**NATIONAL COUNCIL OF SENIOR CITIZENS, INC.
NATIONAL SENIOR CITIZENS EDUCATION
AND RESEARCH CENTER, INC.
Silver Spring, MD**

**REPORT ON U.S. DEPARTMENT OF LABOR GRANT
FOR FISCAL YEAR 1996**

FINAL REPORT

This audit was performed by Myint & Buntua, CPAs, under contract to the Office of Inspector General, and, by acceptance, it becomes a report of the Office of Inspector General.

Assistant Inspector General for Audit

Audit Report No. 18-99-011-03-360

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ACRONYMS AND GLOSSARY

ACRONYMS

CFR	-	Code of Federal Regulations
CSL	-	Combined Single Limit
DOL	-	U.S. Department of Labor
EEOC	-	U.S. Equal Employment Opportunity Commission
EPA	-	U.S. Environmental Protection Agency
ETA	-	Employment and Training Administration, U.S. Department of Labor
FAR	-	Federal Acquisition Regulation
FSR	-	Financial Status Report
FY	-	Fiscal Year
G&A	-	General and Administrative (Expense)
HIP	-	Hospital Indemnity Plan
HMC	-	Housing Management Corporation (NCSC Subsidiary)
JTPA	-	Job Training Partnership Act
LOC	-	Letter-of-Credit
NCSC	-	National Council of Senior Citizens, Inc.
NSCERC	-	National Senior Citizens Education and Research Center, Inc.
OCD	-	Office of Cost Determination, U.S. Department of Labor
OEC	-	Other Enrollee Costs
OIG	-	Office of Inspector General, U.S. Department of Labor
OMB	-	U.S. Office of Management and Budget
PY	-	Program Year
SA	-	Senior Aides (or SCSEP Enrollees)
SCMICRRG	-	Senior Citizens Mutual Insurance Company Risk Retention Group
SCSEP	-	Senior Community Service Employment Program
SEE	-	Senior Environmental Employment (EPA)

ACRONYMS AND GLOSSARY

GLOSSARY

Direct Costs	-	Costs that can be identified specifically with a particular cost objective, e.g., Senior Community Service Employment Program.
Indirect Costs	-	Costs which cannot be identified with a single, final cost objective but are identified with two or more final cost objectives. Such costs are combined into groupings for distribution to final cost objectives.
Allocation Base	-	A group of costs used to distribute indirect costs to benefitting final cost objectives.
Questioned Costs	-	Costs that are questioned because: (a) the expenditure is an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document; or is (b) not supported by adequate documentation; or are (c) expenditures that were unnecessary or unreasonable.
Fiscal Year (FY)	-	The annual period beginning with July 1 of each year and ending on June 30 of the following year. For example, July 1, 1995 to June 30, 1996, is Fiscal Year 1996 under NCSC/NSCERC's financial system.
Program Year (PY)	-	The annual period beginning with July 1 of each year and ending on June 30 of the following year. For example, July 1, 1995 to June 30, 1996, is Program Year 1995 under the DOL Senior Community Service Employment Program.

EXECUTIVE SUMMARY

AUDIT RESULTS

Myint & Buntua, CPAs, under contract with the Department of Labor (DOL), Office of Inspector General (OIG), audited the costs claimed for reimbursement ($60.8 million Federal share) by the National Council of Senior Citizens, Inc. (NCSC) and its related organization, the National Senior Citizens Education and Research Center, Inc. (NSCERC), for the performance of its DOL Senior Community Service Employment Program (SCSEP) grant for Fiscal Year (FY) 1996.

The SCSEP involves the recruitment of disadvantaged seniors (enrollees) 55 years of age and older who perform part-time services of up to 1,300 hours a year at community service organizations (host agencies), such as schools and nursing homes. Enrollees are paid at or near the minimum wage rate ($5.15 an hour during the period audited) from SCSEP. The assignments are for training or retraining to assist enrollees in obtaining unsubsidized employment. NSCERC has about 9,000 enrollees and receives annual SCSEP grants of about $60 million a year. Local community activities are managed by about 150 subrecipients. Enrollees are employees of the subrecipients. NSCERC also administers a similar Environmental Protection Agency (EPA) grant program at a cost of about $7.2 million a year.

WE QUESTION ABOUT <u>$2.8 MILLION</u> ($1.6 MILLION IN DIRECT COSTS AND $1.1 MILLION INDIRECT COSTS) OF THE $60.8 MILLION CLAIMED FOR REIMBURSEMENT BY NCSC/NSCERC FOR FY 1996.

THE QUESTIONED <u>DIRECT COSTS</u> CONSIST OF:

- **$948,983 IN HOSPITAL INDEMNITY INSURANCE PLAN (HIP) REFUNDS,**
- **$244,584 IN HIP ADMINISTRATIVE FEES,**
- **$237,532 IN GENERAL LIABILITY INSURANCE COSTS,**
- **$103,545 IN PENSION PLAN COSTS, AND**
- **$108,872 IN FRINGE BENEFIT COSTS.**

THE QUESTIONED <u>INDIRECT COSTS</u> RESULTED FROM RECOMMENDED CHANGES TO THE COSTS PROPOSED IN THE INDIRECT COST POOL AND THE ALLOCATION BASE.

IN ADDITION, WE IDENTIFIED SEVERAL AREAS IN NCSC/NSCERC'S ADMINISTRATION OF THE DOL SCSEP PROGRAM WHERE COSTS COULD BE REDUCED WITHOUT ADVERSELY AFFECTING PROGRAM OPERATIONS. THESE FUNDS, WITH DOL APPROVAL, COULD BE USED TO INCREASE THE NUMBER OF SCSEP ENROLLEES.

A summary of the Federal share of the direct and indirect costs proposed by NCSC/NSCERC and the amount questioned by the auditors is shown below and in Exhibit A.

	Proposed by NCSC/NSCERC	**Questioned by Auditors**	Recommended by Auditors
Direct Costs	$58,346,872	**$1,643,516**	$56,703,356
Indirect Costs	2,482,028	**1,134,744**	1,347,284
Total Costs	$60,828,900	**$2,778,260**	$58,050,640

A. COSTS QUESTIONED

FINDING	FY 1996 Costs: Direct Costs	FY 1996 Costs: Indirect Cost Pool

1. HOSPITAL INDEMNITY PLAN REFUNDS*

NCSC/NSCERC provides DOL Senior Aides (enrollees) Hospital Indemnity Plan (HIP) insurance. NCSC/NSCERC pays the entire premium and charges the costs directly to the DOL grant. The underwriter of the insurance plan - the MonumentalLife Insurance Co. - advised NCSC/NSCERC that, based on the terms of the HIP agreement and its "favorable claims experience," NCSC/NSCERC had earned a substantial premium "refund" for FY 1996. However, contrary to the terms of the DOL grant, NCSC/ NSCERC did not "credit" the refund to DOL, but included the amount received as "royalty income." We question NCSC/NSCERC's failure to credit the DOL grant with the refund. **(Finding No. 1.)**

Direct Costs: $948,983

2. HOSPITAL INDEMNITY PLAN ADMINISTRATIVE FEES

To compensate NCSC/NSCERC for its costs of performing certain administrative duties for the HIP, the Monumental Life Insurance Co. pays an administrative fee of 14.5 percent of earned premiums, which NCSC/NSCERC "shares" with Seabury & Smith, Inc. -- the intermediary who also performs certain administrative functions. NCSC/NSCERC credited the amounts that it received to "membership promotion income" instead of applying these amounts, as an "offset credit," to the DOL grant costs which were directly charged for the administrative functions. We, therefore, credited the DOL grant costs for the administrative fees that NCSC/NSCERC received. **(Finding No. 2.)**

* See Page xiii -- Subsequent Events.

FINDING

2. HOSPITAL INDEMNITY PLAN (CONT'D)

FY 1996 Costs	
Direct Costs	**Indirect Cost Pool**
101,207	

Furthermore, based on our review, we believe that the present fee sharing arrangement (28% to NCSC/NSCERC and 72% to Seabury) is inadequate to reimburse NCSC/NSCERC for the administrative work it performs as compared to Seabury. We estimate that a "sharing" of 1/3 for Seabury and 2/3 for NCSC would more equitably reflect the administrative work performed by the two parties. Accordingly, we question the amounts paid to Seabury in excess of 1/3 of the total administrative fees. **(Finding No. 2.)** $143,377

3. THIRD-PARTY GENERAL LIABILITY INSURANCE

NCSC/NSCERC purchased third-party general liability insurance from an insurance company (Senior Citizens Mutual) with which it shares management and executive personnel. The insurance is for bodily harm and accidental damages to third parties that may be caused by work related activities of DOL and EPA enrollees. In soliciting bids from insurance companies and in making the award to its "affiliated" company, NCSC/NSCERC did not follow acceptable competitive procurement procedures.

a. The FY 1996 insurance premium for DOL enrollees was $337,532. The premium was charged, as a direct cost, to the DOL grant although the insurance also covered NCSC employees who worked on non-Federal projects. The premium was considerably more than that paid by other SCSEP national sponsors for comparable insurance. We, therefore, question the premiums that NCSC/NSCERC paid to its affiliated company in excess of $100,000 a year, which was the maximum amount that we estimate should have been paid for the insurance if NCSC followed appropriate competitive procurement procedures. **(Finding No. 3a.)**

b. The FY 1996 insurance premium for EPA enrollees was $202,346. In addition to the procurement weaknesses noted above, the premium was charged to the NSCERC indirect cost pool for allocation to NCSC/NSCERC projects, including the DOL grant. We "reclassified" the net premium from the NSCERC indirect cost pool to EPA direct costs and adjusted the "allowable" premium to $30,000 (net increase) based on the premiums paid by other EPA grantees for similar insurance. **(Finding No. 3b.)** (Also see Finding No. 8b.)

237,532

172,346 (EPA)

FY 1996 Costs	Direct Costs	Indirect Cost Pool	FINDING

4. PENSION PLAN COSTS

NCSC/NSCERC made FY 1996 year-end adjustments to

reduce the amount of pension plan costs charged to its programs. However, the adjustments did not include any reductions to the DOL grant and to NCSC/NSCERC indirect costs for the excessive costs that were charged during the year. The adjustments to the DOL grant and to the NCSC/NSCERC indirect cost pool were $103,545 and ($26,081), respectively.		
Other year-end adjustments to correct initial pension plan cost charges involved increases to NCSC programs ($77,737) and decreases to NSCERC programs ($273). Net increase equals $77,464. **(Finding No. 4.)**	$103,545	($26,081)
	(77,464)	
5. and 6. **<u>FRINGE BENEFIT COSTS</u>**		
Fringe benefit costs of NCSC and NSCERC employees who work on Federal grants are charged to DOL and EPA by intercompany billings. The amounts charged are based on <u>estimates</u> and not on "actual" costs. At the end of FY 1996, the amounts charged exceeded <u>actual</u> fringe benefit costs by $108,872 for the DOL grant and $222,993 for the EPA grant. Year-end adjustments should be made on the basis of actual costs. **(Finding Nos. 5 and 6.)**	108,872 (DOL) 222,993 (EPA)	
7. <u>HOUSING SAFETY PROGRAM</u>		
Costs incurred for the NCSC/NSCERC housing safety program were incorrectly charged to the indirect cost pool instead of being charged as a direct cost to this non-Federal program. **(Finding No. 7.)**	102,384	(102,384)
8. <u>INDIRECT G&A COSTS</u>		
a. Salary and fringe benefits of NSCERC employees managing EPA programs were charged to the indirect cost pool instead of being charged as a direct cost to the EPA program. **(Finding No. 8a.)**	235,768 (EPA)	(235,768)
b. Insurance premiums for third-party general liability insurance were incorrectly charged to the indirect cost pool instead of being charged as direct costs to the EPA program. **(Finding No. 8b.)**	202,346 (EPA)	(202,346)

<u>FINDING</u>

FY 1996 Costs	Direct Costs	Indirect Cost Pool
		($13,168)
	$79,727	(79,727)

c. Estimated charges for postage and duplication services exceeded the actual costs. We reduced the postage and duplication costs charged to the indirect cost pool to recognize the "overcharges." **(Finding No. 8c.)**

d. NCSC/NSCERC's library costs are incurred in serving NCSC members and not DOL/EPA enrollees. We reclassified the library salaries from the indirect cost pool to direct costs of membership services. **(Finding No. 8d.)**

B. INDIRECT COST

FINDING

Adjustments to the Indirect Cost Allocation Base

9. INDIRECT COST ALLOCATION BASE

NCSC/NSCERC submitted its final indirect cost proposal to DOL using a **"modified total direct cost base"**[1] to allocate indirect costs to its programs. The proposed cost allocation base includes $9.3 million, which is 15 percent of the total costs computed and reported by its 148 DOL subrecipients. The basis for including 15

[1] The use of this allocation base has not been approved by the DOL Office of Cost Determination.

percent was not explained by NCSC/NSCERC officials. Subrecipient operations are independently managed at the local level. NCSC/NSCERC's indirect costs benefit and support its in-house, headquarters program and activities. Administrative support for enrollee activities is provided by and should be charged as indirect costs of the subrecipients and not of NCSC/NSCERC. Accordingly, we utilized a **"modified total in-house direct cost base"** to allocate NCSC/NSCERC indirect costs. This results in appropriately lower indirect costs being charged to the DOL grant and corresponding increases to NCSC/NSCERC's other activities. The total adjustments to the allocation base amount to $8.4 million ($6,785,263 in adjustments for subrecipient costs and $1,643,516 for questioned direct costs) as shown in Exhibit A. **(Finding No. 9.)**

$8,428,779

C. INDIRECT COSTS

NCSC/NSCERC's FY 1996 indirect cost submission to DOL included a modified total direct cost allocation base of $24.4 million and an indirect cost pool of $4.1 million. The amounts we question and the effect on the indirect cost rate are shown below and in Exhibit C.

	Proposed by NCSC/NSCERC	Questioned by Auditors	Recommended by Auditors
Cost Allocation Base	$24,386,630	$8,126,429	$16,260,201
Indirect Cost Pool	$4,136,840	$607,312	$3,529,528
Indirect Cost Rate	16.96%		21.71%

DOL Grant

Our audit also resulted in questioning $1.1 million of indirect costs proposed for the DOL grant, as shown in the following table and in Exhibit A.

	Proposed by NCSC/NSCERC	Questioned by Auditors	Recommended by Auditors
Cost Allocation Base	$14,634,601	$8,428,779	$6,205,822
Indirect Costs	$2,482,028	**$1,134,744**	$1,347,284

D. COST AVOIDANCE ISSUES AND POTENTIAL SAVINGS

FINDING	**Estimated Annual Savings**
10. FISCAL MONITORING OF SUBRECIPIENTS	
NCSC makes onsite fiscal reviews of DOL grant subrecipients twice a year. Each review costs about $4,090 and, based on a sample of the audit reports, questioned costs average $234 per audit. Reducing the number of audits to one a year (with additional reviews performed on a risk-based approach) could result in substantial savings without measurably adding to the accountability risks of the grant program. **(Finding No. 10.)**	$ 400,000

FINDING	**Estimated Annual Savings**
11. PROGRAM MONITORING OF SUBRECIPIENTS	
NCSC performs two onsite field program reviews and one desk review of each subrecipient each year. The findings and recommendations in 29 reports for FY 1996 showed that this level of monitoring may be excessive. Reducing the number of onsite reviews to one a year (with additional reviews performed on a risk-based approach) could result in savings of about $500,000 per year. **(Finding No. 11.)**	$500,000

AUDITEE'S RESPONSE

By letter dated June 11, 1999, the Executive Director of the National Senior Citizens Education and Research Center (NSCERC), provided "preliminary" written comments on the draft report.

The Executive Director stated that the majority of the auditors' findings in this FY 1996 report are "repeat findings" from the prior audit report (FYs 1993, 1994, and 1995). In this regard, the Executive Officer said NSCERC's comments will not respond to the repeat findings and NCSC's response to the prior findings is currently being reviewed by the Department of Labor Grant Officer as part of the audit resolution process.

Generally speaking, NSCERC disagrees with most of the audit findings.

Finding No. 1 -- With respect to the "refunds" that NCSC/NSCERC has received from the Monumental Life Insurance Company (Monumental) for the enrollee hospital indemnity plan (HIP), NSCERC contends that the auditors have improperly mischaracterized royalty income as "insurance premium refunds" and that NSCERC has no obligation to the Federal Government with respect to this income.

Finding No. 2 -- On the related subject of the level and handling of administrative fees for the HIP, NSCERC contends that in comparison to the duties performed by Seabury & Smith (Seabury), the insurance intermediary, NCSC put forth relatively little effort. NSCERC further states that NCSC utilized only one staff member as the insurance coordinator, who performs this function along with her regular duties. NSCERC states that the "administrative fees are not costs claimed for reimbursement under the grant agreements."

