

USAID

OFFICE OF INSPECTOR GENERAL

OMB Circular A-133 Audit Costs of Catholic Relief Services

Report No. 0-000-01-012-F

August 31, 2001



U.S. Agency for International Development
Washington, D.C.



U.S. Agency for
INTERNATIONAL
DEVELOPMENT

MEMORANDUM

FOR: BHR/FFP, William T. Oliver, Director

FROM: IG/A/FA, Alvin A. Brown, Director

SUBJECT: OMB Circular A-133 Audit Costs of Catholic Relief Services,
Report No. 0-000-01-012-F

The attached report summarizes our review of the reimbursement of audit costs by USAID to Catholic Relief Services between fiscal years 1996 through 1998, and our determination of the proper allocation of these costs, considering the Federal awards participation of at least two other Federal agencies. Your comments are included in their entirety in Appendix II. The report contains recommendations that the Director, FFP:

1. Resolve \$80,499 of questioned OMB Circular A-133 audit costs properly attributable to the Department of State and USDA, that were reimbursed by USAID to CRS for its fiscal year 1996 through 1998 audits.
2. Work with the USAID Office of Procurement to obtain adequate justification from Catholic Relief Services that internal audit costs are properly allocable to the annual Office of Management and Budget Circular A-133 audit effort. If these costs support the internal audit group, which is a function of accounting and internal controls, then the Director, FFP should request that CRS explain why these costs are not included in the indirect cost pool, thus negating the need to issue a direct award to support this effort.

Based on your comments, the Office of Food for Peace concurs with the recommendations made in this report. Please notify the Office of Management Planning and Innovation (M/MPI) when final actions on these recommendations are completed, and request closure.

We appreciate the courtesies extended to us during our review. Please contact us if you wish to discuss these comments or if you have any other questions concerning this report.

Attachment (as stated)

cc: M/OP/PS/OCC, Mr. Steven Tashjian

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Summary of Results

Although Catholic Relief Services (CRS) expends awards from USAID, the U.S. Department of State, and the U. S. Department of Agriculture (USDA), USAID has reimbursed CRS for 100% of its OMB Circular A-133 audit costs. CRS has received payments in the amount of \$2,002,415 in direct grant awards for audit costs associated with its fiscal year 1996 through 1998 audits. Of this amount, we believe that \$33,541 should have been charged to the Department of State and \$46,958 should have been charged to USDA.

Background

During July 2000, officials from the Bureau for Humanitarian Response, Office of Food for Peace (FFP) became aware that CRS had been reimbursed by USAID for 100% of its OMB Circular A-133 audit costs for the past three years. CRS has been receiving these reimbursements through direct grants issued by FFP.

CRS receives an annual audit performed by a non-Federal auditor in accordance with OMB Circular A-133 that, among other things, assesses CRS's system for ensuring that its expenditures of Federal awards are allowable and that its indirect costs are allocable.

During July 2000, FFP officials informed OIG officials that it planned to ask for CRS to reimburse the portion of audit costs related to grant programs from Federal agencies other than USAID.

Objectives

Our review addressed the following question:

1. Did Catholic Relief Services correctly allocate its OMB Circular A-133 audit costs between all Federal agencies providing awards from fiscal years 1996 through 1998?

Our review was performed to address the concerns of the Office of Food for Peace related to the proper allocation of OMB Circular A-133 audit costs at CRS for fiscal years 1996 through 1998. The scope of our review and our methodology are included in Appendix I.

Findings

- 1. Did CRS correctly allocate its OMB Circular A-133 audit costs between all Federal agencies providing awards from fiscal years 1996 through 1998?**

Although the expenditures of awards of two other Federal agencies were included in its OMB Circular A-133 audits for fiscal years 1996 through 1998, CRS received reimbursement from USAID for 100% of the audit

costs. CRS did not allocate the A-133 audit costs to Federal agencies in proportion to the participation of each Federal agency. The following charts identify what we believe should have been the proper allocation of the total audit costs incurred by CRS, based on the participation of the Federal agencies providing awards expended by CRS:

Expenditures of Federal Awards by CRS

Audit Fiscal	USAID		State		USDA	
<u>Year-end</u>	<u>USAID</u>	<u>%</u>	<u>State</u>	<u>%</u>	<u>USDA</u>	<u>%</u>
1996	\$126,495,902	98.0	\$ (20,487)	0.0	\$ 2,596,070	2.0
1997	124,005,289	96.3	2,379,808	1.9	2,349,195	1.8
1998	132,680,858	93.6	4,626,601	3.3	4,526,619	3.2

Allocation of Audit Costs Based on Expenditures of Federal Awards

Audit Fiscal	USAID	State	USDA	Total
<u>Year-end</u>	<u>USAID</u>	<u>State</u>	<u>USDA</u>	<u>Audit Costs</u>
1996	\$ 683,927	\$ -0-	14,038	\$ 697,965
1997	614,034	11,784	11,632	637,450
1998	<u>623,955</u>	<u>21,757</u>	<u>21,288</u>	<u>667,000</u>
Total	<u>\$1,921,916</u>	<u>\$33,541</u>	<u>46,958</u>	<u>\$2,002,415</u>

Based on the above analysis, we believe \$33,541 of audit costs should have been allocated to the U.S. Department of State and \$46,958 should have been allocated to the U.S. Department of Agriculture. OMB Circular A-133 allows Federal award recipients to consider A-133 audit costs as direct costs or as allocated indirect costs. However, no provision exists that allows for an inconsistent method of allocating an entity's audit costs to its various federal agencies. By choosing an inconsistent method of charging its audit costs, CRS is has not complied with Section A(2)(d) of OMB Circular A-122, "*Costs Principles for Non-Profit Organizations*," which requires that allowable costs of an entity's Federal awards be "accorded consistent treatment."

