



U.S. ENVIRONMENTAL PROTECTION AGENCY  
OFFICE OF INSPECTOR GENERAL

*Catalyst for Improving the Environment*

## **Attestation Report**

# **National Caucus and Center on Black Aged, Inc., Incurred Cost Audit of Eight EPA Cooperative Agreements**

**Report No. 08-1-0277**

**September 25, 2008**

**Report Contributors:**

Leah Nikaidoh  
Bill Spinazzola  
Richard Valliere

**Abbreviations**

Agreements	Q83279001, Q83279101, Q83279201, Q83279401, Q83279501, Q83297501, Q83297601, Q83297701
CFR	Code of Federal Regulations
DOL	U.S. Department of Labor
EPA	U.S. Environmental Protection Agency
FCTR	Federal Cash Transaction Report
FSR	Quarterly Financial Status Report
FY	Fiscal Year
OIG	Office of Inspector General
Recipient	National Caucus and Center on Black Aged, Inc.
SEE	Senior Environmental Employment



# At a Glance

*Catalyst for Improving the Environment*

## Why We Did This Review

We conducted this examination to determine whether the reported incurred costs for eight U.S. Environmental Protection Agency (EPA) cooperative agreements were reasonable, allocable, and allowable in accordance with the terms and conditions of the agreements and applicable regulations.

## Background

EPA awarded eight cooperative agreements to the recipient to administer the Senior Environmental Employment (SEE) Program. The SEE program provides senior individuals to EPA to help it carry out its activities and programs.

For further information, contact our Office of Congressional and Public Liaison at (202) 566-2391.

To view the full report, click on the following link:  
[www.epa.gov/oig/reports/2008/20080925-08-1-0277.pdf](http://www.epa.gov/oig/reports/2008/20080925-08-1-0277.pdf)

## ***National Caucus and Center on Black Aged, Inc., Incurred Cost Audit of Eight EPA Cooperative Agreements***

### **What We Found**

In our opinion, the outlays reported in the recipient's Quarterly Financial Status Reports as of September 30, 2007, present fairly, in all material respects, the allowable outlays incurred in accordance with the terms and conditions of the agreements and applicable laws and regulations. We found, however, that the recipient did not clearly disclose its allocation methods in its indirect cost proposals. The recipient also charged employee leave costs to grants disproportionately to the amount of time employees spent on each assistance agreement.

### **What We Recommend**

We recommend that EPA's Grants and Interagency Agreements Management Division require the recipient to:

- Revise its cost policy statement to clearly disclose the basis for allocation of costs, the costs being allocated, the intermediate cost pools used, and whether the costs are allocated individually or as a pool;
- have the revised proposals submitted to its cognizant Federal agency; and
- use a more equitable method for allocating employee paid absences to agreements.

In responding to the draft report, the recipient stated that it is working with its cognizant agency to revise its indirect cost proposals, and agreed to revise its policy for allocating employee paid absences to agreements. The corrective actions, when implemented, will address the findings and recommendations.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
WASHINGTON, D.C. 20460

OFFICE OF  
INSPECTOR GENERAL

September 25, 2008

**MEMORANDUM**

**SUBJECT:** National Caucus and Center on Black Aged, Inc.,  
Incurred Cost Audit of Eight EPA Cooperative Agreements  
Report No. 08-1-0277

**FROM:** Melissa M. Heist *Melissa M. Heist*  
Assistant Inspector General for Audit

**TO:** Howard Corcoran, Director  
Grants and Interagency Agreements Management Division

This is our report on the subject audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. This report represents the opinion of the OIG and does not necessarily represent the final EPA position. EPA managers in accordance with established audit resolution procedures will make the final determination on matters in this report.

The estimated cost of this report – calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time – is \$122,954.

**Action Required**

In accordance with EPA Manual 2750, Chapter 3, Section 6(f), you are required to provide us with your proposed management decision for resolution of the findings contained in this report before any formal resolution can be completed with the recipient. Your proposed decision is due on January 22, 2009. To expedite the resolution process, please e-mail an electronic version of your proposed management decision to [kasper.janet@epa.gov](mailto:kasper.janet@epa.gov).

We have no objections to the further release of this report to the public. For your convenience, this report will be available at <http://www.epa.gov/oig>. We want to express our appreciation for the cooperation and support from your staff during our review. If you have any questions, please contact Janet Kasper, Director, Contracts and Assistance Agreement Audits, at (312) 886-3059.

