administration during the program year shall be no more than 13.5 percent of the grant.

NCOA's Response

As previously indicated, the Council acknowledges that it exceeded the Administrative Cost cap for program year 1998 by 0.592% without prior approval from the Department of Labor as provided for in 20CFR641.406.

The Council believed that in light of the highly subjective nature of the classification of costs between administrative and other enrollee costs categories, a detailed examination of the classification of costs for program year 1998 would result in the appropriate reclassification of costs sufficient to reduce the administrative cost percentage to the allowable level. . . .

The Council performed a detailed review of program year 1998 labor and contracted services expenses for cost center "6002-101 SCSEP Hqtrs. Admin". Based on this review, the Council intends to reclassify \$253,285.26 from the administrative cost category to the other enrollee cost category. . . .

OIG Comment

NCOA's proposed adjustment does not comply with OMB requirements and is inconsistent with NCOA's cost policy statement. In NCOA's proposed reclassification of labor hours and costs for employees, NCOA has not provided adequate support to justify the proposed reclassification of employee salaries from the administrative cost category to other enrollee cost category. OMB Circular A-122, Attachment A, Section A.2g states:

Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria . . . Be adequately documented.

In addition, NCOA's Cost Policy Statement Section 6 (II) A states:

. . . NCOA policy requires all employees to account for all hours worked. . . . This ensures fair and equitable distribution of wage costs to the benefitting programs, as well as equitable distribution of Service Center Costs

**Insufficient
Documentation -
\$136,589**

NCOA did not provide documentation to support \$136,589 paid to vendors. This condition existed because NCOA did not ensure that when an invoice was paid the original invoice and supporting documentation were properly filed. As a result, we question costs of \$136,589, consisting of \$104,840 and \$31,749 for FYs 1998 and 1999, respectively. OMB Circular A-122, Attachment A, Section

A.2g states:

Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria . . . Be adequately documented.

NCOA's Response

. . . The Council was unable to respond to certain items . . . due to lack of information detailing the exact nature of the outstanding items. . . .

OIG Comment

On September 20 and 28, 2000, NCOA was provided a list detailing missing information. However, NCOA has not provided additional documents to resolve these costs.

Capitalization - \$97,484

NCOA expensed equipment of \$97,484 that should have been capitalized and depreciated annually over the useful life of the asset in accordance with NCOA's Cost Policy Statement. In addition, NCOA did not receive prior approval from ETA to expense equipment directly. As a result, we question \$97,484, consisting of \$72,133 under grant number D-6134-7-00-81-55 and \$25,351 under grant number D-6635-8-00-81-55. OMB Circular A-122, Attachment B, Paragraph 15 a.(1) states:

Equipment means an article of non-expendable, tangible personal property having a useful life of more than one year and an acquisition cost equals or exceeds the lesser of (a) the capitalization level established by the organization for the financial statement purpose, or (b) \$5,000.

Furthermore, NCOA's Cost Policy Statement states:

. . . The cost of capital items purchased is recovered through depreciation charges. However, some equipment may be charged directly to a grant/contract if approved by the funding agency. . . . NCOA recovers the cost of capital items using the straight-line depreciation methods in accordance with generally accepted accounting principles.

Equipment items that should have been capitalized are listed below:

<u>Vendor</u>	<u>Description</u>	<u>Grant No.</u>	<u>Grant No.</u>
		<u>D-6134-7-00-81-55</u>	<u>D-6635-8-00-81-55</u>
United Senior Health	BOSS system	\$55,000	0
DRICA	Cyberlab for job placement	11,833	0
Melsystem	Facsimile	5,300	0
Oracle Corp.	Server	0	\$12,355
Micron Electronics	NT server	0	7,110
Document Tech.	Duplex scanner	<u>0</u>	<u>5,886</u>
Total		<u>\$72,133</u>	<u>\$25,351</u>

NCOA’s Response

The Council agrees with the finding and will take the appropriate action to ensure that the assets are properly capitalized and depreciated (i.e., cost recovered), in the appropriate program years, according to the Council’s established policies and procedures.

Subgrantee Costs- \$20,152 NYCDFTA made cash payments of \$20,152 (grant number D-6134-7-00-81-55) and \$33,563⁴ (grant number D-6635-8-00-81-55) to enrollees in lieu of providing health benefits. OMB Circular A-87 and 20 CFR Part 641 state health insurance cost is an allowable fringe benefit. However, these regulations do not provide for cash payments to enrollees in lieu of providing fringe benefits. A Statement of Facts was provided to NYCDFTA and they concurred with the findings.