FFP had questioned CRS about its allocation of audit costs in past years but had not pursued the issue aggressively after officials within the USAID Office of Procurement accepted the method of allocation proposed by CRS to recover the audit costs for the years referred to above. If these audit costs were charged through an indirect rate, then each Federal agency would share in the cost of the audit. Instead, during fiscal years 1996-1998, USAID, through FFP, provided CRS with direct annual awards covering 100% of the OMB Circular A-133 audit costs for each of these years.

CRS maintains an internal audit function that has received more than 50% of the OMB Circular A-133 direct audit award costs for the fiscal year 1996 through 1998 audits. We did not analyze the A-133 audit costs reimbursed for internal audit activities at CRS to determine if the group is executing a purely A-133 audit function, or if the internal audit group is a function of accounting and internal controls that should correctly be considered CRS overhead. The salaries, benefits, travel costs, and compliance follow-up costs specifically charged as A-133 audit costs by CRS are generally costs that can be considered to support either effort. USAID, however, should not issue a direct award to support this effort if it is used as a function of CRS accounting and internal controls.

We are making the following recommendations regarding issues related to audit costs charged by Catholic Relief Services.

Recommendation No. 1: We recommend that the Director, Food for Peace, resolve the \$80,499 of questioned OMB Circular A-133 audit costs properly attributable to the Department of State and USDA, that were reimbursed by USAID to CRS for its fiscal year 1996 through 1998 audits.

Recommendation No. 2: We recommend that the Director, Food for Peace work with the USAID Office of Procurement to obtain adequate justification from Catholic Relief Services that internal audit costs are properly allocable to the annual Office of Management and Budget Circular A-133 audit effort. If these costs support the internal audit group, which is a function of accounting and internal controls, then the Director, FFP should request that CRS explain why these costs are not included in the indirect cost pool, thus negating the need to issue a direct award to support this effort.

Management Response: Food for Peace management concurs with each of our recommendations.

**Management
Comments and
Our Evaluation**

BHR/FFP concurred with our recommendations, and offered several informative observations regarding issues discussed in our report. We have included these comments in their entirety in Appendix II.

Upon completion of final actions taken to implement the recommendations identified in the report, BHR/FFP should advise the Office of Management Planning and Innovation and request closure.

**Scope and
Methodology**

Scope

This review assesses the allowability and allocability of audit costs associated with the OMB Circular A-133 audits of CRS for the fiscal year 1996 through 1998 audits. The review was not performed in accordance with generally accepted auditing standards and we did not perform a review of significant management controls at FFP or CRS. The review was performed to address a specific concern of the Office of Food for Peace related to OMB Circular A-133 audit costs reimbursed to CRS. The procedures were explained to FFP officials prior to performance. These procedures included the performance of a quality control review of the fiscal year 1999 audit of CRS and an estimation of the audit costs charged to USAID by CRS during prior years.

Methodology

From October 200 through February 2001 we made inquiries of USAID officials, reviewed the direct grant agreements between USAID and CRS and performed analyses of audit costs associated with the A-133 audit, to determine the adequacy of the audit costs allocated to USAID by CRS.

In December 2000, we performed a quality control review of the working papers supporting CRS's fiscal year 1999 audit performed by KPMG, LLP. We reviewed the audit's program and the auditors' working papers to determine compliance with OMB Circular A-133.

**Management
Comments**

MEMORANDUM

April 18, 2001

For: OIG/A/FA, Alvin A. Brown
From: BHR/FFP, William T. Oliver, Director

Subject: Review of Audit Costs Charged by CRS to USAID through
 Direct Grants (Draft Audit Report)

We concur with the two recommendations contained in the audit report with a small revision to the second recommendation. We appreciate the efforts of the IG/A team in conducting this review and helping to ensure compliance with applicable food aid regulations. Following are specific comments on various sections of the report:

BACKGROUND

The last sentence of the first paragraph and the first two sentences of the second paragraph seem redundant.

AUDIT FINDINGS

The first sentence in the second paragraph should read... “FFP has questioned CRS about its allocation of audit costs in past years, but had not pursued the issue aggressively after officials within the Office of Procurement had accepted the method of allocation proposed by CRS to recover the audit costs for the years referred to above.”

AUDIT RECOMMENDATIONS NOS. 1 THROUGH 2

Recommendation No. 2 should be changed as follows:

“We recommend that the Director, FFP work with the Office of Procurement to receive adequate justification from CRS that internal audit costs are properly allocable to the annual OMB Circular A-133 audit effort. If these costs are part of the annual A-133 audit, or if they support the internal audit group, which is a function of accounting and internal controls, then the Director, FFP request that CRS explain why these costs are not part of the indirect cost pool, thus negating the need to issue a direct award to support this effort.”