# Table of Contents

---

## Chapters

<b>1</b>	<b>Background</b> .....	<b>1</b>
<b>2</b>	<b>Independent Auditor’s Report</b> .....	<b>2</b>
<b>3</b>	<b>Results of Examination – Review of Reported Costs</b> .....	<b>4</b>
	Inadequate Disclosure in Indirect Cost Proposals .....	4
	Inequitable Allocation of Employee Leave .....	4
	Follow-up of Prior Findings and Recommendations .....	5
	Recommendations .....	6
	Recipient Response and OIG Comments.....	6

## Schedules

	<b>Schedule of Reported Outlays</b> .....	<b>9</b>
	<b>Status of Recommendations and Potential Monetary Benefits</b> .....	<b>10</b>

## Appendices

<b>A</b>	<b>Scope and Methodology</b> .....	<b>11</b>
<b>B</b>	<b>Recipient’s Response</b> .....	<b>12</b>
<b>C</b>	<b>Distribution</b> .....	<b>16</b>

# Chapter 1

## Background

We have audited eight cooperative agreements (agreements) awarded to the National Caucus and Center on Black Aged, Inc. (recipient). Total U.S. Environmental Protection Agency (EPA) awards for these agreements were \$17,524,314. The recipient is a nonprofit organization with its headquarters in Washington, DC. It assists EPA in administering the Senior Environmental Employee (SEE) program. The SEE program supplies senior individuals that provide technical assistance to EPA programs and activities. The recipient administers the program for EPA, including paying SEE employees' salaries and fringe benefits.

The following table provides some basic information about the authorized project periods and funds awarded under each of the eight agreements:

**Table 1-1: Schedule of Agreement Information**

Agreement No.	Award Date	Total Project Period Costs	Total Outlays	Project Period
Q83279001	12/15/2005	\$ 1,331,187	\$ 849,207	02/01/2006 - 08/31/2009
Q83279101	11/30/2005	321,747	148,122	01/01/2006 - 12/31/2009
Q83279201	04/06/2006	1,938,391	560,140	07/01/2006 - 06/30/2009
Q83279401	04/06/2006	2,233,175	959,060	07/01/2006 - 06/30/2009
Q83279501	03/22/2006	5,718,027	1,910,541	07/01/2006 - 06/30/2009
Q83297501	06/14/2006	2,927,445	432,139	07/01/2006 - 06/30/2010
Q83297601	11/01/2006	1,237,857	62,100	10/31/2006 - 10/30/2009
Q83297701	08/31/2006	1,816,485	461,675	09/01/2006 - 08/31/2009
Total		\$17,524,314	\$5,382,984	

Source: EPA assistance agreement award documents and recipient *Quarterly Financial Status Reports (FSR)* as of September 30, 2007.

EPA awarded all eight agreements under the Environmental Programs Assistance Act of 1984. They all have the same purpose of providing SEE employees to various EPA program offices to assist them in accomplishing programmatic activities and objectives.

Throughout the report we use the term *questioned costs*. Questioned costs are outlays that are (1) contrary to a provision of a law, regulation, agreement, or other documents governing the expenditures of funds; or (2) not supported by adequate documentation.

## Chapter 2

### Independent Auditor's Report

We have examined the total outlays reported by the National Caucus and Center on Black Aged, Inc. (the recipient), under the EPA assistance agreements as shown below:

**Table 2-1: Total Reported Outlays**

Assistance Agreement	Quarterly Financial Status Reports		
	Date Submitted	Period Ending	Total Outlays Reported
Q83279001	10/24/2007	9/30/2007	\$ 849,207
Q83279101	10/24/2007	9/30/2007	148,122
Q83279201	10/24/2007	9/30/2007	560,140
Q83279401	10/24/2007	9/30/2007	959,060
Q83279501	10/24/2007	9/30/2007	1,910,541
Q83297501	10/24/2007	9/30/2007	432,139
Q83297601	10/24/2007	9/30/2007	62,100
Q83297701	10/24/2007	9/30/2007	461,675
Total			\$5,382,984

Source: The total outlays reported were from the recipient's Quarterly FSRs as of September 30, 2007.

Our examination was conducted in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States, and the attestation standards established for the United States by the American Institute of Certified Public Accountants. We examined, on a test basis, evidence supporting the reported outlays, and performed such other procedures, as we considered necessary under the circumstances. We believe that our examination provides a reasonable basis for our opinion.

We found during our examination that the recipient did not clearly disclose its allocation process in indirect cost proposals and charged employee leave costs to grants disproportionately to the amount of time employees spent on each assistance agreement.

In our opinion, the outlays reported in the *Quarterly Financial Status Reports as of September 30, 2007*, present fairly, in all material respects, the allowable outlays incurred in accordance with the terms and conditions of the agreements

and applicable laws and regulations. Details of our examination are included in *Chapter 3 Results of Examination*.

Janet Kasper  
Office of Inspector General  
U.S. Environmental Protection Agency  
April 2, 2008



## **Chapter 3**

### **Results of Examination - Review of Reported Costs**

We found that the recipient did not clearly disclose its cost allocation methods in its indirect cost proposals. The recipient also charged employee leave costs to grants disproportionately to the amount of time employees spent on each assistance agreement. These weaknesses are described in further detail in the following paragraphs. Amounts reported by agreement and cost category are included in the **Schedule of Reported Outlays** attached at the end of this report.