<u>Finding No. 3</u> -- With regard to NCSC/NSCERC's failure to use "effective competitive solicitation procedures" and negotiate a reasonable price for its third-party general liability insurance, NSCERC said that it is in compliance with OMB Circular A-110, that

> *NCSC had instituted procurement procedures based on this same finding in a prior audit, and that the DOL Grant Officer had accepted the corrective action it had taken. Therefore, NSCERC disagrees with the auditors' recommendation that it needs to improve its solicitation procedures.*

<u>Finding No. 4</u> -- NSCERC says that the pension plan became a multiple employer plan when it was transferred from NCSC. That accounting for multiple employer plan requires that the contribution expense recorded be equal to the actual contribution payment made to the pension plan. Therefore, NCSC was correct in not adjusting the pension costs.

<u>Findings Nos. 5 and 6</u> -- NSCERC said that procedures are being implemented to ensure adjustments are made annually to reconcile fringe benefit costs with actual costs prior to close-out of the grant. NSCERC said it is revising the rate charged each grant year so the percentages are more consistent with actual costs.

<u>Finding No. 7</u> -- NSCERC agreed with our removal of the "Housing Safety" program costs from the G&A pool and reclassification of these costs as direct costs of the safety program.

<u>Findings Nos. 8 and 9</u> -- NSCERC agreed with our conclusions on Findings 8a-8c. It disagrees with the auditors' conclusions on Findings 8d and 9 on improper classification and distribution of indirect costs.

<u>Findings Nos. 10 and 11</u> -- With respect to the excessive fiscal and program monitoring of subrecipients, NSCERC said that it had made some improvements to reduce the number of field visits, but added that it is currently reviewing these functions for the purpose of making additional improvements to more effectively manage the SCSEP. NSCERC further said that it was attempting to combine fiscal and program monitoring program responsibilities.

Finally, with regard to the amount of the costs ($2,778,620) questioned by the auditors, NSCERC stated that for the fiscal year ending June 30, 1996, it had provided $9,006,060 as its non-federal share of the costs of the SCSEP (NSCERC refers to these Federally required matching costs as "stand-in costs.") NSCERC, then said that these costs should be used to "offset" the $2,778,620 in audit questioned direct and indirect costs.

NSCERC's "preliminary" comments are included in their entirety in the Appendix. [Note: Although the Executive Director said these comments are only "preliminary," no additional or final comments were provided.]

AUDITORS' COMMENTS

With regard to the total questioned costs of $2,778,620, NSCERC contends that the amounts it submitted as "excess" non-Federal costs should be used to "offset" the Federal share costs which NSCERC claimed for reimbursement, but which was questioned by the auditors. DOL awarded NCSC/NSCERC a <u>cost-reimbursable</u> grant. The "stand-in" costs (as NSCERC refers to them) are not expenditures made by <u>NSCERC</u>, but are the amounts that had been computed and reported by the approximately 150 SCSEP subrecipients as the required non-Federal match. This is further illustrated in NCSC/NSCERC's budget instructions to the subrecipients, where it placed the responsibility for all disallowances of non-Federal contributions on the subrecipients. The offset of NCSC/NSCERC's Federal share questioned costs by non-Federal share reported costs would result in NCSC/NSCERC being reimbursed for an amount which they had not incurred and which they will not incur as a cost to them. All costs incurred by NCSC/ NSCERC have been claimed for reimbursement as Federal share costs. Furthermore, such suggestion would violate the basic Federal regulations governing allowable costs found in OMB Circular A-122, because these costs cannot be determined in accordance with generally accepted accounting principles. Also, OMB Circular A-122, Attachment A, Paragraph 12 <u>Donations,</u> states that the value of donated or volunteer services, as well as donated goods and space, *is not reimbursable either as a direct or indirect cost*.

In connection with the "repeat findings" in this report, such as those dealing with the improper handling of HIP insurance "refunds," NSCERC said that it has provided its comments to these findings in the FYs 1993-1995 report and, therefore, in its view, sees no useful purpose in repeating them. In this regard, we are presenting, in this report, the additional information needed to effectively respond to NSCERC's currently stated position.

The amount of HIP refunds NSCERC receives each year is not contingent upon or in any way based on a "marketability enhancement" or any type of "sales benefit" occurring to Monumental which is normally the basis for "royalty" payments. In NSCERC's case, the "refunds" are computed recognizing the amount of the insurance administrative costs, the benefits provided to enrollees, and the amount of claims paid. Because the "gain" realized each year was from the premiums paid by the DOL grant, NSCERC is required by its grant provisions and the Federal cost principles to credit the income to the DOL SCSEP grant.

NCSC/NSCERC elects to call the insurance premium refunds "royalty payments." Notwithstanding whether such amounts are called "refunds" or "royalty payments," the amounts paid to NCSC/NSCERC by Monumental are a premium <u>reduction</u> that, under existing Federal criteria, must be credited to the DOL grant from which the premiums were paid.

On the “administrative fees” paid by Monumental and the sharing arrangement between NCSC/NSCERC and Seabury (Finding No. 2), NCSC/NSCERC does not, in its formal comments, address the fact that it has not properly credited the DOL grant for the amounts that it has received from Monumental year after year. Also, on the sharing arrangement between NCSC/NSCERC and Seabury, which is 4.0 percent and 10.5, respectively, NCSC/NSCERC does not fully recognize the actual level of effort expended by NCSC/NSCERC, which includes both the solicitation and all the administrative functions associated with an estimated 9,000 enrollees year after year.

Also, NCSC/NSCERC does not adequately consider the comments that were made by both Seabury and NCSC officials which demonstrate that no studies were performed nor were any work-load analyses conducted (by either party) to ascertain the proper amount of fees to be paid for the inherent administrative functions. When Seabury and NCSC officials were asked for support or a justification for the 14.5 percent fee and the related sharing arrangement of 4.0 percent for NCSC/NSCERC and 10.5 percent for Seabury, the officials said that there was no such analysis or assessment. They added that the amount paid to Seabury, for example, was simply “the amount that NCSC/NSCERC had agreed to pay.” Contrary to the statements included in the Executive Director’s comments, the fees paid to Seabury, as well as all the amounts received by NCSC/NSCERC, are, as we have reported, amounts that were, in fact, charged to the DOL SCSEP grant. Therefore, they do provide the basis for the related “cost disallowances” presented in this finding.

In purchasing third-party general liability insurance (Finding No. 3), NCSC/NSCERC’s failure to use effective competitive solicitation procedures is well documented and supported by the statements, the actions, as well as the related correspondence prepared by NCSC/NSCERC. Specifically, NCSC/NSCERC’s “solicitations for bids” have been marked by an apparent lack of essential details and pertinent information which could have had a very significant impact on NCSC/NSCERC’s ultimate ability to receive a competitively based bid. As demonstrated by its related correspondence, NCSC/NSCERC failed to provide, to potential insurance carriers, important data on the description of the specific services that the enrollees would generally perform as well as the previous claims experience under the program. Such notable omissions of key details can hardly be construed as a procurement practice that satisfies the basic and fundamental requirements and objectives of governing Federal regulations, such as OMB Circular A-110. The reported corrective action, that was cited by NSCERC, which it states it implemented to satisfy a FY 1989 audit finding on its inadequate procurement procedures, appears to warrant, at this time, an in-depth reassessment to ascertain, among other things, if the June 1991 DOL conclusion on NCSC/NSCERC’s procurement practices as “satisfactory” is valid today.

Finally, nowhere in the draft audit report have the auditors’ expressed concern over the fact that NCSC has elected to provide this insurance. More significantly, as the finding details demonstrate, the fundamental issue is related to inherent weaknesses in NCSC/NSCERC’s procurement practices and procedures. This is supported by NCSC/NSCERC’s lack of effective competitive action with regard to the information that was or was not presented to bidders, as well as its failure to obtain a reasonable number of bids from potential insurance providers.

As previously discussed, the aforementioned findings and related comments deal with the more significant aspects of the total questioned costs of $2,778,260 in this report on the DOL grant for FY 1996. With regard to the remaining findings, NSCERC stated it: (1) is implementing procedures to adjust the fringe benefits to actual each year, (2) intends to revise the proposed indirect cost rate for EPA grant salaries and insurance, (3) is reducing the postage and duplicating accounts by the reimbursements it receives, and (4) is attempting to combine the fiscal and program monitoring responsibilities. NSCERC did not agree that: (1) the pension plan costs required adjustments, (2) the library services costs should be charged to the direct membership activities, or (3) the indirect cost base should exclude any subrecipient costs. The additional details and our comments in response to NCSC/NSCERC's statements for these, and the other findings, have been incorporated into the individual sections of the report.

Also, NSCERC's comments, in their entirety, are presented in the Appendix.

SUBSEQUENT EVENTS

On July 2, 1999, as part of the DOL/NCSCERC SCSEP Grant Agreement for the new program year beginning July 1, 1999, certain Special Conditions were included with respect to the Hospital Indemnity Insurance Plan noted in this audit report (Finding No.1) as follows:

a. The HIP insurance program for Senior Aides will be phased out as soon as practical, but no later than September 30, 1999. Use of DOL grant funds to buy HIP insurance will be similarly limited and precluded after program phase-out.

b. Monumental Life Insurance Company will return to NCSC the positive retention account balances related to its HIP and Medical Supplement premiums and NCSC/NSCERC will open an interest bearing escrow account in a financial institution and deposit into that account, by no later than August 1, 1999, an amount equal to all retention payments and credits as provided in the Agreement. All such funds shall remain in the escrow account until settlement or resolution of the matters (audit findings) currently in contention with respect to these funds.

A memorandum from the Director of Finance to the Executive Director dated August 4, 1999 showed that NCSC/NSCERC had established an escrow account with a value of $2,215,000.

These special conditions resolve our concerns as noted in Finding No. 12 of our draft report -- Administrative Costs of Federal Grant Programs; therefore, we have removed this finding from the final report.

INTRODUCTION AND BACKGROUND

Under contract to the U.S. Department of Labor (DOL), Office of Inspector General (OIG), we audited the costs incurred by the National Council of Senior Citizens, Inc. (NCSC) and its related organization, the National Senior Citizens Education and Research Center, Inc. (NSCERC) for services provided under the DOL Senior Community Service Employment Program (SCSEP) grant ($60.6 million Federal share) for the Fiscal Year (FY) ended June 30, 1996.

NCSC/NSCERC's operations also included administering a similar $7.2 million senior employment program for the Environmental Protection Agency (EPA). NCSC/NSCERC's non-Government activities include serving its members, at a cost of about $5 million a year. NCSC and NSCERC were established in 1962 as not-for-profit corporations to administer programs and activities for Senior Citizens.

SCSEP

The Community Service Employment for Older Americans appropriation provides Federal grants to public and private nonprofit national-level organizations and to State governments. These funds are used to subsidize part-time work in community service activities for low-income persons aged 55 and over. National and State sponsors share the funds with 78 percent being allocated to the national sponsors and 22 percent to the State sponsors. In FY 1998, DOL funded 48,000 "positions" with $343,356,000 for the national sponsors and 13,500 "positions" with $96,844,000 for the State sponsors.

The national sponsors' portion of the SCSEP has been managed by nine national nonprofit organizations and one Federal agency -- the U.S. Forest Service. Local projects are managed under subcontracts with local organizations, such as agencies for the aging or community groups, and through local units of the national organizations. The local projects are coordinated with those of other State and Federal programs serving older Americans to geographically distribute and coordinate the activities and services.

SCSEP Grant

The DOL grant awarded to NCSC/NSCERC under the SCSEP for FY 1996 is summarized below. This grant was initially awarded to NCSC, but management responsibility for the grant activities was transferred to NSCERC on January 1, 1996, pursuant to a Novation Agreement between NCSC, NSCERC, and DOL.[2]

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[2] This Novation Agreement was the result of Congress' passage of Section 18 of the Lobbying Disclosure Act of 1995, which prohibits organizations involved in political activity from receiving Federal grants. NCSC is recognized under the Internal Revenue Code as a section 501(c)(4) tax exempt corporation, which allows it to participate in some political activity. NSCERC, on the other hand, qualifies under section 501(c)(3) of the Internal

Grant	Grant Period	Federal Share	Non-Federal Share	Budget Amount
D-5102-5-00-81-55	7/1/95 - 6/30/96	$60,569,504	$6,729,946	$67,299,450

Under its annual SCSEP grant, NCSC/NSCERC provides subsidized part-time community service employment and training to about 9,000 enrollees. These individuals are known as "Senior Aides" or "enrollees." DOL grants specify the number of Senior Aides that NCSC/NSCERC is authorized each year. NCSC/NSCERC enters into "agreements" with local governmental agencies or local not-for-profit organizations. These organizations are known as "subrecipients." Within their geographically assigned areas, the subrecipients are responsible for recruiting and enrolling eligible "low income" elderly individuals (55 years or older) and placing them in employment/training positions at local government offices or "not-for-profit" community organizations, such as hospitals, schools, and nursing homes. The Senior Aides (enrollees) work/train at these assigned organizations which are known as "host agencies." Enrollees usually work 20 hours a week, are employees of the subrecipients, and are paid by the subrecipients at the Federal or State minimum wage rate. Enrollees also receive certain fringe benefits, such as FICA, vacation, and sick leave and hospital indemnity insurance. They are encouraged to seek and obtain unsubsidized employment as soon as possible so they can leave the program and allow other "needy" individuals to enter. Host agencies do not pay for enrollee services; they are, however, required to provide enrollees with on-the-job training to assist them in obtaining unsubsidized employment.

Subrecipients are reimbursed by NCSC/NSCERC for enrollee salaries, fringe benefits, and other enrollee costs. The administrative costs computed and reported by the subrecipients are not usually reimbursed by NCSC/NSCERC, but are expenses that subrecipients claim as "contributions" to satisfy the non-federal-matching share of grant costs.

NCSC/NSCERC's staff of about 60 SCSEP employees make scheduled onsite fiscal and program reviews at subrecipient locations. The staff is also responsible for the budgeting and accounting functions, as well as drawing down funds from the U.S. Treasury under a Letter-of-Credit arrangement. Overall direction and management of the program is performed by NCSC/NSCERC executive-level personnel whose costs are charged to the DOL grant through an indirect cost allocation plan.

SCSEP Requirements

The 20 CFR Part 641.405 **Limitations on Federal Funds** (b)(1) *Administration* limits the administrative costs of the SCSEP to 13.5 percent (15.0 percent with DOL approval) of the total allowable costs chargeable to SCSEP grants. Part 641.405 (b)(2) *Enrollee wages and fringe benefits* requires that

Revenue Code as a charitable and education organization. As such, NSCERC is not permitted to engage in any political or lobbying activity.

the amount of Federal funds budgeted for enrollee wages and fringe benefits be no less than 75 percent of the grant. Part 641.407 **Non-Federal share of project costs** limits the Department's share of any project to 90 percent. Allowable grant costs are determined by OMB Circular A-122, *Cost Principles for Non-Profit Organizations*.

Environmental Protection Agency
Senior Environmental Employment (SEE) Program

NSCERC has performed EPA-Senior Environmental Employment (SEE) Program grant activities costing about $7.2 million a year since 1984. Under these grants, NSCERC employs about 300 enrollees 55 years of age or older in full-time or part-time positions. The enrollees are assigned to work at EPA offices, laboratories or other EPA facilities at wage rates of up to $15.00 an hour. They also receive certain fringe benefits including health insurance. Recruitment, position assignments, terminations, and travel are managed by "resident" EPA employees. NSCERC functions include maintaining personnel and payroll records for enrollees, payment of wages and travel expenses and preparation of reimbursement invoices to EPA. In addition to direct enrollee costs, NSCERC claims a 15 percent "add-on" to the direct costs for its administrative services. EPA grants are subject to the requirements set forth in OMB Circular A-122. The enrollees are employees of NSCERC.

NCSC/NSCERC's Accounting System

NCSC/NSCERC maintains a separate bank account and a separate set of accounting records known as "NCSC or NSCERC Senior Aides" for its DOL SCSEP grant activities. Costs applicable to EPA grants are also separately maintained in the "NSCERC-EPA-grants" accounts. Most financial transactions (such as cash receipts from the U.S. Treasury and DOL and EPA grant disbursements) are initially recorded in these accounts. These include payments to subrecipients, costs of training seminars, consultants, and most other direct costs.

Some direct cost items (such as employee salaries) and indirect costs applicable to the DOL Senior Aides and EPA grants as well as to its non-Government programs are initially recorded in NCSC or NSCERC's books of account. Costs recorded in these accounts include salaries and fringe benefits for NCSC or NSCERC employees who are directly engaged in and chargeable to the DOL SCSEP grant. "Intra company cost billings" are processed to charge the DOL Senior Aides or the EPA grants for these direct costs and for their allocated share of indirect costs based on the relative benefits received. NCSC executive personnel and certain support functions (such as rent) are initially recorded in NCSC's accounts and then allocated to the benefitting programs.