NCOA’s Response

The New York City Department for the Aging agreed with findings and questioned costs. The Council will work with the subgrantee to ensure that proper restitution is made to the Department of Labor.

Collected Registration Fees - \$29,275 NCOA collected \$29,275 of conference registration fees from attendees. NCOA did not report this amount as grant income or reduce conference costs by this amount. As a result, we question \$29,275 of conference costs under grant number D-6134-

⁴ As a result of our audit, NYCDFTA adjusted the final FSR for the waiver buyout of \$33,563.

7-00-81-55. OMB Circular A-122, Attachment A, Section A.5(a) states:

The term applicable credits refers to those receipts, or reduction of expenditures which operate to offset or reduce expense items that are allocable to awards as direct or indirect costs . . . To the extent that such credit accruing or received by the organization related to allowable cost, they shall be credited to the Federal Government either as a cost reduction or cash refund, as appropriate.

NCOA's Response

The documents included herein support the Council's recognition of registration fees collected at the three NCOA/DOL ETA regional conferences held in program year 1997-1998. The fees were recorded in Department of Labor related general ledger accounts.

OIG Comment

Documentation provided by NCOA contains general ledger detail showing revenue and sales from the regional conferences. However, it does not show how expenses were credited or how receipts were reduced for the amount of registration fees collected.

**Indirect Costs
Misclassified as Direct
Costs - \$6,501**

Under grant number D-6134-7-00-81-55, NCOA directly allocated \$6,501 of indirect costs to SCSEP which should have been accumulated in the indirect cost pool and allocated to all NCOA programs. Costs included \$3,200 for preparing NCOA's indirect cost proposal, \$1,898 for corporate travel, and \$1,403 for a finance meeting. Indirect cost proposal preparation, corporate travel and finance meetings pertain to the overall operation of NCOA. As a result, we question \$6,501 of indirect costs misclassified as direct costs. OMB Circular A-122 Attachment A, Section C.1 states:

Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. . .

NCOA's Response

. . . .questioned costs of \$3,200. . . . the Council agrees with your conclusion and will reclassify the costs related to this service into the indirect cost pool (specifically, the finance pool) as the cost benefits the Council's organization-wide federal program activities.

\$1,898 for corporate travel: The Council was unable to respond to this item because of the lack of information detailing the exact nature of the costs questioned.

. . . questioned costs of \$1,403: . . . the Council held its annual Fall Leadership Council meeting in Albuquerque, NW, in program year 1998. During this meeting, the Council's Board of Directors convened to discuss the state of the organization. Additionally, certain Committees of the Board, including the Finance Committee, Strategic Planning Committee, Personal Committee, Workforce Development Board, etc., met at this time. . . . During the entire meeting, Ms. Williams and Mr. Marks focused solely on issues related to Workforce Development. . . .

OIG Comment

NCOA agreed with questioned costs of \$3,200 to prepare its indirect cost proposal. However, NCOA did not agree with questioned costs for corporate travel and leadership council meeting. Subsequent to NCOA's response, OIG requested additional information on September 20 and 28, 2001, to resolve these questioned costs. NCOA has not provided this additional information.

Unallocable Costs - \$2,204

NCOA allocated \$2,204 to the SCSEP grant for two computers for which DOL received no benefit. The computers were used by EPA employees working under projects funded by EPA. As a result, we question \$2,204 under grant number

D-6635-8-00-81-55. OMB Circular A-122, Attachment A, Section A.4a states:

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. . . .

NCOA's Response

The Council agrees with the finding and will take the appropriate action to ensure that proper restitution is made to the Department of Labor.

Indirect Costs - \$26,919

Overall, indirect costs claimed by NCOA were reasonable, allocable, and allowable. However, we question \$26,919 of indirect costs claimed, which included missing documentation, unexplained travel, and unallowable charges for gifts and alcoholic beverages, as shown below:

<u>Description</u>	<u>Grant No.</u> <u>D-6134-7-00-81-55</u>	<u>Grant No.</u> <u>D-6635-8-00-81-55</u>	<u>Total</u>
Missing documentation	\$11,275	\$17,197	\$28,472
Unexplained travel	2,102	0	2,102
Unallowable gifts/alcohol	<u>2,775</u>	<u>71</u>	<u>2,846</u>
Subtotal	16,152	17,268	33,420
Less: Indirect Costs Misclassified As Direct Costs (Finding I)	<u>6,501</u>	<u>0</u>	<u>6,501</u>
Total	<u>\$9,651</u>	<u>\$17,268</u>	<u>\$26,919</u>

