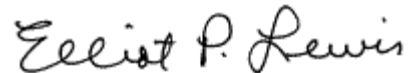


**MOTIVATION, EDUCATION AND TRAINING, INC.
NEW CANEY, TX**

**AUDIT REPORT ON
INDIRECT COSTS
U.S. DEPARTMENT OF LABOR GRANT
NUMBER AC-10727-00-55**

Performance Audit of Indirect Cost for
Program Year July 1, 2000 through June 30, 2001

This audit was performed by Harper, Rains, Stokes & Knight, P.A., Certified Public Accountants, under contract to the Inspector General, and, by acceptance, it becomes a report of the Office of Inspector General.



Assistant Inspector General for Audit

Report Number: 21-03-014-03-365

Date Issued: August 14, 2003

HARPER, RAINS STOKES & KNIGHT

Mr. Elliot P. Lewis
Assistant Inspector General
for Audit
Office of Inspector General
U.S. Department of Labor
Washington, D.C. 20210

We were engaged to perform a performance audit of the indirect cost rate proposed and indirect costs claimed by Motivation Education and Training, Inc. (MET) in conjunction with our audit of National Farmworker Jobs Program Grant AC-10727-00-55 awarded to MET by DOL. The audit was to determine whether the indirect costs claimed by MET for the period July 1, 2000 through June 30, 2001, were reasonable, allowable, and allocable under the cost principles set forth in OMB Circular A-122 and to determine if the direct cost base used and indirect cost rate proposed by MET were those that most equitably distributed indirect costs among cost objectives. We were also to report our findings and recommendations in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Such standards require that we objectively and systematically examine evidence to provide an independent assessment of the performance of a government organization, program, activity, or function. We believe our audit provides such an assessment.

This performance audit was designed to provide reasonable assurance about compliance with significant laws, regulations, and other compliance requirements and to obtain an understanding of management controls that are relevant to the audit. For those management controls determined to be significant to the audit, we obtained sufficient evidence to support our judgments about those controls. An audit made in accordance with these standards provides reasonable assurance that its objectives have been achieved; but it does not guarantee the discovery of illegal acts or abuse. Our results of audit section of the report provides our conclusions on MET's compliance and controls.

Harper, Rains, Stokes & Knight, P.A.

April 12, 2002

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ACRONYMS

- CFR - Code of Federal Regulations
- DOL - U.S. Department of Labor
- DMSF - Division of Migrant and Seasonal Farmworkers
- ETA - Employment and Training Administration
- FSR - Financial Status Report
- MET - Motivation, Education and Training, Inc.
- NFJP - National Farmworker Jobs Program
- OMB - Office of Management and Budget
- OIG - Office of Inspector General
- WIA - Workforce Investment Act

EXECUTIVE SUMMARY

The U.S. Department of Labor (DOL), Office of Inspector General (OIG), contracted with Harper, Rains, Stokes & Knight P.A. to perform an audit of the Workforce Investment Act National Farmworker Jobs Program (NFJP) to determine whether the program was operating in accordance with applicable regulations. DOL provides 53 grants to states and non-profit organizations to operate the program within 47 states and Puerto Rico. We selected a statistical sample of 9 grantees for review and tested the direct and indirect costs claimed for reimbursement by these grantees to determine if the costs claimed were reasonable, allowable and allocable under the cost principles set forth in *OMB Circular A-122*, or *OMB Circular A-87*, as applicable, and grant guidelines, and performance reported to determine whether it was accurate and properly supported. The NFJP was audited for program year 2000 (July 1, 2000 through June 30, 2001).

As a part of this audit, we performed an audit of the indirect cost rate proposed and indirect costs claimed by Motivation Education and Training, Inc. (MET). The primary objectives of our audit of the indirect costs claimed by MET were to determine if the costs proposed in the indirect cost pool were reasonable, allowable and allocable under the cost principles set forth in *OMB Circular A-122* and to determine if the direct cost base used and indirect cost rate proposed by MET were those that most equitably distributed indirect costs among cost objectives.

Our audit found that the base used by MET resulted in an equitable allocation of the costs included in the indirect cost pool among the different programs administered by MET. Additionally, our examination of the specific costs comprising the pool of indirect costs to be allocated among MET's programs yielded no instances of costs being questioned due to a lack of reasonableness, allocability or allowability. The final audited indirect cost rate was not in excess of the indirect rate proposed by MET in their negotiated indirect cost agreement. The audit resulted in no findings or questioned costs.

INTRODUCTION AND BACKGROUND

The Division of Migrant and Seasonal Farmworkers (formerly the Division of Seasonal Farmworker Programs) within ETA is responsible for administering the National Farmworker Jobs Program (NFJP). The intent of NFJP, under section 167 of the Workforce Investment Act, is to strengthen the ability of eligible migrant and seasonal farmworkers and their families to achieve economic self-sufficiency through job training and other related services that address their employment related needs. Assistance from the NFJP is accessed through the NFJP grantee partners and local One-Stop Centers.

MET, a 501 (c)(3) private non-profit organization, was incorporated in 1967 for the purpose of providing academic and vocational training to migrant and seasonal farmworkers and their dependents in order to further develop this target group's economic self-sufficiency. Since its inception, MET has extended its focus to include initiatives that target low-income and disadvantaged populations within their service area which includes operations in Louisiana, Minnesota, North Dakota and Texas. In Texas, MET operates an administrative office in New Caney, with satellite offices in Brownsville, Brownwood, Corpus Christi, Crystal City, Eagle Pass, Edinburg, El Paso, Laredo, Plainview, San Antonio, Sinton and Weslaco. From these offices, MET provides core, intensive and training services to eligible migrant and seasonal farmworkers and their families.