OBJECTIVES AND SCOPE OF AUDIT

The primary objective of our audit was to determine whether the direct and indirect costs claimed for reimbursement by NCSC/NSCERC for services performed under its DOL grant during FY 1996 ($60.6 million Federal share) were reasonable, allocable, and otherwise allowable in accordance with the Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*, and the specific provisions of the grant. We did not perform a detailed audit of NCSC/NSCERC's non-Federal matching costs, because these were non-reimbursable costs.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States. Because NCSC/NSCERC management is responsible for compliance with applicable laws and regulations related to its Federal grants, our secondary objective was to determine the overall adequacy of NCSC/NSCERC internal operating controls and to ascertain its compliance with Federal laws and regulations.

Scope of Audit

Our audit included such tests of the NCSC/NSCERC's accounting records and other auditing procedures as we deemed necessary under the circumstances after considering: (a) the effectiveness of its internal controls, and (b) the results of the external audit of NCSC/NSCERC's financial statements. Statistical sampling was not used because the audit universe related to most individual accounts or cost elements was not large enough to make its use practical. Accordingly, we used a combination of risk analysis as well as random and judgmental sampling to test individual account transactions and cost allocations. These tests were expanded, as necessary, to provide a firm basis for our conclusions.

The FY 1996 indirect cost proposal submitted to DOL consolidates certain operating activities and costs of both NCSC and NSCERC, primarily as a result of the transfer of DOL grant activities from NCSC to NSCERC pursuant to a Novation Agreement with DOL, effective January 1, 1996. The scope of our FY 1996 audit included both entities and their consolidated costs to determine the reasonableness of the proposed indirect costs and rate.

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INDEPENDENT AUDITORS' REPORT

We audited the direct costs claimed and indirect costs and rates proposed by the National Council of Senior Citizens, Inc. (NCSC) and the National Senior Citizens Education and Research Center, Inc. (NSCERC) for the DOL SCSEP grant activities performed during the FY ended June 30, 1996. The costs claimed for reimbursement ($60.8 million Federal share) and the indirect cost rate proposed are the responsibility of NCSC/NSCERC. Our responsibility is to perform an audit and express an opinion on the accuracy of the costs claimed, including the final indirect costs and rate proposed under the DOL and EPA grants.

We conducted our audit in accordance with generally accepted auditing standards and standards applicable to financial audits contained in the *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 costs claimed are in compliance with the terms and conditions of NCSC/NSCERC's DOL SCSEP grant and OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, and are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts claimed. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial presentation. NCSC/NSCERC's financial presentations for FY 1996 and the results of our audit are included as Exhibits A through D. We believe our audit provides a reasonable basis for our opinion.

As described in Finding No. 1 - Hospital Indemnity Plan Refunds, and in the accompanying schedule of questioned costs (Exhibit A), NCSC/NSCERC did not comply with the requirements of OMB Circular A-122, Attachment A, Subpart A *Basic Considerations*, paragraph 5.a. regarding *Applicable Credits* that are applicable to its DOL SCSEP grant. NCSC/NSCERC had received a substantial premium "refund" for FY 1996 based on the "favorable claims experience" for its Hospital Indemnity Plan insurance; however, contrary to the terms of the DOL grant and OMB Circular A-122, NCSC/NSCERC did not "credit" the refund to the DOL grant, but instead included the amount received as royalty income. This finding ($948,983 in questioned costs for FY 1996) had been previously reported in OIG Audit Report No. 18-99-007-07-735, issued on February 3, 1999, in which $3,858,910 was questioned for FYs 1993-1995. NCSC/NSCERC's failure to credit the DOL grant has had a direct and material effect on NCSC/NSCERC's use of and accounting for DOL SCSEP funds.

In our opinion, except for the effects of the DOL Grant Officer's resolution of the costs proposed by NCSC/NSCERC which we question (as discussed above and in the *Findings and Recommendations* section of this report), the *Exhibits* referred to above present fairly, in all material respects, the allowable (audit-recommended) Federal share direct and indirect costs of the DOL SCSEP grant for FY 1996.

The SCSEP authorizing legislation specifies that the Federal share of any project is limited to 90 percent. As such, the total grant budget consisted of a Federal share (reimbursable costs) of $60.6 million (which is the subject of this audit report) and the incurrence of $6.7 million of non-Federal share costs as part of grant performance. The non-Federal share costs were computed and reported by NSCERC's subrecipients and their host agencies, who agreed that all such costs were to be reported on a <u>nonreimbursable</u> basis to NSCERC.

In accordance with the <u>*Government Auditing Standards*</u>, we have also issued our report, dated June 18, 1998, on our consideration of NCSC/NSCERC's internal control over financial reporting of grant costs claimed for reimbursement and on our tests of its compliance with certain provisions of laws, regulations, and Federal grants.

This report is intended solely for the information and use of the U.S. Department of Labor, the Environmental Protection Agency, and NCSC/NSCERC and is not intended to be used by anyone else. This restriction, however, is not intended to limit the distribution of this report which, when issued, becomes a matter of public record.

We held an entrance conference with NCSC/NSCERC officials on January 5, 1998. The last day of our onsite field work was June 18, 1998. On September 17, 1998, we held an exit conference with most of the same officials. On June 11, 1999, NSCERC provided written comments on a draft of this report, which have been considered in finalizing this report. This report is dated June 18, 1998, which was the last day of our onsite audit field work.

Myint & Buntua, CPAs
Falls Church, Virginia
June 18, 1998

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INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL STRUCTURE

We audited the costs claimed and the indirect costs and rates proposed by the National Council of Senior Citizens, Inc. (NCSC) and the National Senior Citizens Education and Research Center, Inc. (NSCERC) under its DOL grant for FY 1996. We issued our report thereon, dated June 18, 1998. We included in our audit the costs incurred/charged for all NCSC/NSCERC activities, including administering grants for the Environmental Protection Agency.

We conducted our audit in accordance with generally accepted auditing standards and the *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that we plan and perform an audit to obtain reasonable assurance about whether the costs claimed for reimbursement are free of material misstatement and whether NCSC/NSCERC complied with applicable laws and regulations.

NCSC/NSCERC management is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, estimates and judgments by management are required to help assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial reports in accordance with the terms and conditions of the grant and OMB Circular A-122. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of an evaluation of the internal controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For NCSC/NSCERC internal control over financial reporting of Federal grant costs, we obtained an understanding of the relevant policies and procedures and whether they had been placed in operation. We also assessed control risk.

In planning and performing our audit of the costs incurred for FY 1996 (including the final indirect costs and rate proposed by NCSC/NSCERC), we considered NCSC/NSCERC's internal controls over financial reporting. By doing so, we were able to formulate auditing procedures that allowed us to express an opinion on the costs claimed, without providing assurances concerning the internal controls themselves. However, we noted certain matters involving the internal controls over financial reporting and its operation 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 controls over financial reporting (costs claimed, including final indirect costs and rate proposed) that, in our judgment, could adversely affect NCSC/NSCERC's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial reports submitted to U.S. Department of Labor. Reportable conditions are described in the *Findings and Recommendations* section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the control components does not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the costs claimed and final indirect costs and rate proposed, 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 structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants.

As discussed in the *Findings and Recommendations* section of this report, and in our *Independent Auditors' Report*, we identified a reportable condition relating to accounting for Hospital Indemnity Plan Refunds (as described in Finding No. 1) as a MATERIAL WEAKNESS.

This report is intended solely for the information and use of the U.S. Department of Labor, the Environmental Protection Agency, and NCSC/NSCERC and is not intended to be used by anyone else. This restriction, however, is not intended to limit the distribution of this report which, when issued, becomes a matter of public record.

On January 5, 1998, we held an entrance conference with NCSC/NSCERC officials. The last day of our onsite field work was June 18, 1998. On September 17, 1998, we held an exit conference with most of these same officials. On June 11, 1999, NSCERC provided written comments on a draft of this report, which have been considered in finalizing this report. This report is dated June 18, 1998, which was the last day of our onsite audit field work.

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June 18, 1998

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We audited the costs claimed and the indirect costs and rates proposed by the National Council of Senior Citizens, Inc. (NCSC) and the National Senior Citizens Education and Research Center, Inc. (NSCERC) under its DOL grant for FY 1996. We issued our report thereon dated June 18, 1998. We included in our audit the costs incurred/charged for all NCSC/NSCERC activities, including administering grants for the Environmental Protection Agency.

We conducted our audit in accordance with generally accepted auditing standards and the *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 financial reports (costs claimed, including the final indirect costs and rate proposed) are free of material misstatement. As part of obtaining reasonable assurance about whether NCSC/NSCERC's financial reports submitted to the U.S. Department of Labor are free of material misstatement, we performed tests of NCSC/NSCERC's compliance with the terms and conditions of its DOL SCSEP grant and OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, noncompliance with which could have a direct and material effect on the costs claimed, including the final indirect costs and rate proposed. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

As described in Finding No. 1 - Hospital Indemnity Plan Refunds, and in the accompanying schedule of questioned costs (Exhibit A), NCSC/NSCERC did not comply with the requirements of OMB Circular A-122, Attachment A, Subpart A, *Basic Considerations*, paragraph 5.a. regarding *Applicable Credits* that are applicable to its DOL SCSEP grant. NCSC/NSCERC had received a substantial premium “refund” for FY 1996 based on the “favorable claims experience” for its Hospital Indemnity Plan insurance; however, contrary to the terms of the DOL grant and OMB

Circular A-122, NCSC/NSCERC did not "credit" the refund to the DOL grant, but instead included the amount received as royalty income. This is a REPEAT FINDING. This finding ($948,983 in questioned costs for FY 1996) had been previously reported in OIG Audit Report No. 18-99-007-07-735, issued on February 3, 1999, in which $3,858,910 was questioned for FYs 1993-1995.

Furthermore, the fact that the Hospital Indemnity Plan insurance premiums year-after-year were significantly higher than the real cost of the insurance, resulting in substantial premium refunds, the excess portion of the premiums (i.e., the amounts by which the premiums should have been reduced to eliminate the substantial premium refunds) represents an unnecessary and unreasonable cost.

As discussed in the *Findings and Recommendations* section of this report, and in our *Independent Auditors' Report*, we identified a reportable condition relating to accounting for <u>Hospital Indemnity Plan Refunds</u> (as described in Finding No. 1) as a MATERIAL WEAKNESS.

This report is intended for the information and use of the U.S. Department of Labor, the Environmental Protection Agency, and NCSC/NSCERC management and is not intended to be used by anyone else. This restriction is not intended to limit the distribution of this report which, when issued, becomes a matter of public record.

We held an entrance conference with NCSC/NSCERC officials on January 5, 1998. The last day of our onsite field work was June 18, 1998. On September 17, 1998, we held an exit conference with most of the same officials. On June 11, 1999, NSCERC provided written comments on a draft of this report, which have been considered in finalizing this report. This report is dated June 18, 1998, which was the last day of our onsite audit field work.

Myint & Buntua, CPAs
Falls Church, Virginia
June 18, 1998

FINDINGS AND RECOMMENDATIONS

FINDINGS AND RECOMMENDATIONS

Finding No. 1 - Hospital Indemnity Insurance Plan Refund

NCSC/NSCERC did not reduce the FY 1996 costs ($2,160,473) charged to the DOL Senior Aides Program for enrollee Hospital Indemnity Plan (HIP) insurance by the premium refund received from its insurance company ($948,983). The premium refund for the period August 1, 1995 to July 31, 1996, as computed by the insurance company and shown in the financial statement, is presented on Schedule No. 1 on page 18. The failure of NCSC/NSCERC to credit the DOL Senior Aides program for HIP premium refunds was noted in our prior audit report for FYs 1993, 1994, and 1995[3] and totaled $3.8 million for the three fiscal years, plus imputed interest lost (not earned) by the Federal Government from the time the funds became available to NCSC/NSCERC until DOL is reimbursed for these amounts.

Background

NCSC provides HIP insurance to its enrollees at no cost to them. The initial agreement between the Monumental Life Insurance Co. (Monumental) and NCSC, for determining the HIP amount of premium "refunds," was effective October 1, 1992. About 70 percent of NCSC's enrollees participate in the plan. The other enrollees do not participate because they may not benefit from the plan. These include Senior Aides who can use Veterans Hospitals or others who are covered by Medicaid or supplemental health insurance. The current monthly premium for each enrollee is $26.66. In FY 1996, NCSC/NSCERC charged premiums of more than $2.0 million directly to the DOL grant.

Insurance Agreement

The insurance agreement between NCSC and Monumental, dated November 30, 1992, describes the provisions and conditions of the insurance plan, as well as the duties of the parties involved in underwriting, marketing, and administering the program. Section V of this agreement, entitled "Compensation," is included as Attachment A (see pages 19 to 21). Article 2 of Section V states that Monumental will prepare and present to NCSC a "Retention Accounting Statement" each policy year (August 1 to July 31) together with any "Premium Refunds." The basis for the refund is described in Article 3 of the agreement. From the premiums paid, Monumental deducts the claims paid, a "claim reserve" amount, certain expenses, and fees for administrative costs. This computation results in an "Aggregate Balance" which, if "positive," is the amount that is to be returned to NCSC as a "refund."

Operating Cost Data

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[3]DOL/OIG Audit Report No. 18-99-007-07-735, dated February 3, 1999.

HIP operating costs and expenses reported by Monumental pursuant to Section V of the agreement, are presented in Schedule No. 1 (see page 18) for the 12-month period ended July 31, 1996. The "positive" or favorable balance ($948,983) represents the "**Aggregate Balance**" and the amount that will be returned to NCSC as a refund.

Applicable Credits

NCSC improperly recorded the "refund amounts" it received as <u>revenue income</u> instead of an <u>offset credit</u> to the DOL Senior Aides program costs.

In this regard, OMB Circular A-122, Attachment A, Subpart A *Basic Considerations,* paragraph 5.a. states:

> "***5. <u>Applicable Credits</u>***
> *a. The term applicable credits refers to those receipts, or reductions of expenditures which operate to offset or reduce expense items that are allocable to awards as direct or indirect costs. Typical examples of such transactions are: . . . <u>insurance refunds</u>. . . . To the extent such credits accruing or received by the organization relate to <u>allowable cost</u> they shall be <u>credited</u> to the <u>Government</u> either as a <u>cost reduction</u> or <u>cash refund</u> as appropriate."* (Underscoring added.)

Refunds

In a subsequent agreement between NCSC and Monumental, effective January 1, 1994, payments that were reported as "**Premium Refunds**" (under the prior agreement) were reclassified as "***royalty fees paid to NCSC solely for the use of its name and logo in solicitation of insurance***." No changes, however, were made in either the method of computing the amount of the "refund" or in the nature of the refund. Further, the reclassification (from a "refund" to a "royalty fee") did not in any way affect the basis upon which the amounts were determined, nor did it change the fact that the amounts refunded to NCSC are based upon NCSC's "claims experience."

Whether deemed a *"refund"* or a *"royalty fee,"* the payments should have been recognized as an appropriate reduction, or an offset "credit," to the premiums that NCSC paid to Monumental and which NCSC had charged <u>directly</u> to the DOL SCSEP grant.

In discussions with Monumental we were informed that, contrary to the insurance agreement, arrangements had been made with NCSC that the refundable amounts could be retained by Monumental and paid to NCSC/NSCERC upon request. In this regard, we noted that Monumental's payments to NCSC/NSCERC during FY 1996 were $850,000. However, instead of "crediting" the amounts received to the DOL Senior Aides Program, NCSC "credited" membership program income.

Unreasonable Costs

Because NCSC received substantial HIP premium refunds year after year, not only during the audit period, but also for the years immediately preceding it, its premiums were significantly higher than the real cost of the insurance. The HIP payments were calculated by deducting the Senior Aides' insurance claims and the insurance company's expenses and profit margin from the premiums. The high yearly returns were not diminished despite the fact that the Senior Aides' insurance benefits increased, over time without any increase in premiums. NCSC did not seek to reduce the premiums and, in fact, rejected Monumental's offer to do so. The excess portion of these premiums (i.e., the amount by which the premiums should have been reduced to eliminate the payments to NCSC) represents an unnecessary and unreasonable cost and is **unallowable**.

OMB Circular A-122, Attachment A, Subpart A. *Basic Considerations,* paragraph 3 states:

> *"3. Reasonable Costs*
> *A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. The question of the reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions thereof which receive the preponderance of their support from awards made by Federal agencies. In determining the reasonableness of a given cost, consideration shall be given to:*
>
> *a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.*
> *b. . . .*
> *c. Whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the Federal Government."* (Underscoring added.)

NCSC did not act with prudence when it failed to reduce the amount of the insurance premiums paid over and above that necessary to eliminate the large premium refunds. As such, the excess premiums paid were unreasonable costs that should not have been incurred.

AUDITEE'S RESPONSE

NSCERC said that we have "improperly mischaracterized" NCSC royalty income as "insurance premium refunds." Continuing, NSCERC said that neither NCSC nor NSCERC has any obligation to the Federal Government with respect to NCSC's royalty income that it received from the Monumental Life Insurance Company *pursuant to the agreement between Monumental and NCSC nor with respect to any program income earned "after the close of the project period."*

NSCERC said that USDOL and previous OIG-sanctioned auditors authorized and approved the HIP for many years. NSCERC further said that the OIG-sanctioned auditors reviewed and approved the treatment of NCSC's "royalties" and financial statement reporting consistently since 1988.