As a result, NCOA's proposed indirect cost rates should be reduced as shown below:

Grant No. D-6134-7-00-81-55	<u>Proposed</u>	<u>Questioned</u>	<u>Per Audit</u>
Indirect Cost (Exhibit D)	\$1,922,493	\$9,651	\$1,912,842
Distribution Base	\$18,982,745	0	\$18,982,745
Indirect Cost Rate Percentage	10.13	0	10.08
Grant No. D-6635-8-00-81-55			
Indirect Cost (Exhibit E)	\$1,937,316	\$17,268	\$1,920,048
Distribution Base	\$22,986,916	0	\$22,986,916
Indirect Cost Rate Percentage	8.43	0	8.35

OMB Circular A-122, Attachment A, Section A.2g states:

Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria. . . . Be adequately documented.

OMB Circular A-122, Attachment B, Paragraph 1f and 2 state:

Unallowable advertising and public relations costs include the following: . . . (3) Costs of promotional items and memorabilia, including models, gifts, and souvenirs; Alcoholic beverages. Cost of alcoholic beverages are unallowable.

NCOA's Response

. . . .The Council was unable to respond to certain itemsdue to a lack of information detailing the exact nature of the outstanding items.

OIG Comment

On September 20 and 28, 2000 NCOA was provided a list detailing missing information. However, NCOA has not provided additional documents to resolve these costs.

Allocation of Costs to Enrollee and Administrative Categories

NCOA did not provide documentation to support resource center allocation of rent, telephone, and payroll service to enrollee and administrative cost categories. The percentages allocated to enrollee and administrative categories were based on predetermined rates. This condition existed because NCOA did not support how allocation percentages were calculated. Further, the same percentage was not consistently applied to invoices throughout the year. As a result, amounts reported as enrollee and administrative costs may not be reliable. OMB Circular A-122 Attachment A, Section A.4a states:

A costs is allocable to a particular costs objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances. . . .

Furthermore, OMB Circular A-122, Attachment A, Section A.2d states:

Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria Be accorded consistent treatment. . . .

NCOA's Response

The Council will install appropriate internal controls to ensure that the documentation supporting the allocation of costs incurred between the administrative and other enrollee cost categories is maintained pursuant to the federal records retention policies and procedures.

Procurement Documentation

NCOA could not provide documentation to support the solicitation of proposals and awarding of contracts that exceeded \$25,000. NCOA awarded contracts to KPMG Peat Marwick LLP for \$959,152, NCOA Development Corp., for \$150,000, Drica, Inc., for \$127,800, and Ceridian Corporation for \$101,744 without following proper procurement procedures. OMB Circular A-110, SubPart A Section 44 (e) states:

Recipients shall, on request, make available for the Federal awarding agency, pre-award review and procurement documents, such as request for proposals or invitation for bids, independent cost estimates, etc., when any of the following condition apply . . . The procurement is expected to exceed the small purchase threshold fixed at 41 U.S.C. 403 (11) (currently \$25,000) and is to be awarded without competition or only one bid or offer is received in response to a solicitation. . . The procurement, which is expected to exceed the small purchase threshold, specifies a 'brand name' product. . . .

NCOA's Response

The Council will install appropriate internal controls to ensure that the documentation supporting the procurement of goods and services is maintained pursuant to the policies and procedures outlined in OMB Circular A-110, SubPart A, Section 44(e).

Recommendations

We recommend that the Assistant Secretary for Employment and Training:

1. recover \$516,652 of questioned direct costs for the period July 1, 1997 through August 31, 1998, under grant number D-6134-7-00-81-55;
2. recover \$64,303 for the period July 1, 1998 through June 30, 1999, under grant number D-6635-8-00-81-55;
3. ensure that NCOA develops procedures to allocate costs between enrollee and administrative categories based upon benefits received; and
4. require NCOA to maintain documentation for procurements in excess of \$25,000.

We also recommend that the Director of the Office of Cost Determination in OASAM ensure that NCOA applies the revised indirect cost rates of 10.08 percent for Grant No. D-6134-7-00-81-55 and 8.35 percent for Grant No. D-6635-8-00-81-55, and amends its billings accordingly.