In addition to NFJP, MET administers other programs in each of the four states including Head Start and several other housing and rural development programs. The direct costs of the operation and administration of the programs administered by MET are incurred at the state level. Those administrative costs that are not identifiable with a specific cost objective or program but are, nevertheless, required for the programs' operations are incurred at the corporate headquarters of MET in New Caney, Texas. These costs are recovered through the application of a provisional indirect cost rate to a direct cost base that distributes the indirect cost pool among cost objectives. The aforementioned rate proposed by MET is based on historical data relating to indirect costs and is negotiated periodically by MET with DOL's Office of Cost Determination.

OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objectives of our audit of the indirect costs claimed by MET were to determine if the costs proposed in the indirect cost pool were reasonable, allowable and allocable under the cost principles set forth in OMB Circular A-122 and to determine if the direct cost base used and indirect cost rate proposed by MET were those that most equitably distributed indirect costs among cost objectives.

Our audit was performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our audit included such tests of the accounting records and other accounting procedures, as we considered necessary in the circumstances.

Our audit was performed using the criteria we considered relevant. These criteria included those established by the Federal Government in: OMB Circulars A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Non-Profit Organizations*, and A-122, *Cost Principles for Non-Profit Organizations*; the *Workforce Investment Act of 1998 (WIA)*; 20 CFR Part 669 *National Farmworker Jobs Program under Title 1 of the WIA*; and 29 CFR Parts 95 and 96, *Administrative Requirements and Audits of Federally Funded Grants, Contracts, and Agreements*.

Management Controls

To meet the aforementioned objectives, we reviewed management controls over indirect costs. Our work on established management controls included obtaining and reviewing policies and procedures manuals, interviewing key personnel, and reviewing selected transactions to observe the controls in place. Our testing related to management controls was focused only on the controls related to our audit objectives of reviewing the indirect costs and was not intended to form an opinion on the adequacy of management controls, and we do not render such an opinion. Our testing disclosed no weaknesses in management controls.

Compliance with Laws & Regulations

In order to determine compliance with the above-mentioned laws and regulations, we performed detailed tests of transactions within the indirect cost pool. Our detailed tests of transactions included both analytical review and substantive tests of accounts. Our testing related to compliance with laws and regulations was focused only on the laws and regulations relevant to our audit objectives of reviewing the reported cost and performance data and was not intended to form an opinion on the compliance with laws and regulations as a whole, and we do not render such an opinion. Our testing disclosed no instances of non-compliance.

We examined the indirect cost pool consisting of supporting costs and the salaries and fringes for central office positions. This examination included a review of the statements of revenue and expenditures, general ledgers and the supporting documentation. We used judgmental sampling techniques and analytical procedures to test individual transactions. Additionally, our consideration of the indirect cost rate proposed by MET included an examination of the rate's application to the direct base used.

The indirect costs claimed by MET are presented on Schedule A.

Entrance and Exit Conferences

We held an entrance conference on March 4, 2002, during which we met with officials of MET to discuss the purpose, scope and timing of the audit work to be performed. We held an exit conference with these same officials on April 12, 2002, to discuss the results of our audit and to obtain their comments. The audit resulted in no findings or questioned costs.

RESULTS OF AUDIT

During the course of our audit, we determined that the base used by MET resulted in an equitable allocation of the costs included in the indirect cost pool among the different programs administered by MET. Additionally, our examination of the specific costs comprising the pool of indirect costs to be allocated among MET's programs yielded no instances of costs being questioned due to a lack of reasonableness, allocability or allowability. The final audited indirect cost rate was not in excess of the indirect rate proposed by MET in the negotiated indirect cost agreement.

Audited Indirect Cost Rate

For the program year ending June 30, 2001, we calculated a final indirect cost rate of 18.61 percent as shown below:

Indirect Cost Pool	\$1,078,189
Direct Cost Base (All Programs)	\$5,792,661
Final Indirect Cost Rate	18.61%

The indirect cost rate proposed in the negotiated indirect cost agreement was 19.84 percent. This rate was applied monthly to the direct cost bases used by MET for each program. The direct cost base used consisted of the total direct salaries and fringe benefits of each of MET's programs. The resulting amount represented the amount recovered by MET as indirect costs for each program.

SCHEDULE A

MOTIVATION EDUCATION AND TRAINING, INC.

**Schedule of Reported Indirect Costs
For the Program Year Ended June 30, 2001**

<u>Cost Categories</u>	<u>Reported</u>
Salaries	\$531,171
Fringe Benefits	168,858
Rent	117,750
Utilities	12,795
Telephone	33,508
Insurance	830
Other Space Costs	444
Contract Services	74,060
Equipment	380
Leased Equipment	24,992
Repairs and Maintenance	3,120
Consumable Supplies	50,278
Janitorial Supplies	26
Postage	11,487
Bank Charges	11,253
Printing/Publications	958
Training/Conferences	1,463
Local Travel	578
Out of Town Travel	30,179
Fuel and Maintenance	30
Other Cost	<u>4,029</u>
Total	<u>\$1,078,189</u>