NSCERC also pointed out that, in their opinion, we have no basis for contending that the HIP premiums were "overcharges" to the DOL grant. In this regard, NSCERC referred to an Ernst & Young study that cited the NCSC [premium] rate as the absolute lowest and averaged a very favorable 69 percent below the average observation.

Concluding, NSCERC said NCSC has consistently reported the Monumental payments as royalty income on its tax returns and its financial statements.

AUDITORS' COMMENTS

The governing Federal criteria is clearly stated in OMB Circular, Attachment A, which specifically mentions, as a typical example of an applicable credit, insurance refunds.

In the initial agreement between NCSC and Monumental (1992), all payments to NCSC from Monumental were classified as Premium Refunds. In 1994, the agreement was modified to change these payments from a refund to a royalty. However, simply changing the name of these amounts from "refunds" to "royalty fees" does not alter, in any way, the fundamental nature of the payments or the basis upon which they are determined. An analysis of the basis upon which the payments are computed clearly serves to dispel NSCERC's contention that "refunds of premiums" are "royalty payments." The amounts so computed by Monumental, under its existing agreement with NCSC/NSCERC (and as they are supported by their financial statements), show that the "premium refund" is (and always has been) based upon the amount of claims paid, the level of the administrative fees, and the establishment (need for) of a claims reserve. All of these amounts are deducted from the total amount of the premium paid to Monumental by NSCERC. Neither Monumental, nor NCSC/NSCERC, has demonstrated that the "premium refund" now suggested to be called a "royalty" is based upon the results of any type of "marketing enhancement" and/or related "sales benefits" to Monumental for the "use of NCSC's name or logo." In addition, if the HIP program has claims and related expenses in excess of the amount of the premiums paid by NCSC/NSCERC, then NCSC/NSCERC would not receive any payment.

It should also be noted that NCSC/NSCERC, in its prior comments, said they did not concur with our finding on the need to credit DOL for these refunds because the finding, according to NCSC/NSCERC, was based on NCSC making a "retroactive adjustment." However, in the case of the successor grantee (who at that time was to be NSCERC), NCSC said that it is willing to "renegotiate" or to "revise" its grants and its contracts, in accordance with any subsequent suggestions or directions from the Department of Labor. In connection with this report, NCSC/NSCERC now has reversed its position and instead elected to claim that it does not need to make any adjustments for the refund payments, not because they constitute a "retroactive" adjustment, but because they are now to be classified as "royalty payments."

NCSC/NSCERC has also introduced an Ernst & Young study that states that the NCSC premiums are extremely low and very favorable. Using this data, NSCERC said that we have no basis to contend that the HIP premiums were "overcharges." It should be noted that no where in the report have we said that the premiums (in and of themselves) represented an "overcharge." A careful reading of the detailed supporting evidence presented by the auditors (in both this and in the prior report) shows that the "premium refund amount," as it is computed by Monumental and paid to NCSC/NSCERC, is the primary issue. Where, year after year, Monumental is returning over 50 percent of the premiums to the payee (NCSC/NSCERC), there is likely a basis for some type of reduction to be made in the initial premiums. In most cases like this, the payee would welcome the opportunity to reduce the annual premiums. NCSC/NSCERC was informed by an actuary that, based upon the claims experience and the associated related costs, the insurance benefits could be increased and/or the premiums reduced. However, NCSC/NSCERC, contrary to normal business practices, preferred to keep the premium at the same level which had been established at the inception of the program. Accordingly, the premium refunds continued to be paid to NCSC/NSCERC at about a 50 percent level and NCSC/NSCERC then used such refunded amounts for nongrant purposes.

In our opinion, the amounts paid to NCSC/NSCERC each year are a "refund" of premiums, and do not meet the test of a "royalty fee." As such, and in accordance with applicable governing Federal regulations, the "refunds of excess premiums paid" should be "credited" to the Federal grant.

As to USDOL approving the HIP, we have not questioned NCSC's right to provide this insurance to the Senior Aides. Our concern is with the proper recording of the cost of the benefit and the premium refunds received from the insurance company. NCSC did not draw down on these funds until November 1993. Therefore, any prior audits performed by the OIG would not have revealed how NCSC accounted for the refunds. Our first audit after that date covered fiscal years 1993 - 1995. The auditors reviewing that period promptly questioned NCSC's treatment of the premium refunds as NCSC income.

RECOMMENDATIONS

1. **We recommend that the DOL Grant Officer:**

a. Reduce NCSC/NSCERC's FY 1996 direct DOL SCSEP grant costs by $948,983, to recognize the insurance premium "refund" due NCSC from Monumental Life Insurance Company for its hospital indemnity plan insurance, but which NCSC/NSCERC did not, as required by Federal regulations, "credit" to the DOL SCSEP grant.

b. Require that NCSC/NSCERC pay to DOL the amount of imputed interest that the Federal Government lost (not earned) for the period that NCSC/NSCERC had access to the $948,983.

c. Require that NCSC (NSCERC, as the successor grantee) credit all future "refunds"

Schedule No. 1

National Council of Senior Citizens
Monumental Life and Life Investors Insurance Companies
August 1, 1995 to July 31, 1996

Description	Amount	
Collected Earned Premium	$2,307,931	
Prior Period Adjustments	22,167	
Estimated Earned Due and Unpaid	200,084	
Total Retention Premium		$2,530,182
Beginning Claim Reserve	$ 280,928	
Ending Claim Reserve	319,173	
Change in Claim Reserves	38,245	
Paid Claims or Ultimate Runoff	810,326	
Paid Claims Prior Period Adjustments	(1,125)	
Less: Total Claims or Runoff		847,446
Administrative Fees	$ 366,876	
Charged/Pending Marketing Expenses	0	
Premium Taxes	63,255	
Company Retention	303,622	
Less: Total Charges		733,753
Gain or (Loss) for the Period		$ 948,983

( )Denotes decrease

NOTE: The amount shown for FY 1996 ($948,983) as "Gain for the Period" is due to the Government as an overall credit applicable to the DOL grant. Premium refunds payable to NCSC may be subject to temporary reductions for contingency reserves.

SOURCE: MONUMENTAL LIFE INSURANCE CO.

ABSTRACT OF NCSC INSURANCE PLAN AGREEMENT
Hospital Indemnity Plan
(November 30, 1992)

Section V: Compensation

1. *For purposes of this Agreement and the determination of the Retention Accounting, the following terms shall apply:*

   a. ***Retention Accounting Year*** *-- "Retention Accounting Year" is defined as a period of twelve (12) consecutive months commencing on August 1 of each year this Agreement remains in force and each succeeding 12 month period; with the exception that for the Policy Year beginning in 1992, the Policy Year shall commence on October 1, 1992 and end on July 31, 1993.*

   b. ***Anniversary Date*** *-- "Anniversary Date" is defined as the first day of any Retention Accounting Year.*

   c. ***Earned Premiums*** *-- "Earned Premiums" are defined as the premium earned during the Retention Accounting Year for the coverages provided by Insurer.*

   d. ***Claims*** *-- "Claims" are defined as claims paid during the Retention Accounting Year, plus Claim Reserves and liabilities at the end of the prior Retention Accounting Year, as determined by Insurer and as stated in the year-end accounting for the Policies governed by the terms of this Agreement. Liabilities as determined within this section may result from either a claim payment, settlement of a claim, or the resulting payment of a suit and costs thereto.*

   e. ***Claim Reserve*** *-- "Claim Reserve" is defined as a reasonable claim reserve established and held by Insurer to provide for future claim payments covering claims incurred prior to the Anniversary Date of each Retention Accounting Year, for claims incurred and not reported to Insurer until after the Anniversary Date of each Retention Accounting Year. Such reasonable reserve shall be established by Insurer and will be maintained at the level determined necessary for the coverages governed by the terms of this Agreement, and will be subject to review by NCSC and its actuaries.*

f. ***<u>Advertising Production and Dissemination Expenses</u>*** -- *"Advertising Production and Dissemination Expenses" is defined as the sum of all actual marketing expenditures incurred in connection with the solicitation of the insurance programs, including typesetting and* *mechanical work, printing and transportation of promotional materials to place of dissemination, data processing services, mailhouse services and postage. No such expenses may be incurred without the prior written approval by Insurer and NCSC jointly.*

g. ***Retention*** *-- "Retention" is defined as the sum due Insurer which is made up of the following for the Policies for each Retention Accounting Year: 12% of the first $6,000,000.00 of Earned Premium each Policy Period, plus 11.5% of all Earned Premium in excess of $6,000,000.00 each Policy Period, plus Advertising Production and Dissemination Expenses, plus 2.5% state premium taxes paid or payable,* ***plus 14.5% administrative fees paid to NCSC****.*

h. ***Contingency Reserve*** *-- "Contingency Reserve" is defined as an experience stabilization reserve established by Insurer from Underwriting Results (as further described in Section 3 below) and held by Insurer. Such reserve shall be considered fully established when it equals 12.5% of Premiums for the last completed Retention Accounting Year up to a maximum of $5,000,000.00 in Premiums and 5% for Premiums in excess thereof.*

[Auditor's Note: The NCSC Insurance Plan Agreement does not have a subsection i.]

j. ***Contingency Reserve Interest Credit*** *-- "Contingency Reserve Interest Credit" is defined as interest on the Contingency Reserve held at the beginning of each Retention Accounting Year. The rate of interest will be that published in Insurer's latest Annual Statement, as derived from the ratio of net investment income to mean assets.*

2. *Each year, a Retention Accounting will be prepared and presented by Insurer, along with any resulting Premium Refund, if one is payable, within 60 days of the end of each Retention Accounting Year. In addition, unaudited quarterly Retention Accountings will be provided.*

3. *The Retention Accounting for each Retention Accounting Year will show:*

a. Calculation of the Underwriting Results for the Retention Accounting Year, in accordance with the following formula:

Earned Premium
Less Retention
Less Claims and Claim Reserves
Equals Underwriting Results for the Retention Accounting Year

b. *Calculation of the Aggregate Balance as of the end of the Retention Accounting Year, in accordance with the following formula:*
Underwriting Results for the Retention Accounting Year

<u>Less</u> any Deficit Accumulated at the beginning of the Retention Accounting Year
<u>Plus</u> any Contingency Reserve at the beginning of the Retention Accounting Year
<u>Plus</u> any Contingency Reserve Interest Credit for the Retention Accounting Year
<u>Less</u> any Contingency Reserve at the end of the Retention Accounting Year
<u>Equals</u> Aggregate Balance

4. ***To the extent that the Retention Accounting for a Retention Accounting Year results in a positive Aggregate Balance, that balance will be returned to NCSC as a Refund.***

5. *To the extent that the Retention Accounting for a Retention Accounting Year results in a negative Aggregate Balance, that balance will be called the Deficit Accumulated and will be included in the succeeding Retention Accounting Year calculation of the Aggregate Balance.*

6. *For the purpose of this Agreement and the determination of the Retention Accounting, all references to dollar amounts for Earned Premiums, Claims, State Premium Taxes, Claim Reserves, Promotional Expense Charges, Contingency Reserves and Retentions shall refer to the aggregate sum of such amounts under all Policies issued by Insurer for the benefit of NCSC members as set forth in Exhibit A.*

7. ***It is understood that nothing contained herein shall be construed or interpreted as a guarantee of a Refund to NCSC. Whether any Refund will be made shall be determined solely by the Retention Accounting Formula as determined hereunder.***

Finding No. 2 - Hospital Indemnity Insurance Plan Administrative Fees

NCSC performs the recruitment, record keeping and most of the administrative services related to the enrollees participation in the Hospital Indemnity Plan (HIP); Seabury & Smith, Inc. (Seabury) acts as the Plan Administrator and is responsible for the payment of enrollee claims and certain other related activities. As compensation for performing these administrative services, the NCSC/Monumental agreement provides for Monumental to pay an administrative fee (14.5 percent of earned premiums) to be shared by NCSC and Seabury. The costs incurred by NCSC in performing its assigned HIP administrative services are charged directly to the DOL Senior Aides grant. However, the administrative fees that it receives are credited to Membership Promotion Income instead of being used to reduce DOL grant costs, as required by OMB Circular A-122. Furthermore, based upon the administrative functions that NCSC performs as compared to those performed by Seabury, we believe that the amount of the fee that NCSC receives (4.0 percent of the 14.5 percent) is inadequate and inequitable.

HIP Insurance Agreement

The agreement between NCSC and the Monumental Life Insurance Co. provides:

"***Section III Collection and Remittance of Premiums***

Insurer [Monumental] shall remit to NCSC an amount equal to 14.5 percent of earned premium as compensation within thirty (30) days after receipt of gross earned premium by Monumental[4] *from Seabury*[5]*. This amount of compensation shall be reflected as administrative fees in Section V (1) (g) of this Agreement. In consideration for performance of Seabury's administrative duties and functions, NCSC then shall pay to Seabury an amount of compensation to be agreed upon between NCSC and Seabury from these funds remitted to NCSC by Monumental.*

It is understood and agreed by and between the parties that any and all compensation to Seabury for the performance of its duties hereunder shall be paid from those funds designated as full compensation to NCSC under the terms of this Insurance Agreement, and it is further understood and agreed that the Insurer shall not be liable for any additional compensation to Seabury for the performance of its duties hereunder."

[4]The Monumental Life Insurance Company is the "underwriter" for the HIP insurance program.

[5]Seabury & Smith, Inc. (Seabury) is the "intermediary" for the insurance program. Seabury performs certain functions, such as payments for claims by plan participants.

Administrative Fees

Based on the report that Monumental sent to NCSC, the total administrative fees paid or payable to NCSC under the above-mentioned agreement for FY 1996 was $366,876.

Notwithstanding the agreement provisions discussed above, Seabury withholds the administrative fee (14.5 percent) from the gross monthly premiums it receives from NCSC. Seabury retains 10.5 percent of the 14.5 percent as its share and returns 4.0 percent of the fee to NCSC as payment for its services. The 10.5 percent that Seabury receives is 72 percent of the total fee; the 4.0 percent paid to NCSC is 28 percent of the total administrative fee.

Both NCSC and Seabury officials said there are no written agreements nor records of the negotiations between Seabury and NCSC on the establishment of the fee or the allocation of the fee between Seabury and NCSC. Seabury officials said that 10.5 percent of the fee was the amount that "NCSC agreed to pay."

Administrative and Management Services by NCSC and Seabury

Seabury acts as the "Plan Administrator" and is the "intermediary" between NCSC and Monumental. NCSC, however, performs most of the administrative and managerial services. For example, NCSC promotes and solicits enrollee participation, prepares and maintains monthly listings of enrollees participating (including additions and terminations), computes monthly premiums, makes premium payments and submits supporting documentation to Seabury to be sent to Monumental. Seabury processes and pays enrollee claims from funds set aside for this purpose. Seabury also handles inquiries from enrollees and subrecipients about the insurance plan.

As we have stated, NCSC performs most of the major administrative functions and duties relating to the management of the HIP. The functions performed by NCSC for the estimated 7,000 covered enrollees included: (1) solicitation of new enrollees for HIP insurance; (2) completion of enrollment applications; (3) maintenance of records and information on each enrollee's participation; (4) preparation of monthly premium payments for the enrollees; (5) updating records and information for the estimated 5,000 enrollees who terminate and the 5,000 new enrollees each year; and (6) maintenance and reporting of grant cost information. Seabury, on the other hand: (1) maintained an "800 number" to respond to enrollee inquiries; (2) processed and paid about 700 enrollee claims each year; (3) forwarded monthly premium amounts from NCSC to Monumental; and (4) maintained general liaison functions with Monumental and NCSC.

Based upon these duties and functions, we believe that a more equitable distribution of administrative fees should be established between Seabury and NCSC.

Sharing Arrangement

The level and type of services that NCSC performs indicate that 4.0 percent (28 percent of the fee) that it receives is neither "fair nor reasonable" when compared to the 10.5 percent (72 percent of the fee) that Seabury receives. Seabury's level of effort and assigned duties are considerably less labor intensive than those performed by NCSC. NCSC's Director of Finance said there were no records or any documentation to demonstrate or to justify that the fee that NCSC receives is equitable. In response to our additional inquiries, Seabury officials said that they had no cost data to support or to substantiate the "reasonableness" of the fee that they receive. Based upon the information we received from Seabury and NCSC officials, we estimate that NCSC performs about two-thirds of the administrative work applicable to the program, while Seabury performs about one-third.