**The National Council on the Aging
Financial Status Reports Per Audit**

**Grant No. D-6134-7-00-81-55
July 1, 1997 through August 31, 1998**

**Grant No. D-6635-8-00-81-55
July 1, 1998 through June 30, 1999**

Grant No. D-6134-7-00-81-55	<u>Reported</u>	<u>Questioned</u>	<u>Per Audit</u>
Total Outlays	\$45,840,109	\$516,652	\$45,323,457
Third Party Contributions (Unaudited)	<u>6,010,665</u>	<u>0</u>	<u>6,010,665</u>
Federal Share of Net Outlays	<u>\$39,829,444</u>	<u>\$516,652</u>	<u>\$39,312,792</u>

Grant No. D-6635-8-00-81-55			
Total Outlays	\$44,495,819	\$64,303	\$44,431,516
Third Party Contributions (Unaudited)	<u>4,740,628</u>	<u>0</u>	<u>4,740,628</u>
Federal Share of Net Outlays	<u>\$39,755,191</u>	<u>\$64,303</u>	<u>\$39,690,888</u>

EXHIBIT B

**The National Council on the Aging
Schedule of Reported and Questioned Direct Costs
Grant Number D-6134-7-00-81-55
July 1, 1997, Through August 31, 1998**

<u>Cost Categories</u>	<u>Reported</u>	<u>Questioned</u>	<u>Per Audit</u>
Employee Labor	\$1,151,404	0	\$1,151,404
Enrollee Labor	6,399,164	0	6,399,164
Employee Release Time	176,087	0	176,087
Enrollee Release Time	625,991	0	625,991
In-House Consultant	(1,733)	0	(1,733)
Contracted Services	303,367	\$20,333	283,034
Subcontract/Subgrantee	26,756,339	20,152	26,736,187
Conference/Meetings	145,793	45,180	100,613
Supplies/Materials	53,448	3,966	49,482
Printing	78,304	20,858	57,446
Communications	116,480	507	115,973
Travel	452,557	66,905	385,652
Other Direct Costs	364,463	55,000	309,463
Service Center Costs	474,566	0	474,566
Employee Fringe (17.18%)	228,064	0	228,064
Company Fringe (9.25%)	766,334	0	766,334
Sub Administrative (2.22%)	<u>595,281</u>	<u>447</u>	<u>594,834</u>
Subtotal	38,685,909	233,348	38,452,561
General and Administrative (10.14%)	<u>1,143,535</u>	<u>283,304⁵</u>	<u>860,231</u>
Total	<u>\$39,829,444</u>	<u>\$516,652</u>	<u>\$39,312,792</u>

⁵ Includes \$47,567 {(\$233,348 + \$235,737) x 10.14 percent} of general and administrative costs associated with questioned costs and \$235,737 of administrative costs in excess of the statutory limitation.

EXHIBIT C

**The National Council on the Aging, Inc.
Schedule of Reported and Questioned Direct Costs
Grant Number D-6635-8-00-81-55
July 1, 1998, Through June 30, 1999**

<u>Cost Categories</u>	<u>Reported</u>	<u>Questioned</u>	<u>Per Audit</u>
Employee Labor	\$1,344,658	0	\$1,344,658
Enrollee Labor	7,532,183	0	7,532,183
Employee Release Time	275,158	0	275,158
Enrollee Release Time	707,376	0	707,376
Contracted Services	271,078	0	271,078
Subcontract/Subgrantee	25,336,937	0	25,336,937
Conference/Meetings	59,568	0	59,568
Supplies/Materials	110,106	\$18,241	91,865
Printing	14,925	0	14,925
Communications	160,697	0	160,697
Travel	334,921	30,631	304,290
Other Direct Costs	486,482	10,432	476,050
502 (e)	261,932	0	261,932
Service Center Costs	631,213	0	631,213
Employee Fringe (9.26%)	149,995	0	149,995
Company Fringe (8.76%)	<u>863,681</u>	<u>0</u>	<u>863,681</u>
Subtotal	38,540,910	59,304	38,481,606
General and Administrative (8.43%)	<u>1,214,281</u>	<u>4,999⁶</u>	<u>1,209,282</u>
Total	<u>\$39,755,191</u>	<u>\$64,303</u>	<u>\$39,690,888</u>

⁶ Questioned cost of \$4,999 was calculated by multiplying questioned costs of \$59,304 by the applicable general and administrative rate (8.43 percent).

