

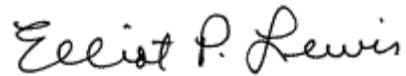
**TELAMON CORPORATION  
RALEIGH, NC**

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**AUDIT REPORT ON  
INDIRECT COSTS**

Performance Audit of Indirect Costs for  
Fiscal Year October 1, 2000 through September 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: 21-03-016-03-365**

**Date Issued: August 13, 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 Telamon Corporation (Telamon), in conjunction with our audit of National Farmworker Jobs Program Grants awarded to Telamon by DOL. The audit was to determine whether the indirect costs claimed by Telamon for the period October 1, 2000 through September 30, 2001, Telamon's fiscal year, 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 Telamon 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 Telamon's compliance and controls.

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

February 8, 2002

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## ACRONYMS

CFR	-	Code of Federal Regulations
DOL	-	U.S. Department of Labor
DMSF	-	The Division of Migrant and Seasonal Farmworkers
ETA	-	Employment and Training Administration
FSR	-	Financial Status Report
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 a performance audit of the Workforce Investment Act's 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 nine 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).

We performed an audit of the indirect cost rate proposed and indirect costs claimed by Telamon Corporation (Telamon). The program was audited for the period October 1, 2000 through September 30, 2001, which is the fiscal year for Telamon, and also the period that all negotiated indirect cost rates cover. The primary objectives of our audit of the indirect costs claimed by Telamon 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 Telamon were those that most equitably distributed indirect costs among cost objectives.

Our audit found that the base used by Telamon resulted in an equitable allocation of the costs included in the indirect cost pool among the different programs administered by Telamon. Additionally, our examination of the specific costs comprising the pool of indirect costs to be allocated among Telamon'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 Telamon in the 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.

Telamon, a 501(c)(3) organization, serves migrant and seasonal farmworkers and their families in nine states under the provision of the WIA grants. Their organization stems from a coalition of North Carolina churches that, in 1965, established the “Migrant Project” to address the immediate economic needs of farmworkers in the state. By 1972, the organization had incorporated as the Migrant and Seasonal Farmworker’s Association, and ultimately became the Telamon Corporation in 1987. Their efforts have since extended into a total of nine states in which they offer core, intensive, and training services to migrant and seasonal farmworkers and their families.

In addition to NFJP, Telamon administers other programs in each of the nine 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 Telamon 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 Telamon in Raleigh, NC. 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 Telamon is based on historical data relating to indirect costs and is negotiated periodically by Telamon with DOL’s Office of Cost Determination.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

The primary objectives of our audit of the indirect costs claimed by Telamon 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 Telamon 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 obtained an understanding of 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 Telamon included an examination of the rate's application to the direct base used.

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

#### **Entrance and Exit Conferences**

The fieldwork relating to the indirect costs claimed by Telamon resulting from the administration of NFJP and its other programs was performed at the corporate headquarters in Raleigh, NC, during the period December 11, 2001, through February 8, 2002. We held an entrance conference on December 10, 2001, during which we met with officials of Telamon to discuss the purpose, scope and timing of the audit work to be performed. We held an exit conference with these same officials on February 8, 2002, to discuss the results of our audit of indirect costs 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 Telamon resulted in an equitable allocation of the costs included in the indirect cost pool among the different programs administered by Telamon. Additionally, our examination of the specific costs comprising the pool of indirect costs to be allocated among Telamon'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 Telamon in the negotiated indirect cost agreement.

### **Audited Indirect Cost Rate**

For the fiscal year ending September 30, 2001, Telamon submitted a final indirect cost rate of 10.48 percent as shown below:

<b>Indirect Cost Pool</b>	<b>\$2,126,984</b>
<b>Direct Cost Base (All Programs)</b>	<b>\$20,303,674</b>
<b>Final Indirect Cost Rate</b>	<b>10.48%</b>

The indirect cost rate proposed in the negotiated indirect cost agreement was 11.52 percent. This rate was applied monthly to the direct cost bases used by Telamon for each program. The direct cost base used consisted of the total direct salaries and fringe benefits of each of Telamon's programs in addition to one half of the salaries and fringe benefits of those participants enrolled in the work-experience program in the case of NFJP. The resulting amount represented the amount recovered by Telamon as indirect costs for each program. At the close of the fiscal year and subsequent to all adjustments being made to the indirect costs in the pool, Telamon reported an adjusted indirect cost rate for all programs based on this revised amount of indirect cost.

SCHEDULE A

TELAMON CORPORATION

**Schedule of Reported Indirect Costs  
For the Fiscal Year Ended September 30, 2001**

<u>Cost Categories</u>	<u>Reported</u>
Salaries	\$1,151,643
Fringe Benefits	320,990
Funded Leave Charges	15,402
Contract Wages	21,190
Travel	65,592
Space Cost	46,932
Consumable Supplies	59,906
Durable Supplies	16,200
Consultants	23,341
Audit	56,460
Copy and Printing	9,931
Communication	30,499
Postage	37,801
Employee Recruitment	14,792
Board Expense	37,419
Unemployment Insurance	14,564
Workers Compensation	6,679
Utilities	11,813
Maintenance to Building	15,808
Maintenance Contracts	22,895
Rental of Equipment	5,461
Depreciation Expense	30,260
Maintenance to Office	4,442
Insurance and Bonding	69,999
Subscriptions	4,042
Staff Training	24,698
Miscellaneous Expense	1,976
Bank Charges	<u>6,249</u>
<b>Total</b>	<b><u>\$2,126,984</u></b>