Applicable Credits

The costs incurred by NCSC in performing its assigned HIP administrative services are charged ***directly*** to the DOL Senior Aides grant. However, the fees that it receives for its work are ***credited*** to Membership Promotion Income instead of reducing DOL grant costs, as required by OMB Circular A-122. In this regard, OMB Circular A-122, Attachment A, Subpart A. *Basic Considerations*, paragraph 5.a. states:

> *"5. Applicable Credits*
> *a. The term applicable credits refers to those receipts, or reductions of expenditures which operate to offset or reduce expense items that are allocable to awards as direct or indirect costs. Typical examples of such transactions are: . . . insurance refunds. . . . To the extent such credits accruing or received by the organization relate to allowable cost they shall be credited to the Government either as a cost reduction or cash refund as appropriate."* (Underscoring added.)

Summary

A summary of the administrative fees paid by Monumental to NCSC and Seabury for FY 1996 is shown in the following table. This table shows the amounts received by NCSC and the amounts that we consider appropriate for the services rendered by Seabury and NCSC.

Description	Amount
1. Administrative Fees Paid by Monumental	$366,876
2. Amounts Paid to NCSC but not Credited to the DOL Grant	**101,207**
3. Balance Retained by Seabury	$265,669
4. Estimated Fair Share for Seabury's Services (1/3 of Line 1)	122,292
5. Excess Amount Retained by Seabury	**$143,377**

NCSC improperly recorded the amounts (totaling $101,207) that it received (Line 2) as Membership Promotion Income and did not "offset" or "credit" this amount to reduce the direct costs charged to the DOL SCSEP grant, as required by OMB Circular A-122.

Establishment/Allocation of Administrative Fees

Further, we believe that 4.0 percent of the 14.5 percent in administrative fees paid to NCSC is not equitable based upon NCSC's level of effort as compared to the amount (10.5 percent) retained by Seabury for its services. We believe, therefore, that one-third of the total fee to Seabury would be an equitable reimbursement amount. Accordingly, we question the excess amounts retained by Seabury (Line 5).

AUDITEE'S RESPONSE

NSCERC states that the Myint &Buntua auditors' questioned costs and their recommendations are based upon an "unsupported and incorrect conclusion" that NCSC performs twice as many administrative functions as Seabury & Smith (Seabury) in managing the HIP program. NSCERC said in comparing the duties performed by Seabury, NCSC puts forth "relatively little effort." In contrast, NSCERC said that Seabury has the full responsibility for communications with and the handling of beneficiaries and vendors, dealing with payments for claims, and making "coverage" determinations.

In concluding its remarks, NSCERC states that the "administrative fees" are not "costs claimed" for reimbursement under the grant agreements and, as such, they cannot be used as the basis for a "cost disallowance."

AUDITORS' COMMENTS

This finding, which was previously presented in the FYs 1993 to 1995 report, is based upon the fact that NCSC/NSCERC has ignored appropriate governing regulations by failing to "credit" the DOL grant with the amounts that it receives for its services and for which it makes charges to the DOL grant. Accordingly, NSCERC's statement that the "administrative fees" are not "costs claimed" for reimbursement and should not be disallowed, is not correct. Specifically, the time, the effort, and the related expenses devoted by NSCERC to assist in the administration of the HIP program are, in fact, charges that NCSC/NSCERC claims for reimbursement under the DOL grant.

With regard to the other key aspect of this finding which concerns the individual level of effort expended by the two parties (Seabury and NCSC), NSCERC now contends -- but without any substantive or direct evidence -- that Seabury expends the effort to perform the majority of the administrative functions. Based upon the evidence obtained during the audit, we do not agree. Although NSCERC states, for example, that Seabury has "full responsibility" for communications with the beneficiaries (enrollees), it provides no support for this specific level of effort, and at the same time ignores the fact that NCSC/NSCERC -- in its normal daily functions and duties -- performs many labor-intensive tasks, such as the contact and solicitation of some 9,000 enrollees each year, completes all the enrollment applications, explains the program and its applicability to all enrollees, and then maintains and reports on all the grant costs (for about 7,000 enrollees who join the program).

The primary issue with respect to this finding was communicated to NCSC/NSCERC both in the prior report (FYs 1993 to 1995) and was discussed, in detail, with representatives of both Seabury and NCSC during and at the conclusion of the audit work. When asked about the basis for the establishment of the administrative fee of 14.5 percent (based on earned premiums) and the related sharing arrangement of 4.0 percent for NCSC and 10.5 for Seabury, these officials admitted that no study or analysis had ever been performed to arrive at these amounts. For example, Seabury officials said the amount that they receive (10.5 percent) was simply "the amount that NCSC had agreed to pay." Also, the Director of Finance of NCSC could not furnish any supporting documentation and provided no information as to why the amounts that NCSC had received for its services was not, as required, "credited" to the Federal grant. Once again, contrary to NSCERC official comments, the services that it performs for the administration of the HIP are, in fact, charged to the DOL grant.

We, therefore, recommend that the FY 1996 claimed costs be reduced and that NCSC/NSCERC provide a basis and support for the administrative fee in general, and also for the Seabury/NCSC sharing arrangement.

RECOMMENDATIONS

2. We recommend that the DOL Grant Officer:

a. Reduce FY 1996 allowable direct costs of the Senior Aides grant by $244,584 which was the amount NCSC failed to credit to the DOL grant and the excess amount that Seabury retained for its services ($101,207 + $143,377 = $244,584).

b. Require that NCSC/NSCERC return to DOL the imputed interest that the Federal Government lost (not earned) for the period that NCSC had access to the $244,584.

c. Require NCSC/NSCERC to provide a basis for the propriety of the 14.5 percent administrative fee that it had established for reimbursement for the administrative services

Finding No. 3 - Third-Party General Liability Insurance

NCSC/NSCERC charged the DOL SCSEP grant $337,532 for "third-party" general liability insurance for the DOL enrollees and its own employees. NCSC/NSCERC's procurement practices for the purchase of this insurance were flawed as they did not: (1) use effective competitive procurement procedures to solicit a sufficient number of competitive bids, and (2) negotiate a reasonable price. Instead, as in the past, after receiving only a few bids, NCSC/NSCERC purchased the insurance, at what we believe to be an excessive price, from a related company with which it shared managerial and executive personnel.

In this regard, NCSC/NSCERC did not provide sufficient pertinent information to all prospective bidders and this could have had a significant impact on reducing the level of premiums. Moreover, NCSC/NSCERC did not widely circulate the proposal to an adequate number of insurance companies to obtain a reasonable number of bids. In our view, the insurance premiums charged to the DOL grant could have been reduced by about $200,000 a year had NCSC/NSCERC used more effective competitive solicitation and procurement procedures. Furthermore, NCSC/NSCERC did not request that its premium be adjusted at the end of the policy year based on the claims experience and as provided for in its insurance policy.

Also, the premium for similar insurance for the EPA Senior Environmental Employment (SEE) Program enrollees was improperly charged to "indirect costs" rather than as a "direct" charge to the EPA grant. This resulted in an overcharge to the DOL grant through the allocation of excessive indirect costs.

Conflicts of Interest

NCSC/NSCERC has continually purchased third-party general liability insurance from the Senior Citizens Mutual Insurance Company Risk Retention Group (SCMICRRG). SCMICRRG was organized in 1986 to provide liability insurance to not-for-profit organizations involved in senior citizen activities. This company has maintained close managerial relationships with NCSC/NSCERC. Both organizations shared key executives and Board of Trustee members. In NCSC/NSCERC's consolidated financial statements for FY 1996, the following information was presented:

> *"Several members of the NCSC [or NSCERC] Board are also members of the Advisory Committee of SCMICRRG. A number of housing projects sponsored by NCSC are subscribers of SCMICRRG. . . ."*

On July 1, 1996, the Treasurer of SCMICRRG became the President of NCSC/NSCERC. He and the former Executive Director of NCSC/NSCERC are also members of SCMICRRG's Board of

Trustees. Such a relationship, at a management policy level, raises a number of questions about the independence and objectivity of NCSC/NSCERC's decision to purchase insurance from this firm.

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations*, sets forth policies and procedures related to the award and administration of grants and agreements with nonprofit organizations and performance criteria applicable to grant recipients. Subpart C, Paragraph 43, *Competition*, states:

> *"All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. The recipient shall be alert to organizational conflicts of interest as well as noncompetitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade. . . ."*

Procurement procedures under Federally-funded grants should reflect the following policies and principles:

- Maximum "open and free" competition must be sought for all purchases.

- The solicitation should be conducted to inform the greatest number of potential contractors of the intent to buy and should describe, as specifically as possible, what is desired.

- The relationship between the purchasing organization and the prospective contractor must be an "arms-length" business arrangement.

- The award should be made to the contractor who has the technical ability to perform at the lowest cost.

Thus, where an organizational conflict of interest exists (as in the case of NCSC/NSCERC and SCMICRRG), sound procurement practices require that extra efforts must be made to ensure maximum open and free competition and the avoidance of an appearance of favoritism in the award.

NCSC/NSCERC Failed to Use Effective Competitive Solicitation Procedures

NCSC/NSCERC did not follow the aforementioned guidelines for "acceptable" competitive procurement by failing to: (a) prepare and issue a sufficiently informative solicitation, and (b) obtain bids from a reasonable number of insurance companies, including "major" insurance companies. In this regard, NCSC/NSCERC did not provide pertinent information to the prospective bidders which could have had a significant impact in reducing the level of premiums, nor did it circulate the proposal to a reasonable number of insurance companies and obtain a sufficient number of bids. In our opinion, this constitutes a weakness in NCSC/NSCERC's procurement procedures. Insurance premiums charged to the DOL grant could have been reduced by over $200,000 a year if NCSC/NSCERC had used effective competitive procurement procedures.

Inadequate Solicitation

We believe that the NCSC/NSCERC, in its solicitation, failed to adequately describe the insurance coverage that it desired. The type of information that NCSC/NSCERC should have provided to all the insurance companies to enable them to submit a bid based on consideration of all pertinent factors includes:

-- A general overview and a detailed description of NCSC/NSCERC's operations, the locations of its offices, and the volume of third-party "visitor" traffic.

-- A description of the type of services that the enrollees generally perform and that they only work on a part-time basis of about 20 hours a week.

-- NCSC/NSCERC's previous claims experience. No claims have been paid since a 1991 settlement of an Equal Employment Opportunities Commission lawsuit that was filed by a former NCSC/NSCERC employee. In addition, only two other claims totaling $12,000 have been paid since 1988.

-- The number of employees covered. NCSC/NSCERC has about 195 employees but the solicitation stated that it had "10,000 employees." NCSC/NSCERC's 10,000 enrollees are not NCSC/NSCERC employees. They are employees of the subrecipients.

-- The fact that NCSC/NSCERC requires each of its subrecipients to carry a minimum of $300,000 of third-party general liability insurance for their enrollees (employees). Thus, the insurance purchased by NSCERC under its third-party liability policy of DOL enrollees is coinsurance and third-party claims would most likely be made against the subrecipient.

Number of Bids

NCSC/NSCERC data on its solicitation included a letter, dated February 10, 1993, which NCSC/NSCERC sent to a number of insurance companies and insurance brokers. Only SCMICRRG and one other insurance company submitted a "bid." Another company said it needed additional information. Still another company declined to submit a bid because it said that the solicitation process required additional "data collection in much greater detail than had been possible." Because only two companies actually provided bids, and no bids were obtained from "major" insurance companies, we believe that NCSC/NSCERC had not obtained a sufficient number of bids to ensure that an award would be made to a bidder at the lowest price.

In purchasing this insurance for FY 1996, NCSC/NSCERC again did not obtain bids from a reasonable number of insurance companies. The bid proposal from SCMICRRG for FY 1996 was signed by SCMICRRG's Treasurer who a short time later became the President of NCSC/NSCERC.

Reasonableness of Insurance Premiums

The insurance primarily covers bodily injury and property damage to third parties that may occur from work/training activities of DOL and EPA enrollees and NCSC/NSCERC employees. NCSC/NSCERC's third-party liability insurance policy data for both the DOL and EPA enrollees are presented below.

Policy No.	Period Covered	Agency	Approximate Number of Enrollees and Employees Insured	Premium
GL1027-8	7/1/95-6/30/96	DOL	9,400 Enrollees 175 Employees	$337,532
GL1064-5	7/1/95-6/30/96	EPA	400 Enrollees	$202,346

In this regard, OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, requires that, to be allowable under an award, costs must be reasonable for the performance of the award. Attachment A General Principles, Paragraph A.3. *Reasonable costs* states the following:

> *"A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of the reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions thereof which receive the preponderance of their support from awards made by Federal agencies. In determining the reasonableness of a given cost, consideration should be given to: . . . b. The restraints or requirements imposed by such factors as generally accepted sound business practices, arms length bargaining, Federal and State laws and regulations, and terms and conditions of the award. c. Whether the individuals concerned acted with prudence in the circumstances. . . ."*

In evaluating the reasonableness of the DOL premium of $337,532, we obtained certain cost data for similar third-party liability insurance from two other national sponsors participating in this same DOL program. One national sponsor, with about 18,000 enrollees (or twice as many as NCSC/NSCERC) said that the insurance premium from a major insurance company for its enrollees and employees was $127,500 a year. Another national sponsor said that its insurance policy covering both the DOL program and EPA program enrollees (and its employees) cost $30,900 a year and was also from a major insurance company.

The table below shows the average insurance premium per enrollee for third-party liability insurance for NCSC/NSCERC and two other national sponsors.

National Sponsor/Program	Annual Premium	Average Number of Enrollees	Average Number of Employees	Average Number of Enrollees/ Employees	**Average Premium Per Enrollee/ Employee**
NCSC/NSCERC					
DOL	$337,532	9,400	195	9,595	**$35.18**
NATIONAL SPONSOR A					
DOL	$127,500	18,000	450	18,450	**$6.91**
NATIONAL SPONSOR B					
DOL/EPA	$30,900	DOL 2,000 EPA 375	15	2,390	**$12.93**

*NOTE: The DOL Senior Aides enrollees each work 20 hours a week; most of the EPA program enrollees work full-time. All three insurance policies covering the DOL enrollees also include insurance for the national sponsor's own employees.

The table shows that the third-party liability insurance purchased by NCSC/NSCERC for the DOL enrollees (about $35.00 per person insured) is **five** times that of national sponsor A (about $7.00) and almost **three** times that of national sponsor B (about $13.00). Both national sponsors A and B said that they followed competitive procurement procedures. Although there are some variables which cause differences in the premium rates among national sponsors (e.g. the number of persons covered), we believe that NCSC/NSCERC's high premium cost per enrollee/employee for the DOL program would have been significantly reduced had they:
(a) prepared/issued a sufficiently informative solicitation, (b) obtained competitive bids from a sufficient number of insurance companies, and (c) negotiated a reasonable premium amount.

We question DOL third-party liability insurance premiums claimed for FY 1996 by NCSC/NSCERC as being unreasonable because they resulted from ineffective procurement practices. The following schedule shows the amount that we believe to be the maximum reasonable cost for the NCSC/NSCERC third-party liability insurance under both the DOL and EPA grants had NCSC/NSCERC followed proper competitive procurement practices.

Description	DOL Grant	EPA Grant
Premium Charged	$337,532	$202,346
Estimated Maximum Premium	100,000	30,000
Excessive Premium Paid	$237,532	$172,346

Insurance Contract Provisions Violated

The DOL insurance policy specifies that the premium stipulated in the policy is a **"deposit premium only"** and is subject to an audit at the end of the policy year and a "recomputation" of an **"earned premium"** for the period. As we have stated, no claims have been paid on the DOL policy for FY 1995 and FY 1996. However, no action was taken by either the insurance company (SCMICRRG) or NCSC/NSCERC to comply with the contract provisions to adjust the premiums paid. We discussed this with a SCMICRRG insurance company official who said that, notwithstanding the policy provisions, it was not their practice to adjust payments to an **"earned premium"** level. We also discussed this with NCSC/NSCERC's Director of Finance who said NCSC/NSCERC did not take any action to determine if a recomputation of the premium paid was appropriate.

In a letter dated March 19, 1997, SCMICRRG said that each policy it issues is individually rated by its consulting actuaries as to the risk and the premium charges, but that the details of such studies "are of course proprietary to this company." Thus, we could not obtain essential information to perform an assessment of the premiums paid by NCSC/NSCERC for the purpose of evaluating possible adverse impacts that the close managerial relationships (between the insurance company and NCSC/NSCERC) may have had on the amounts that DOL was charged for this insurance. In this regard, it should also be noted that the consulting actuarial reports on NCSC activities included the following information.

> *"We relied on data supplied to us by [SCMICRRG] . . . . We did not audit this data . . . . We have not performed an underwriting analysis of the program. The choice of the overall funding levels and the charges for each insured are decisions of [SCMICRRG] and not decision of M&RG (actuaries)."*

Improper Accounting Treatment

The insurance premium of $337,532 applicable to the DOL grant is charged as a direct cost of the DOL Senior Aides program. In contrast, the premium of $202,346 for the EPA insurance policy is charged to NSCERC G&A expense. This inconsistent treatment of premiums as both a direct cost and an indirect cost results in greater amounts of the EPA insurance policy premiums being charged to the DOL Senior Aides grant than to the EPA program. NCSC/NSCERC's Director of Finance could not explain the basis for such improper cost accounting treatment.