The National Council on the Aging, Inc.
Schedule of Reported and Questioned Indirect Costs
Grant Number D-6134-7-00-81-55
July 1, 1997, Through August 31, 1998

<u>Cost Categories</u>	<u>Reported</u>	<u>Questioned</u>	<u>Per Audit</u>
Salaries	\$383,708	0	\$383,708
Fringe Benefits	101,385	0	101,385
Audit Fees	42,613	0	42,613
Advertising/Recruitment	15,261	0	15,261
Bank Charges	28,178	0	28,178
Books and Reports	830	0	830
Consultant Fees	777,230	\$4,562	772,668
Web Hosting Services	22,961	0	22,961
Dues/Subscriptions	27,728	0	27,728
Insurance	7,946	0	7,946
Legal, License and Fees	23,240	0	23,240
Meetings/Conferences	56,737	7,907	48,830
Miscellaneous	23,052	(3,200)	26,252
Office Supplies	11,384	0	11,384
Postage & Printing	9,603	0	9,603
Temporary Labor	3,688	0	3,688
Training and Development	15,335	0	15,335
Travel	22,758	(1,263) ⁷	24,021
Fee Based Service Income	(784)	0	(784)
Allocated Direct Costs	351,210	1,645	349,565
Adjustment to G&A Pool	<u>(1,570)</u>	<u>0</u>	<u>(1,570)</u>
Total	<u>\$1,922,493</u>	<u>\$9,651</u>	<u>\$1,912,842</u>

⁷ This amount includes unallowable costs of \$2,038 and indirect costs misclassified as direct costs of \$3,301.

EXHIBIT E

The National Council on the Aging, Inc.
Schedule of Reported and Questioned Indirect Costs
Grant Number D-6635-8-00-81-55
July 1, 1998, Through June 30, 1999

<u>Cost Categories</u>	<u>Reported</u>	<u>Questioned</u>	<u>Per Audit</u>
Salaries	\$309,392	0	\$309,392
Fringe Benefits	55,746	0	55,746
Audit Fees & Advertising/Recruitment	62,707	0	62,707
Bank Charges, Books and Reports	2,007	0	2,007
Computer Labs	(3,080)	0	(3,080)
Consultant Fees	949,845	0	949,845
Web Hosting Services	19,528	0	19,528
Dues/Subscriptions	32,775	0	32,775
Insurance and Legal	6,472	0	6,472
License and Fees	15,280	0	15,280
Meetings/Conferences	18,097	\$2,055	16,042
Annual, Fall & Mid-Year Conference	60,163	0	60,163
Miscellaneous	16,049	384	15,665
Office Supplies	8,687	0	8,687
Other Expenses/Income	(766)	0	(766)
Penalties and Interest	445	0	445
Postage, Printing, Software and Taxes	9,434	0	9,434
Temporary Labor	71,659	7,656	64,003
Training and Development	22,817	87	22,730
Travel	10,623	3,666	6,957
Fee Based Service Income	(1,025)	0	(1,025)
Allocated Direct Costs	270,916	3,420	267,496
Adjustment to G&A Pool	(455)	0	(455)
Total	<u>\$1,937,316</u>	<u>\$17,268</u>	<u>\$1,920,048</u>

THE NATIONAL COUNCIL ON THE AGING

409 Third Street SW Washington, DC 20024 TEL 202 479-1200 TDD 202 479-6674 FAX 202 479-0735 <http://www.ncoa.org>

September 4, 2001

Mr. Richard H. Brooks
Regional Inspector General for Audit
U.S. Department of Labor
Office of the Inspector General
201 Varick Street
New York, New York 10014

Dear Mr. Brooks:

The National Council on the Aging, Inc. (the Council) has received your draft audit report of costs claimed during the program years ended August 31, 1998 and June 30, 1999. The Council is pleased that this two-year process is reaching its conclusion. The senior staff and I wish to thank you and your staff for their patience and professionalism during the course of the audits.

Pursuant to your instructions, I have enclosed the Council's response to your draft report. However, the Council was unable to respond to all of the items highlighted due to a lack of information regarding the exact nature of the missing documentation and questioned item. Additionally, during recent discussions with your staff and review of their supporting documentation, the Council determined that your auditors changed the outstanding sample items that had been previously communicated to us in your letter dated May 17, 2000.

As a result, the Council requests that your office provide us with further information detailing the exact nature of certain findings and the resulting questioned costs (e.g., names of travelers requiring additional documentation from the First Bank vouchers). The listing of items requiring further explanation is attached. Because of our need for additional documentation, the Council requests an extension of time through October 15, 2001, to fully respond to your draft report.