This accounting treatment is a violation of OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment A, General Principles, Subpart B. *Direct Costs*, which states:

> *"1 . . . Costs identified specifically with awards are direct costs of the awards and are to be assigned directly thereto. Costs identified specifically with other final cost objectives . . . are direct costs of those cost objectives and are not to be assigned to other awards directly or indirectly."*

Therefore, we have reclassified the EPA insurance costs from indirect G&A costs to the EPA program as a direct charge.

AUDITEE'S RESPONSE

This finding has been reported in the prior audit report. NSCERC repeats its prior statement that NCSC has followed appropriate "competitive solicitation procedures" in purchasing general liability insurance. In support of its position, NSCERC cites an earlier (FY 1989) audit report (Audit Report No. 03-91-033-03-360) which stated that NCSC was not following the directives of OMB Circular A-110. NCSC said it then instituted a "central purchasing system" to provide for a "competitive bidding process" and added that in October 1991 the DOL Grant Officer issued a final determination on the FY 1989 audit which expressed satisfaction that the grantee's (NCSC) response was adequate to determine that corrective action was instituted.

Concluding, NCSC/NSCERC said that DOL has long since approved NCSC's procurement procedures with respect to its procurement of general liability insurance. With respect to the information that the auditors presented which shows that NCSC/NSCERC is paying an excessive amount for their insurance, NCSC said it "highly doubts" that adequate consideration was given by the auditors to comparable coverages with other similarly-situated sponsors. NCSC/NSCERC said the "employment-related coverage" that NCSC provides was "uncommon," and believes that it is important to have insurance to defend against "employment-related claims."

AUDITORS' COMMENTS

Notwithstanding NCSC/NSCERC's claim that DOL has long since approved its procurement practices (based upon its statement on a FY 1989 audit report), NCSC/NSCERC's actions, in FY 1996, do not ensure that the Federal Government is receiving the benefit of acceptable required competitive solicitation procedures. The evidence also shows that NCSC/NSCERC has failed to follow normal acceptable procedures in its FY 1996 solicitations by: (1) failing to provide basic, relevant data and pertinent information to prospective bidders, and (2) failing to request bids from an adequate number of responsible insurance carriers capable of providing the desired insurance.

Despite NCSC's stated doubts and in the absence of any support or justification, the results are clear that a very significant disparity exists between the premium amounts paid by NCSC/NSCERC and those of several other national sponsors who perform similar functions under the same type of DOL grant.

Finally, we have also reported that specific contract provisions have been violated because the DOL-funded insurance policy specifies that the insurance is "*subject to an audit at the end of the policy year*" and, in this regard, a "*recomputation*" is to be made of the "*earned premium*." Although no claims were made on the DOL policy for FYs 1995 and 1996, no action was taken either by the insurance company or NCSC/NSCERC to comply with the above policy provisions of the contract and to adjust the premiums that were paid. NCSC/NSCERC, in its comments, failed to respond to this finding or to provide any information relative to this violation of its standing insurance policy.

With the acknowledged continued "close managerial relationships" that have existed since inception of the program between NCSC/NSCERC and its insurance company (SCMICRRG), we believe that there exists an even higher degree of responsibility for NCSC/NSCERC to implement and follow open, free, and competitive procedures as it procures major, significant cost items, such as this insurance.

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<u>RECOMMENDATIONS</u>

3. We recommend that the DOL Grant Officer:

a. Reduce FY 1996 allowable costs for third-party liability insurance for the DOL grant by $237,532.

b. Ensure that future solicitations by NSCERC for insurance be conducted, as required, in a competitively effective manner.

4. We recommend that the Director of DOL's Office of Cost Determination reclassify the charges of $202,346 for EPA insurance costs from the NSCERC indirect cost pool to EPA direct costs and ensure that all future third-party liability insurance costs are properly

Finding No. 4 - Pension Plan Costs

NCSC/NSCERC maintains a "defined benefits" pension plan (Plan) for its employees. The Plan is funded by NCSC/NSCERC with a substantial portion of the "contributions" charged to the DOL SCSEP grant. NCSC/NSCERC made cost adjustments at the end of the fiscal year to recognize appropriate reductions in the pension plan costs for excess amounts that were charged to program activities during the year. These adjustments, however, did not include crediting the DOL grant program for its share of the excess costs charged. The amount that should have been credited to the Federal grant programs was $103,545.

The funding and the contributions to the pension plan are based on recommendations made by the Segal Company -- NCSC/NSCERC's actuarial consultants. The Segal Company, in its annual report, estimated pension plan costs based on the estimated salary costs of the participating employees. The pension plan costs were funded at prescribed intervals as required by governing regulations. The annual actuary report also provided a status review of the plan's assets and obligations at the close of the year as described by the Statement of Financial Accounting Standards 87 (SFAS 87).

NCSC/NSCERC's financial statements for FY 1996 stated that:

> *"NCSC adopted Statement of Financial Accounting Standards 87 [SFAS 87] for pension accounting retroactive to 1987. SFAS 87 requires the use of the projected benefit obligation and plan cost."*

NCSC/NSCERC pension plan assets (on hand at the end of FY 1996) exceeded the maximum level prescribed by SFAS 87 by $227,622. Therefore, NCSC made a year-end cost adjustment to reduce its pension costs by this amount.

Although the Senior Aides program was charged during the year with a major portion of the 1996 pension plan costs, the year-end adjustment did not credit the Senior Aides program with its share of the excess pension plan costs. Accordingly, we recomputed the year-end adjustment to credit the DOL Senior Aides program. The net adjustments are shown on the following page and are also presented in the report Exhibits.

Reallocation of Year-End Pension Costs
Fiscal Year 1996

Program/Department	FY 1996 Salary Costs	Year-End Adjustments Per NCSC/NSCERC	Year-End Adjustments Per Audit *	Net Reconciling Adjustment
NCSC - Information	$ 132,101	$ 20,208	$ 6,351	
- Membership	387,378	59,258	18,642	
- Legislation	161,142	24,650	7,762	
- Political Action	60,735	9,290	2,914	
Total		113,406	35,669	$ 77,737
- G&A	746,653	114,216	35,919	**78,297
NSCERC - Organization	5,765		273	(273)
- G&A	1,085,290		52,216	**(52,216)
DOL Grant-NSCERC	1,080,497		**51,989**	(51,989)
-NCSC	1,071,412		**51,556**	(51,556)
Total	$4,730,973	$ 227,622	$227,622	$ 0

( )Denotes decrease.

*Computed in proportion to total salaries.
**Net adjustment to G&A $78,297 - $52,216 = $26,081

AUDITEE'S RESPONSE

This, once again, is a repeat finding that NCSC/NSCERC now states is not in need of the recommended accounting adjustment. This is because OMB Circular A-122 requires that the allowable pension plan charges should be made in accordance with Generally Accepted Accounting Principles. NCSC/NSCERC concludes by stating that the DOL grant has been charged, based upon the actual contributions made, in accordance with the aforementioned OMB Circular.

AUDITORS' COMMENTS

NCSC/NSCERC has not responded to the finding as it is presented. The conversion from a single employer to a multiple employer plan does not change the fact that the end-of-year accounting adjustments must be equitably allocated.

The required recommended accounting adjustments do not, in any way, "change" or affect the total amount ($227,622) of actual pension costs recorded by NCSC. The adjustment, however, is necessary so that all of NCSC/NSCERC programs are "equitably" allocated with their fair share of costs, in proportion to the amount of the charges that NCSC/NSCERC had made during the year. The purpose of the adjustment is demonstrated by the table on page 38 of this report. Finally, NCSC/NSCERC's failure to implement appropriate end-of-year adjustments results in an inequitable charge against the DOL-funded SCSEP.

RECOMMENDATION

5. We recommend that the DOL Grant Officer require NCSC/NSCERC to equitably allocate its FY 1996 year-end adjustments for excess pension plan costs to all benefitting programs, and to credit the DOL grant with $103,545 of such year-end adjustments. (Reallocation of the year-end credits are described in the schedule on page 38 and in the

Finding No. 5 - Fringe Benefit Costs

NCSC/NSCERC charges employee fringe benefit costs to the DOL Senior Aides program on the basis of an estimated rate of 34 percent. As of the end of FY 1996, the cumulative estimated amounts charged to the program exceeded the actual costs by $108,872. We believe that the estimated fringe benefit costs should be adjusted to "actual" costs at the end of the year.

Salary and fringe benefit costs of the NCSC and NSCERC employees are recorded each pay period. The salary costs applicable to NCSC/NSCERC employees, who are identified with the DOL Senior Aides program, are transferred to that program by an "Intra company billing entry." As part of this cost transfer, 34 percent is added to the salary costs for related employee fringe benefits, such as payroll taxes and health insurance. These estimated amounts are then recorded in the DOL Senior Aides program accounts as "actual" fringe benefit costs.

Although the actual fringe benefit costs are readily determinable from NCSC and NSCERC payroll records, no adjustments are made to the estimated amounts recorded in the general ledger; instead, the estimated amounts recorded are considered as actual fringe benefit costs and reported as such in the grant close-out reports. The difference between the actual and the estimated amounts charged to the program are recorded in NCSC and NSCERC accounts as a "Deferred Credit - SA Program." NCSC/NSCERC said it follows this accounting practice because it assumes that the variances between the computed estimates and the actual fringe benefit costs will be insignificant; however, as our audit work has demonstrated, the differences are not insignificant and have resulted in excess charges being claimed by NCSC/NSCERC.

The overcharges for fringe benefits for the 12-month period ended June 30, 1996 were:

Description	Amount
NCSC- Deferred Credits	$39,066
NSCERC- Deferred Credits	69,806
Total Overcharges	$108,872

The estimated fringe benefit costs should be adjusted to reflect the actual costs at the end of each fiscal year and the estimated rate being used should be adjusted to more accurately reflect the actual costs.

AUDITEE'S RESPONSE

NSCERC said that NCSC has always reconciled the differences between the amounts "received" from the DOL Senior Aides program for fringe benefits and its actual costs. Any "excess" funding was then "held over" to cover fringe benefit costs for a prior year that surfaced in the current year.

The amount that the auditors say had exceeded the actual costs ($108,872) is an accumulation of costs and not an amount for the 12-month period ending June 30, 1996. The amount for the FY 1996 period is $65,018. In addition, NSCERC said (without explaining the reason) that it had failed to make any charges for insurance expenses and workers' compensation for the period.

Finally, NSCERC said that it is currently implementing the necessary procedures to ensure that adjustments are made annually to reconcile "estimated" fringe benefit costs with the "actual" costs prior to the close-out of the grant. NCSC also said that it is planning to revise the fringe benefit rate that it charges from one grant year to another so that the percentage (rate) is "more consistent with the actual costs incurred." This would minimize the possibility of having any "excess funds" on hand at the end of the year.

AUDITORS' COMMENTS

Although NSCERC has not described the procedures it plans to use to ensure that adjustments will be made each year, we fully agree that changes are necessary and should promptly and properly be initiated.

NSCERC is correct in stating that the $108,872 represents a cumulative amount of deferred credits. However, because adjustments to the Senior Aides Program were not made in prior years, we are recommending that the entire amount be credited against the Senior Aides FY 1996 fringe benefit balance.

With regard to the "planned changes," it should be noted, however, that DOL grants are awarded on an annual basis (program year basis) and that there should be "no excess" funding to "carry forward" costs of a prior year that may surface during the current year. The proposed procedural changes, together with a needed "closer monitoring" of the fringe benefit rate, are changes that are necessary to ensure that NSCERC will have no "excess funds on hand" at the end of the program year and the DOL grant will be charged only for "actual amounts" of fringe benefits.

RECOMMENDATIONS

6. We recommend the DOL Grant Officer:

a. Require NCSC/NSCERC to reduce FY 1996 amounts claimed as DOL grant costs by $108,872, which was the amount that it overcharged the DOL grant for employee fringe benefits, as of June 30, 1996.

b. Monitor NCSC/NSCERC's effort to ensure that estimated amounts more accurately reflect actual costs, and that employee fringe benefit claims are based on actual costs rather

Finding No. 6 - EPA Senior Environmental Employment Program -- Enrollees Fringe Benefits

NCSC/NSCERC charges enrollee fringe benefits to the EPA Senior Environmental Employment (SEE) Program based on an estimated percentage each pay period. At the end of FY 1996, the estimated amounts exceeded actual costs by $222,993. Under generally accepted accounting procedures and applicable grant provisions, fringe benefits charged to EPA grants should be adjusted to the "actual" costs at the end of the year.

Actual EPA enrollee salaries and related fringe benefits are recorded in NSCERC accounts. These costs are used for reimbursement claims to EPA. Although actual EPA enrollee fringe benefits are recorded in NSCERC's accounts, the EPA grant records are based on an estimated 24 percent of the enrollees salaries. The difference between the "actual" and the estimated fringe benefit costs is determined at the end of the fiscal year and recorded in an NSCERC "suspense account" entitled "Deferred Credit-EPA Program." This accounting procedure is based on NSCERC's assumption that the fringe benefit differences (between actual and estimated) will not be significant.

However, as of June 30, 1996, the fringe benefits that were charged to the NSCERC-EPA account had exceeded the actual costs by $222,993. These variances should be adjusted at the end of the year and NSCERC should claim reimbursement from EPA based upon its actual costs and not on estimates of fringe benefit costs. Further, because NCSC's estimates have continually exceeded its actual costs, NCSC should reexamine its basis for the establishment of its estimated percentage rate.

AUDITEE'S RESPONSE

NSCERC said it had adjusted its fringe benefit rate several times from 18 percent initially, to 31 percent in 1994, and then to 24 percent effective July 1, 1995. According to NSCERC, some of the variances between the "estimated amounts" and the "actual charges" for EPA enrollee fringe benefits resulted from EPA's recommendation that the SEE program commercial general liability insurance costs be paid from the 15 percent that NSCERC receives for administering the program.

NSCERC has agreed to develop procedures to reduce the rate being charged to the program and, as necessary, said it will also monitor such costs on a monthly basis.

AUDITORS' COMMENTS

In light of NSCERC's recent recognition of its need to more closely monitor actual costs for fringe benefits on a monthly basis, we have no further comments. NSCERC's procedures, which it now states are being developed to ensure that the charges for enrollee fringe benefits are based on actual costs rather than on estimated costs, should be properly implemented as soon as possible.

RECOMMENDATIONS

7. We recommend the Director of DOL's Office of Cost Determination:

a. Reduce EPA's enrollee fringe benefit costs by $222,993 for the cost allocation base, which is the amount that NCSC/NSCERC had claimed over the "actual" costs as of June 30, 1996.

b. Monitor NCSC/NSCERC effort to reduce the estimated rate so that such charges will not continually exceed NCSC/NSCERC's actual fringe benefit costs.

c. Ensure that NCSC/NSCERC, in the future, bases its EPA enrollee fringe benefit

Finding No. 7 - Housing Safety Program

During FY 1996, NSCERC received revenue for its "housing safety" program; however, the salary and fringe benefits of the individual who had oversight of this program were charged to NSCERC G&A. We have removed these costs from the G&A pool and reclassified them as direct costs of the safety program.

The sources from which NSCERC received the revenue were:

Revenue Account	Payee	Amount
303001	NCSC Housing Management Corporation	$ 68,000
303002	Senior Citizens Mutual Insurance Company	28,000
303003	National Steel Oldtimers	10,000
	Total	$106,000

In response to our inquiry, we obtained a letter, dated February 8, 1994, signed by the Executive Director of NCSC. The letter, addressed to the NCSC-Housing Management Corporation (HMC) and the Senior Citizens Mutual Insurance Company Risk Retention Group (SCMICRRG), stated, in part:

> *"You will both recall that the Boards of Directors of Senior Citizens Mutual Insurance Company and NCSC Housing Management Corporation recently voted to allocate $40,000 each to a safety program for the employees and tenants of our buildings, together with fiscal oversight. The person to perform these duties is. . . . He will be coming on board on or about March 1st.*
>
> *"Both . . . think it would be appropriate that the employing entity be the National Senior Citizens Education and Research Center, Inc. (NSCERC)."*

NSCERC in FY 1996 charged the direct labor and related fringe benefit costs of the individual designated to perform this duties to NSCERC General and Administrative (G&A) costs as follows:

Description	Amount
Salary	$ 79,000
Fringe Benefits (29.6%)	23,384
Total	$ 102,384

Under applicable Federal requirements and regulations, the housing safety program should have been established as a separate cost center, and the salary and related costs should have been charged to this cost center. Further, although NSCERC had received revenue from several different sources, such as the housing management corporation, it charged the salary of the person designated to manage this program to NSCERC G&A costs which then resulted in additional costs being charged to the DOL grant. Therefore, we have reclassified the individual's salary and fringe benefit costs from NSCERC G&A to the direct costs of the safety program.

AUDITEE'S RESPONSE

With regard to the inappropriate charges to NSCERC's general and administrative expenses ($102,384) for its "housing safety" program, NSCERC said that it did not have sufficient time to review this matter and make any necessary changes at the time the organizational change was made from NCSC to NSCERC for the administration of the Federal grant programs. NCSC concludes, however, that it agrees with this finding and will make the necessary changes.

AUDITORS' COMMENTS

In view of NSCERC's statement that changes are necessary with respect to the charges that were made to G&A expenses for the "housing safety" program and that these costs should be removed from the G&A pool and reclassified, we have no further comments to make on this finding.

RECOMMENDATION

8. We recommend that the Director of DOL's Office of Cost Determination reclassify the salary and fringe benefits ($102,384) from NSCERC G&A to direct costs of the

Finding No. 8 - Indirect G&A Costs

In its FY 1996 proposal to DOL for indirect cost rates, NCSC/NSCERC included certain items in its indirect G&A cost pool (see Exhibit C) that were not properly classified as indirect costs or were not allowable for Federal programs. The cost of these items amounted to $531,013 and are discussed in detail in the following sections.

a. Salaries and Fringe Benefits - EPA Program

Although NCSC/NSCERC's correspondence, dated July 22, 1997, to DOL transmitting its FY 1996 indirect cost proposal states that the EPA Senior Environmental Employment (SEE) Program "has no direct salaries recorded" in NSCERC's accounts, NSCERC's organizational charts on the other hand describe the program as a "departmental activity" comparable to the DOL Senior Aides program. Also, NSCERC's staff directories list four employees who are directly involved with the EPA program. Their assignment to the EPA program was confirmed in our discussions with the program supervisor. These employees' duties involved recruitment and termination of EPA enrollees; the review and approval of EPA enrollees biweekly time sheets; program liaison with EPA headquarters and field office operating officials; and, the review and approval of enrollees' travel advances and expense vouchers. Enrollee payroll processing, the disbursement of payroll and travel expenses and accounting for EPA grant costs were performed by support staff members. Accordingly, we reclassified the salaries and fringe benefits of the four employees to direct program costs as follows:

Description of Expense		Amount
EPA Program Salaries	$181,920	
Fringe Benefits (29.6%)		53,848
Total		$235,768

b. Insurance and Taxes

The indirect cost account for insurance and taxes includes a $202,346 insurance premium for third-party general liability insurance for EPA enrollees. Accordingly, we reclassified this amount from the indirect G&A cost pool to a direct charge to the EPA SEE program.

Also, NCSC/NSCERC follows inconsistent accounting practices in that it charges the premiums for the DOL third-party liability insurance policy directly to the DOL Senior Aides program, while it charges the EPA third-party policy premium to indirect G&A costs which it then distributes to all its programs, including the DOL Senior Aides program. We discussed this matter with the NCSC

Director of Finance who was unable to provide us with an explanation for this inconsistent accounting practice.

c. Postage and Duplication Expenses

Costs incurred for "in-house" postage and duplication are initially charged by NCSC/NSCERC to indirect costs. NCSC employees performing these functions maintain "usage" records for each NCSC and NSCERC program and activity. Based upon these records, each program is "internally" billed and the amounts directly charged to the program. The total amounts billed are recorded as "Intra company" income accounts with the ultimate objective of reducing the indirect cost amounts originally charged. As of the close of FY 1996, the charges to the direct program cost accounts exceeded the "credits" to the indirect cost accounts by the following amounts that remained in the intercompany income accounts.

Description of Activity	Amount	
Duplicating Reimbursement (Account 380060)	$ 2,287	
Postage Reimbursement (Account 380070)		10,881
Total		$ 13,168

Accordingly, we reduced the indirect G&A cost accounts by the amounts charged directly to the programs in excess of the amounts "credited" to the indirect cost accounts. We discussed this matter with the NCSC Director of Finance but were not provided with any information as to why NCSC/NSCERC programs were charged "excess" amounts for these type of support services.

d. Library Services

The NSCERC organizational chart, dated January 1, 1996, shows that the library is part of its "public policy" activity together with education and research related to social security issues, health care issues, safety issues, and planning for retirement. The library is located at NCSC/NSCERC's headquarters and is staffed by an Information Center Supervisor and an Information Services Coordinator whose labor hours are charged to NSCERC indirect G&A costs. Public policy and similar activities are directly related to NCSC's membership activities and to its periodic publications and newsletters that are prepared by NCSC's public information department. Such information, however, is not routinely distributed to DOL or EPA enrollees nor are the "public policy issues" related to NCSC/NSCERC's management or administration of the DOL or EPA Federally funded programs.

Accordingly, we reclassified library personnel salaries and fringe benefits from indirect G&A costs to direct membership activities as follows:

Description of Expense	Amount
Library Staff Salaries	$ 66,561
Fringe Benefits (19.78%)	13,166
Total	$ 79,727

AUDITEE'S RESPONSE

NSCERC said that all EPA SEE program expenses were treated as "indirect" for the period ending June 30, 1996, because NSCERC employees "had other corporate responsibilities." NCSC said that it intends to revise the indirect cost rate proposed for FY 1996 in order to reclassify EPA grant salaries and insurance costs from "indirect" to "direct." Such anticipated revision in its indirect cost proposal will, of course, be subject to approval by the DOL Office of Cost Determination.

On the subject of insurance and taxes, NSCERC contends that the $202,346 was an "indirect cost" and, in the absence of any guidance from DOL and EPA, NSCERC continued to handle these program activities as they had been handled in the past. NSCERC said that it had requested assistance from the DOL Office of Cost Determination on how it should resolve the differences between the DOL and EPA grants, but added that no assistance was ever received.

With regard to the postage and duplication expenses, NSCERC said these accounts should have been reduced by the amount of the reimbursements received.

Finally, on the charges that NSCERC had made for library services, NSCERC said its organizational chart does not show the library as part of its "public policy" activities and the library and related personnel serve the organization as a "whole" and provide a wide-range of materials relating to both the management and administration of all its programs.

AUDITORS' COMMENTS

NSCERC agreed that the EPA salaries and fringe benefits, insurance, and taxes should have been charged directly to EPA. It also agreed that the postage and duplication expenses should have been reduced by the reimbursement received. Therefore, the Office of Cost Determination's removal of these costs from the indirect cost pool and the direct charging to EPA for the salaries, fringe benefits, insurance and taxes should resolve this portion of the finding.

Although making certain generalizations about the purpose, functions, and day-to-day activities of the library, NSCERC did not provide any information to indicate that the expenses of the Information

Center Supervisor and Information Services Coordinator should be charged to NSCERC's indirect G&A costs. For the most part, absent the essential supporting information, the library services are appropriately an item of expense that is chargeable to the "direct membership functions" of NCSC and not to NSCERC's indirect costs.

RECOMMENDATIONS

9. We recommend the Director of DOL's Office of Cost Determination make the following revisions in NCSC/NSCERC's indirect cost proposal:

a. Reclassify salaries and fringe benefits applicable to EPA program grants from NSCERC indirect costs to direct costs of such grants - $235,768.

b. Reclassify EPA enrollee third-party liability insurance premiums of $202,346 from NSCERC indirect costs to direct costs of EPA program grants.

c. Reduce NCSC indirect costs of duplicating and postage by $2,287 and $10,881, respectively.

d. Reclassify library salary and fringe benefit costs of $66,561 and $13,166,

Finding No. 9 - Distribution of Indirect Costs

NCSC/NSCERC's FY 1996 indirect cost proposal allocates indirect general and administrative costs (G&A) of both organizations (NCSC and NSCERC) to all their programs, including the DOL Senior Aides program, under a **"modified total direct cost"** allocation base. This is a change from the indirect cost allocation methodology used in prior years (e.g., a direct salaries and wages allocation base) which, NCSC/NSCERC contends, was necessary because the DOL Senior Aides program was transferred from NCSC to NSCERC.

We believe the proposed change to a **"modified total direct cost"** allocation base would be appropriate if NCSC/NSCERC had <u>not</u> arbitrarily included 15 percent of the subrecipient costs. The modified total direct cost allocation base as formulated by NCSC/NSCERC does not, as required, distribute indirect costs to benefitting activities on the basis of relative benefits received. Instead, it results in indirect cost charges to programs that do not correspondingly benefit from such charges. NCSC/NSCERC's new allocation base adds about $400,000 of G&A costs to the FY 1996 DOL Senior Aides program.

The salary and fringe benefit costs for NCSC/NSCERC personnel who perform: (a) the budgeting, accounting, and fiscal review functions for the DOL Senior Aides program, as well as (b) the budget, accounting, reporting, cash drawdowns and cash transfers for subrecipients, are charged <u>directly</u> to the DOL Senior Aides program. Therefore, the Senior Aides program is already being charged its fair share of the indirect costs. That is because by charging NCSC/NSCERC personnel costs as direct costs to the DOL grant, the costs are included in the indirect cost allocation base used to allocate NCSC/NSCERC's indirect costs. Furthermore, the G&A costs computed and reported by these subrecipients to support their enrollee activities are charged to the DOL grant as the non-Federal matching share of grant costs.

NCSC/NSCERC's action is contrary to the terms of the January 1, 1996 Novation Agreement between NCSC, NSCERC, and DOL for the Senior Aides program. The Novation Agreement states that the Federal Government is not obligated to pay or to reimburse either NCSC or NSCERC for any increases in costs that may result from the transfer of the DOL Senior Aides program from NCSC to NSCERC.

<u>NCSC/NSCERC Proposed Revision to the DOL-Approved Indirect Cost Allocation Base</u>

On July 22, 1997, NCSC/NSCERC submitted an indirect cost proposal to DOL's Office of Cost Determination (based on actual FY 1996 costs) for the purpose of establishing: (1) a <u>Final</u> Indirect Cost Rate for FY 1996, and (2) <u>Provisional</u> indirect cost billing rates for FYs 1997 and 1998. The transmittal letter to DOL accompanying its FY 1996 indirect cost proposal states:

"Because of the change whereby National Senior Citizens Education & Research Center (NSCERC) now administers all federal grant programs, the organization must utilize an alternate method of establishing an indirect cost rate. This is due to the fact that the current method which is based on the direct salaries would no longer be applicable to all programs within NSCERC (i.e., EPA's Senior Environment Employment Program (SEEP), a program which is comprised primarily of contract service payments and has no direct salaries).

"Accordingly, the organization is utilizing a <u>modified total direct cost</u> base which will result in a more equitable distribution of indirect costs to all benefitting activities." (Underscoring added.)

Although the transfer of the DOL program from NCSC to NSCERC warrants certain indirect cost allocation changes or modifications, we do not agree that NCSC/NSCERC's proposed **"modified total direct cost"** allocation base results in a more equitable distribution of indirect costs. Instead, this allocation base results in the distribution of indirect costs to the DOL grant substantially in excess of the benefits received by the grant.

<u>Proposed Indirect Cost Allocation Base</u>

The **"modified total direct cost"** allocation base that NCSC/NSCERC proposed for the allocation of indirect G&A costs includes $9,321,951 (or 15 percent of $62,143,340 of DOL subrecipient grant costs) which represents most of the costs computed and reported by NCSC/NSCERC's 148 subrecipients who operate at the community level, recruiting, managing, and sustaining the DOL grant operation in their local areas. The costs computed and reported by the subrecipients include enrollee salaries, fringe benefits and other enrollee costs such as physical examinations and training. DOL enrollees receive their primary indirect G&A support from their local subrecipient organizations. The G&A costs computed and reported by these subrecipients to support their enrollee activities are charged to the DOL grant as the non-Federal matching share of grant costs. Including this amount in the allocation base will result in $1,581,334 of NCSC/NSCERC's total proposed indirect costs ($4,136,838) being allocated to the DOL program.

We requested information from the NCSC Director of Finance to explain: (a) the basis for the percent (15%) or the amount ($9,321,951) of subrecipient costs being included in NCSC/NSCERC's proposed indirect cost allocation base, and (b) the amount of indirect costs ($1,581,334) to be allocated to the DOL Senior Aides program. The Director of Finance was unable to provide any information or to explain the basis or the rationale for NCSC/NSCERC's decision.

<u>NCSC/NSCERC Headquarters Indirect Costs</u>

OMB Circular A-122 provides that an allocation base used to distribute indirect costs should result in the assignment of total indirect costs or a specific indirect cost grouping to the organization's programs, ***in accordance with the relative benefits received*** by each program. Benefits, for the most part, are measured by a "cause and effect" relationship.

NCSC/NSCERC's indirect costs, incurred in FY 1996, are shown in detail in Exhibit C. The major support functions which NCSC/NSCERC has included in its indirect costs and which it allocates to its program activities include:

- Executive management services
- Finance and accounting services
- General maintenance and housekeeping services
- Office rent and occupancy costs
- Depreciation of headquarter's equipment
- Supplies

NCSC/NSCERC headquarters' indirect cost activities shown above benefit its own program operations performed at its own office facility. They do not, however, provide any measurable direct benefits to subrecipient's operations or enrollees' day-to-day activities conducted at the local community level. The administrative support at the local level is based essentially on those indirect cost functions that are performed at that level and not at the NCSC/NSCERC headquarters level.

Budget and Accounting Operations

The budget and accounting personnel and their related costs represent a major component of the indirect cost pool and must be considered in determining the best method of allocation. The salary and fringe benefit costs for NCSC/NSCERC personnel performing budgeting and accounting functions for the DOL Senior Aides program are charged directly to the program. In addition to maintaining DOL grant accounts, these employees perform the budget, accounting, reporting, cash drawdowns and cash transfers for subrecipients. For FY 1996, the personnel costs for these employees were $1,420,464.

On the other hand, these same types of functions for other Federal and non-Federal programs are performed by NCSC/NSCERC personnel whose time and related costs are accounted for as indirect G&A costs and thus allocated to all programs, including the DOL Senior Aides program. Including the salaries of DOL Senior Aides program budget and accounting personnel as direct costs results in substantial additional indirect cost charges to the DOL grant program. We have accepted the salary and related costs of DOL Senior Aides accounting personnel because the program receives some benefits, such as payroll services from the headquarters support function.

With respect to the: (1) Hospital Indemnity Plan (HIP) insurance costs, and (2) DC subrecipient enrollee costs, we believe different accounting treatment is warranted. Although the HIP insurance program involves subrecipient enrollees, the record keeping and accounting operations for the determination and payment of the monthly premiums are performed by NCSC/NSCERC headquarters Senior Aides personnel and are directly charged to the DOL grant. Similarly, NCSC/NSCERC performs the accounting and payroll functions related to the DC subrecipient enrollees. DC enrollees are NCSC/NSCERC employees for payroll and payroll tax reporting purposes. Therefore, we have reclassified these costs - - $2,160,473 (HIP) and $376,215 (DC) -- from subrecipient costs to headquarters' costs so they can be included in the headquarters' direct cost allocation base.

Novation Agreement

Transferring management responsibility for the FY 1996 DOL Senior Aides program to NSCERC from NCSC was officially approved under a Novation Agreement, effective January 1, 1996, signed by representatives of DOL, NCSC, and NSCERC. Paragraph B(7) of this agreement states:

> *"The Transferor and the Transferee agree that <u>the Government is not obligated to pay or reimburse either of them for, or otherwise give effect to, any costs, taxes, or other expenses, or any related increases, directly or indirectly arising out of or resulting from the transfer</u> of this Agreement, other than those that the Government in the absence of this transfer or Agreement would have been obligated to pay or reimburse under the terms of the contracts."* (Underscoring added.)

The terms of the Novation Agreement precludes either organization from receiving funds in excess of the amounts which "the Government would have been obligated to pay or reimburse" in the absence of the transfer. However, the NCSC/NSCERC **"modified total direct cost"** allocation base adds about $400,000 to the indirect costs of the DOL Senior Aides program and is contrary to the terms specified in the Novation Agreement.

AUDITEE'S RESPONSE

NSCERC said that the auditors "inappropriately and arbitrarily" developed a "modified total in-house direct cost base" to allocate indirect costs because this would result in lower indirect costs being charged to the DOL grant. NSCERC contends that the auditors' recommendation is "arbitrary" and not in conformity with OMB directives. Contrary to these directives, NSCERC states that the auditors have added $2,160,473 (gross HIP insurance premiums) to the allocation base. Because the insurance premium is not an appropriate measure of benefits received, NSCERC said that this amount should not be included in the distribution base.