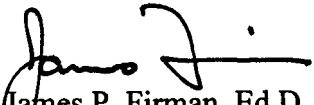
As you know, this process has been long and arduous for all parties involved. Please let me emphasize that the Council is committed to cooperate fully with you and your staff during this final phase of the audits.



Mr. Richard H. Brooks
September 4, 2001
Page 2 of 2

If you have any questions, please contact Lisa M. Gables, Chief Financial Officer, at 202.479.6613. We look forward to hearing from you.

Sincerely,



James P. Firman, Ed.D.
President and CEO

Enclosures (1)

Attachment

Cc: L. Gables, NCOA
Audit File

Listing of Outstanding Items, Cont.

<u>Source</u>	<u>Voucher #</u>	<u>Vendor</u>	<u>Amount</u>
Exhibit E – FY1999	AJ927	Deltek accrual	\$3,421
Exhibit E – FY1999	AJ927	Raphael Hotel accrual	\$7,078
Exhibit E – FY1999	008179	American Express	\$71
Exhibit E – FY1999	AJ248	Prosys	\$7,656

NATIONAL COUNCIL ON THE AGING, INC.
LISTING OF ITEMS REQUIRING ADDITIONAL EXPLANATION

Please provide additional information regarding the nature of the findings listed below, including a detail explanation of the questioned item.

<u>Source</u>	<u>Voucher #</u>	<u>Vendor</u>	<u>Amount</u>
Subgrantee Costs - \$92,192 (page 10)	N/A	Arizona Department of Economic Security	\$72,040
Indirect Costs Misclassified as Direct Costs - \$11,661 (page 10)	Unknown	Unknown	\$1,898
Exhibit D – FY1998	003434	Adams Mark Hotel	\$856
Exhibit D – FY1998	004241	NCOA-San Jose	\$3,966
Exhibit D – FY1998	003065	First Bank	\$10,983
Exhibit D – FY1998	004496	First USA	\$10,073
Exhibit D – FY1998	003736	American Express	\$694
Exhibit D – FY1999	009069	US Bank	\$11,526
Exhibit D – FY1999	006883	US Bank	\$8,576
Exhibit D – FY1999	010106	US Bank	\$6,959
Exhibit D – FY1999	009068	US Bank	\$3,570
Exhibit E – FY1998	004789	UUNet Technology	\$1,645
Exhibit E – FY1998	005834	Washington Hilton	\$2,094
Exhibit E – FY1998	006294	American Express	\$1,931
Exhibit E – FY1998	005249	Age Wave LLC	\$1,780
Exhibit E – FY1998	013740	First Card	\$988
Exhibit E – FY1998	002150	Northwest Airlines	\$535
Exhibit E – FY1998	013291	James Sykes	\$515

THE NATIONAL COUNCIL ON THE AGING

409 Third Street SW Washington, DC 20024 TEL 202 479-1200 TDD 202 479-6674 FAX 202 479-0735 <http://www.ncoa.org>

October 11, 2001

Mr. Richard H. Brooks
Regional Inspector General for Audit
U.S. Department of Labor
Office of Inspector General
201 Varick Street
New York, New York 10014

Dear Mr. Brooks:

The National Council on the Aging, Inc. (the Council) is in the process of compiling its second response to your draft audit report of costs claimed during the program years ended August 31, 1998 and June 30, 1999.

Since our previous communication, the Council has worked diligently to identify and photocopy documentation supporting many of the remaining outstanding significant questioned costs. Unfortunately, our efforts have stalled the preparation of the formal communication to you as well as hindered our efforts to investigate a few of the smaller items.

We therefore respectfully request an extension of the previous deadline from October 15 to November 15, 2001. Although our request extends your issuance of the final audit report, we ask for your continued patience. We are confident that this extension will permit the Council to prepare and submit a comprehensive and complete response.

In an attempt to expedite the process for you and your staff in the resolution of outstanding items, the Council herein provides Exhibits A and B. A brief discussion of each exhibit follows:

- Exhibit A provides additional documentation supporting the Council's analysis of enrollee program participation eligibility pursuant to the requests of your staff.
- Exhibit B provides documentation supporting the proposed reclassification of excess administrative costs into the other enrollee cost category.

Please allow me to reemphasize the thoughts of the Council's President and CEO, James P. Firman, communicated to you on September 4, 2001. This process has been long and arduous for all parties involved and the Council remains committed to cooperate fully with you and your staff during this final phase of the audits.