With regard to DC enrollee wages, NSCERC said the auditors have been inconsistent because in this FY 1996 report they included 100 percent or ($376,215) in the base which distorts the "indirect benefits provided to this activity." For FY 1997, NCSC *proposes to use an allocation base consisting of "total direct costs," but excluding that portion of each subaward (subrecipient) in excess of $25,000 and seniority printing and postage expenses. In conclusion, NSCERC said that its proposed allocation base recognizes that the indirect costs benefit the "subawards" and it eliminates the printing and postage contract which, if included in the base, would "distort" the distribution of indirect costs.*

AUDITORS' COMMENTS

It was NCSC/NSCERC, not the auditors, who proposed the use of a "**modified total direct cost"** allocation base. This became necessary when NCSC transferred the DOL SCSEP grant to NSCERC. The auditors have adjusted the base to ensure that it is the most equitable method for distributing NCSC/NSCERC combined indirect costs. We removed the "arbitrary" 15 percent of the DOL subrecipient grant costs that NCSC/NSCERC proposed to include in the base, because each subrecipient receives indirect support from its own G&A personnel and organization. The local G&A support costs are charged to the DOL grant as "non-Federal share" grant costs. In addition, the budgeting, accounting and finance activities which support the subrecipients are performed by NSCERC Senior Aides finance employees who are directly charged to the DOL grant, are included in NCSC/NSCERC's allocation base and, therefore, absorb their share of G&A expenses. This then provides the DOL grant with its "fair share" of G&A costs.

The equity objectives and the purpose of the auditors recommendations to include the HIP insurance costs and the DC enrollee salary costs, in the indirect cost allocation base is to recognize, as appropriate, that these functions are performed by NCSC/NSCERC headquarters personnel and, NCSC/NSCERC should be charged with their portion of indirect costs incurred for the headquarters.

RECOMMENDATIONS

10. We recommend that the Director of DOL's Office of Cost Determination:

a. Establish indirect cost rates for FY 1996 using a *total "in-house" direct cost* allocation base, recognizing the allowable indirect costs as presented in Exhibit C.

b. Disallow the 15 percent of subrecipient costs ($9,321,951) included in the allocation base and include $2,160,473 and $376,215 representing the gross HIP insurance premiums and the DC enrollee costs, respectively, in the allocation base.

c. Require NCSC/NSCERC to adopt an equitable indirect cost method for the Federal

Findings No. 10 - Fiscal Monitoring of Subrecipients

NCSC/NSCERC's fiscal audit staff visited most of the 148 DOL grant subrecipients twice during Fiscal Year 1996 to perform "full on-site" audits (interim and final) of the accounting and fiscal records of the DOL Senior Aides program. A "full on-site" audit consists of a review of the internal controls and certain tests of the accuracy of subrecipient costs. Although we were informed by the Chief Fiscal Representative that in FY 1997, NSCERC reduced its visits to one fiscal audit each year of each subrecipient, and a second audit only when needed, NSCERC did not make a corresponding reduction in its budget or reduce the number of its fiscal representatives for FY 1998. A reduction in the audit activity should have resulted in direct cost savings (salary, fringe benefits and travel costs) of about $400,000 a year.

Results of NCSC/NSCERC Audits of Subrecipients

We randomly selected for review 27 subrecipient audit reports performed by NCSC/NSCERC's fiscal audit staff. The results of these audits are summarized in the following schedule together with comparable data that we had included in our prior NCSC audit report (FYs 1993, 1994 and 1995).

	FY 1996*
Budgeted total direct costs of the fiscal department	$1,063,625
Results of our review of fiscal audits:	
Number of audits reviewed	27
Audits with no questioned costs	19
Audits with questioned costs	8
Total amount of questioned costs	$6,311
Average amount of questioned costs (per audit)	$234
Average amount of direct costs (per audit)	$3,593

*Includes budget amounts for salaries, fringe benefits and travel.

Each subrecipient, whether a local government entity or a not-for-profit organization, is audited each year by its own independent accounting organization. In addition, each subrecipient is required, by its agreement with NCSC, to have an annual OMB Circular A-133 single audit of its government activities and submit a copy of the audit report to NCSC/NSCERC. The single audit is conducted in accordance with Government-mandated procedures designed specifically to disclose any weaknesses in cost charges to individual government programs and to report the findings. The costs of these audits are directly charged to the DOL Senior Aides grant. These audits should be utilized in indicating which subrecipient(s) require additional reviews.

Although NCSC/NSCERC officials have reduced the number of fiscal audits to one a year, using the same review guide as in the past, they have not reduced the staff time devoted to performing these functions. As a result, the cost per fiscal audit has increased significantly and possible cost savings have not been realized.

AUDITEE'S RESPONSE

> *NSCERC said that it is always evaluating its staff relative to effectiveness, efficiency, and economy. NSCERC said since it implemented the one visit per year policy, it has reduced its fiscal monitoring staff by 3 members (from 12 to 9). NSCERC added that it also is currently attempting to "combine" fiscal monitoring responsibilities with program monitoring duties.*
>
> *In conclusion, NSCERC said that after it completes its current "field representative monitoring experiment," it anticipates further economical improvements and overall effectiveness in its administration of the SCSEP.*

AUDITORS' COMMENTS

Based upon: (a) NSCERC's comments and plans to revise its procedures on this finding and the related finding on "program monitoring" (Finding No. 11) which should result in appropriate staff reductions and commensurate cost savings, and (b) NSCERC's agreement to make additional improvements in its program administration, we have no further comments.

RECOMMENDATIONS

11. We recommend that the DOL Grant Officer monitor NCSC/NSCERC's agreed-upon efforts to:

a. Combine the fiscal monitoring and program monitoring duties, and

b. Improve the effectiveness of its administration of the SCSEP.

Findings No. 11 - Program Monitoring of Subrecipients

NCSC/NSCERC has 26 full-time employees and related support personnel to monitor the program activities of its subrecipients. This monitoring consists, on average, of two visits a year to each subrecipient, plus one or two interim desk reviews of the information that subrecipients submit. We believe that this level of monitoring can be substantially reduced, without adversely affecting program management and control. Onsite program visits can be limited to one a year which could result in cost savings of about $500,000 a year. Also, duplication between fiscal and program monitoring should be eliminated to help reduce overall monitoring efforts and expenses.

Program Monitoring

The budgeted costs for program monitoring, as included in NCSC/NSCERC's FY 1996 grant proposal, is:

Cost Element	Amount
Staff salaries	$ 941,583
Support staff salaries	198,051
Fringe benefits (34.25%)	390,324
Travel	270,000
Total direct costs	$1,799,958
Indirect costs (95% of salaries)	1,082,652
Total cost	$2,882,610
Monitoring costs (per subrecipient)	$ 12,245
Direct costs for each "on-site" review	$ 3,534*

*Based on an estimated average of 2 weeks of staff time to perform each review.

Subrecipient Reviews

We reviewed the FY 1996 program monitoring files for 10 randomly selected subrecipients. The results of the reviews are presented on the next page.

PY 1996 Subrecipient Number	Number of Reviews Field	Desk	Total	Review Reports Recommendations*	Directives**
10	2	1	3	0	5
31	3	0	3	2	37
51	2	1	3	1	5
61	2	1	3	1	1
138	2	0	2	1	5
153	2	1	3	0	0
160	3	0	3	0	8
170	2	1	3	3	2
189	2	1	3	2	2
213	2	1	3	1	6
Total	22	7	29	11	71

*Recommendations to improve the quality of the project and must be approved by a supervisory program representative.

**Directives identify problems and describe corrective action to comply with NCSC's Policy and Procedures.

Monitoring Results

We randomly selected reports on 10 subrecipients for review which included monitoring data on 22 onsite visits and 7 desk reviews performed by the NCSC program staff. Our analysis of these reports disclosed:

- Of the 29 onsite and desk reviews, 20 reports had no recommendations and 10 had no directives.

- Directives calling for corrective action related mainly to recurring items such as: a need to "*maintain authorized enrollment strength*," or the need to "*increase the number of placements.*"

- The monitoring had identified 27 items that should be examined by the program reviewer. Of these items, 23 were determined from reports that subrecipients had submitted; and 4 items were of the type that only could be determined by an onsite review.

Other Matters Relating to NCSC Program Monitoring

1. **Duplication of Monitoring Reviews**

The fiscal and program review manuals are used as guidance for the reviews of subrecipients and contain a significant amount of duplicate information. For example, seven items were discussed in both manuals which relate to enrollment numbers, eligibility, wage rates per hour, total work hours, durational limits for host agency service, use of training funds, and physical examinations.

Such duplication should be avoided, to the extent possible, and a consolidation and coordination of fiscal and program monitoring implemented.

2. <u>Data Available at NCSC/NSCERC Headquarters</u>

NCSC/NSCERC has increased the amount of subrecipient operating and financial data at its headquarters by purchasing the "Grant Management System Development" at a cost to the DOL Senior Aides grant of $341,865. Under this system, the data from each subrecipient location on enrollees' recruitment, assignment, and termination history, as well as financial information on program operations, is available to headquarters personnel. Also, available are the monthly and quarterly status reports submitted by each subrecipient showing pertinent information on their operations.

This information and the computer summaries and analyses can be used to help reduce the need for "on-site" monitoring.

<u>AUDITEE'S RESPONSE</u>

NSCERC states, as it has in the past on discussions of this finding, that the main objective of site monitoring is to provide "technical assistance" to Senior Aides program personnel, which they believe is most effective through on-site monitoring. NSCERC said that serious consideration will be given to including the technical assistance provided in its future reports. NSCERC said that it is also evaluating the merits of "consolidating" general program and fiscal monitoring responsibilities into one position.

NSCERC also said that the auditors failed to comprehend the true purpose of the "guidance provided for fiscal and program staff." In reality, NSCERC said that there is no duplication of effort but only a clear delineation and guidance on program and fiscal perspectives and responsibilities.

Concluding, NSCERC said that upon the completion of its "field representative monitoring experiment," one person will perform the functions of "enrollee accountability" and "compliance review." This process, NSCERC said, will begin in the next grant period.

AUDITORS' COMMENTS

It appears that NCSC/NSCERC is now planning to reduce the number of field visits and to take certain actions to avoid the apparent duplication of effort by combining its fiscal monitoring and program monitoring duties and responsibilities. This action, if properly implemented and effectively managed, should make additional funds available to accomplish the primary objectives of the SCSEP.

RECOMMENDATION

12. We recommend the DOL Grant Officer monitor NCSC/NSCERC's planned efforts to reduce the staff time for program monitoring commensurate with the unwarranted

EXHIBITS

Exhibit A

National Council of Senior Citizens, Inc.
National Senior Citizens Education & Research Center, Inc.

Proposed and Audit-Recommended Federal Share Direct and Indirect Costs of DOL SCSEP Grant for Fiscal Year 1996

Cost Element	Proposed by NSCERC	Results of Audit: Questioned by Auditors	Results of Audit: Recommended by Auditors	Finding Number
Salaries	$ 2,151,909		$ 2,151,909	
Fringe Benefits and Payroll Taxes	768,971	$ 103,545		4
		108,872	556,554	5
Professional Fees and Contract Services (Federal Share Only)	53,034,222		53,034,222	
Supplies	15,486		15,486	
Office Furniture	702		702	
Telephone	29,091		29,091	
Postage and Shipping	27,696		27,696	
Building Occupancy	460,620		460,620	
Rental Equipment	21,159		21,159	
Repairs and Maintenance	25,101		25,101	
Travel	498,404		498,404	
Conferences and Meetings	353,304		353,304	
Printings and Publishing	37,250		37,250	
Data Processing	534,200		534,200	
Insurance and Taxes	337,532	237,532	100,000	3
Other Expenses	51,225		51,225	
HIP Premiums Paid		948,983	(948,983)	1
Administrative Fees		244,584	(244,584)	2
Total Direct Costs (a)	**$ 58,346,872**	**$1,643,516**	**$56,703,356**	
Adjustment for Subrecipients				
Less: Professional Fees/Contract Services	(53,034,222)		(53,034,222)	
Plus: Subrecipient Costs*	9,321,951	9,321,951		9
HIP Premiums Paid		(2,160,473)	2,160,473	9
DC Enrollee Wages		(376,215)	376,215	9
Base for Allocation of Indirect Costs (b)	**$ 14,634,601**	**$ 8,428,779**	**$ 6,205,822**	
Indirect Cost Rate (c)	**0.1696**		**0.2171**	**Exhibit C**
Indirect Costs (bxc)=(d)	**$ 2,482,028**	**$1,134,744**	**$ 1,347,284**	
Total Costs (a+d)	**$ 60,828,900**	**$2,778,260**	**$58,050,640**	

*The NCSC/NSCERC proposed share of subrecipent costs ($9,321,951) was based on 15 percent of the total direct professional fees and contract services, including the non-Federal share.

Exhibit B

National Council of Senior Citizens, Inc.
National Senior Citizens Education & Research Center, Inc.

Proposed and Audit-Recommended Direct and Indirect Costs of EPA SEE Program Grant for Fiscal Year 1996

Cost Element	Proposed by NSCERC	Results of Audit: Questioned by Auditors	Results of Audit: Recommended by Auditors	Finding Number
Enrollees				
Salaries	$ 4,776,118		$4,776,118	
Fringe Benefits and Payroll Taxes	1,107,313		1,107,313	
Employees				
Salaries		(181,920)	181,920	8a
Fringe Benefits and Payroll Taxes		(53,848)	53,848	8a
		222,993	(222,993)	6
Supplies	448		448	
Telephone	2,516		2,516	
Postage and Shipping	554		554	
Building Occupancy	99		99	
Rental Equipment	367		367	
Travel	214,079		214,079	
Printings and Publishing	446		446	
Medical Monitoring	31,829		31,829	
Training	4,858		4,858	
Insurance		(202,346)		3&8b
		172,346	30,000	3
Miscellaneous Expenses	2,150		2,150	
Unexplained Differences*	(7,276)		(7,276)	
Total Direct Costs	**$ 6,133,501**	**$ (42,775)**	**$6,176,276**	
Indirect Cost Rate	**(Note No. 1)**		**0.2171**	**Exhibit C**
Indirect G&A Costs	**$1,089,748**	**$(251,122)**	**$1,340,870**	
Total Costs	**$7,223,249**	**$(293,897)**	**$7,517,146**	

Note No. 1. NSCERC added 17.6471 percent to each direct charge item to provide a total indirect cost charge of 15 percent of total costs.

*Difference between amount shown in NSCERC - Grant records and NSCERC indirect cost proposal.

Exhibit C

National Council of Senior Citizens, Inc.
National Senior Citizens Education & Research Center, Inc.

Proposed and Audit-Recommended Indirect Costs and Rates
Fiscal Year 1996

Indirect Cost Element	Proposed by NSCERC	Results of Audit: Questioned by Auditors	Results of Audit: Recommended by Auditors	Finding Number
Salaries	$ 1,710,582	$ 181,920		8a
		66,561		8d
		79,000	$1,383,101	7
Fringe Benefits and Payroll Taxes	506,121	53,848		8a
		13,166		8d
		23,384		7
		(26,081)	441,804	4
Professional Fees and Services	319,166		319,166	
Supplies	29,977		29,977	
Office Furniture	1,580		1,580	
Telephone	54,484		54,484	
Postage and Shipping	38,548	10,881	27,667	8c
Building Occupancy	759,654		759,654	
Rental Equipment	19,267		19,267	
Repairs and Maintenance	15,682		15,682	
Travel	64,571		64,571	
Conferences and Meetings	45,511		45,511	
Printings and Publishing	54,294	2,287	52,007	8c
Supportive Grants	5,439		5,439	
Data Processing	47,892		47,892	
Depreciation	191,310		191,310	
Insurance and Taxes	250,324	202,346	47,978	3&8b
Other Expenses	22,438		22,438	
Total Indirect Costs	**$ 4,136,840**	**$ 607,312**	**$ 3,529,528**	
Allocation Base	**$24,386,630**	**$8,126,429**	**$16,260,201**	**Exhibit D**

Indirect Cost Rate	**0.1696**	**0.2171**

( )denotes increase

Exhibit D

National Council of Senior Citizens, Inc.
National Senior Citizens Education & Research Center, Inc.

Fiscal Year 1996 Allocation Base of Indirect and Direct In-House Costs

		Results of Audit		
Program	Proposed by NSCERC	Questioned by Auditors	Recommended by Auditors	Finding Number
DOL SCSEP	$ 14,634,601	$ 948,983		1
		244,584		2
		237,532		3
		103,545		4
		108,872		5
Subtotal		1,643,516*		
		(2,160,473)		9
		(376,215)		9
		9,321,951		9
Subtotal		6,785,263**	$ 6,205,822	
EPA SEE	6,133,501	222,993		6
		(202,346)		8b
		172,346		3
		(235,768)	6,176,276	8a
I.M. CARES	279,139		279,139	
WHOA	6,000		6,000	
NCSC	2,792,795	(77,737)		4
		(79,727)	2,950,259	8d
NSCERC	29,082	273		4
		(102,384)	131,193	7
Overall Adjustments per NCSC Submission	511,512		511,512	
Total Direct In-House Program Costs	**$24,386,630**	**$8,126,429**	**$16,260,201**	**(Exhibit C)**
Indirect Costs	**$ 4,136,840**	**$ 607,312**	**$ 3,529,528**	**(Exhibit C)**

Indirect Cost Rate	**0.1696**	**0.2171**

( )denotes increase
* Direct costs questioned
**Allocation base adjustments

APPENDIX

Appendix - Auditee's Comments
(Dated June 11, 1999)