#### **Inadequate Disclosure in Indirect Cost Proposals**

The recipient did not clearly disclose its cost allocation process in its indirect cost proposals. The recipient has established an indirect cost pool for general and administration expenses. It also established an intermediate cost pool for each of its funding sources. The intermediate pools used and the allocation process were not clearly disclosed in indirect cost proposals. Clear disclosure is necessary to determine what costs will be charged directly and what costs will be charged indirectly. Clear disclosure also helps in determining whether the allocation methods result in an equitable distribution of costs to grant programs and other cost objectives.

The recipient has established an indirect cost pool for general and administration expenses of the organization. The recipient also uses several intermediate cost pools: one pool for each Federal agency that funds recipient activities and other pools for activities related to private funding sources. The cost pool for each Federal agency is used to accumulate the costs attributable to that agency's programs that cannot be identified to any one grant. The recipient includes the general and administration cost pool, allocation base, and indirect cost rate in its indirect cost proposals. The intermediate pools are not clearly disclosed in indirect cost proposals or in the recipient's cost policy statement. The recipient's methodology for allocating costs to the intermediate pools is reasonable. However, the recipient should revise its cost proposals and cost policy statement to describe the intermediate pools used, the costs allocated, and the allocation process.

#### **Inequitable Allocation of Employee Leave**

The recipient allocates employee leave to grants using a judgmental process that does not comply with 2 Code of Federal Regulations (CFR) Part 230. The regulation requires that leave taken be charged to organization activities proportionately. The recipient does not use a method that results in a

proportionate allocation to its activities. It should therefore be required to discontinue its current practice and use a more equitable method.

Our review of the recipient's timekeeping practices found that employees identify leave taken to their home department (grant) on their timesheets. According to recipient personnel, the home department is where most of an employee's regular time is charged. Determining the home grant is a judgmental process and is not the result of analysis. The recipient's executive vice president stated it was not cost-effective to allocate leave to all of the grants that an employee works on. As an alternative, the recipient records leave where most of the employee's time is estimated to have been charged. In our tests of employee timekeeping practices, we found that employees charge leave to grants disproportionately to the amount of time spent on each grant. For example, an employee charged direct hours to two different grants on a timesheet but only charged leave taken to one of the two grants. A more equitable method would be to use the ratio of employee hours on each grant to total employee hours for a specified period (such as fiscal year, month, or pay period).

Title 2 CFR 230, Appendix B, paragraph 8.g(1) states fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as vacation leave or sick leave, are allowable, provided the costs are absorbed by all organization activities in proportion to the relative amount of time or effort actually devoted to each. The recipient's practice does not comply with these requirements, resulting in inequitable leave charges to individual cooperative agreements.

## **Follow-up of Prior Findings and Recommendations**

An Office of Grants and Debarment contractor (Leon Snead and Company, P.C.) performed a limited review of the recipient's financial management system for Fiscal Years (FYs) 2004 and 2005. The contractor's report, issued in March 2006, indicated that (i) the recipient did not have controls in place to ensure that requested cash advances were limited to the minimum amounts needed to meet its immediate cash requirements as required by 40 CFR 30.22(b), and (ii) amounts reported on Federal Cash Transactions Reports (FCTRs) did not agree to amounts recorded in the recipient's general ledger. We followed up on both of these findings and found that they had been resolved.

We identified that the reason amounts reported on its FCTRs did not reconcile to the recipient's general ledger is because the recipient is reporting unexpended administrative costs as a reserve on its FCTRs. The EPA SEE program office allows the recipient to report unexpended administrative costs as a reserve in order to ensure that funds are available throughout the agreement period, and not used by EPA program offices to hire additional SEE personnel. The recipient, however, only draws an amount of administrative costs related to actual incurred direct costs. The final reporting of actual incurred administrative costs is intended

to occur on the final Financial Status Report (FSR) at the completion of the agreement. Any reserve will be eliminated at that time. We reviewed two completed agreements, and found that the recipient was able to reconcile its final FSR to its general ledger without exception.

During discussion with EPA and the recipient, we noted that the recipient does not have written procedures to help assure that the final accounting of administrative costs occurs. EPA stated that it would be beneficial for the recipient to revise its accounting manual to include procedures for a final reconciliation. The recipient agreed with this recommendation.

## Recommendations

We recommend that EPA's Director of Grants and Interagency Agreements Management Division require the recipient to:

- 3-1 Revise its cost policy statement to clearly disclose the basis for allocation of costs, the costs being allocated, the intermediate cost pools used, and whether the costs are allocated individually or as a pool.
- 3-2 Submit its revised cost policy statement to its cognizant Federal agency for review.
- 3-3 Discontinue its practice of allocating employee leave based on an estimate of the employee's home department and instead use a method that results in a more proportionate distribution.
- 3-4 Revise its accounting manual to include procedures to ensure that the final accounting of administrative costs occurs timely.

Further, we recommend that EPA's Director of Grants and Interagency Agreements Management Division:

- 3-5 Verify that the grantee has revised the process for distributing employee leave to grants and has updated its accounting manual to include procedures to conduct the final accounting of administrative costs.

## Recipient Response and OIG Comments

The recipient said it has revised the description of its cost allocation methods and discussed the revised method with the U.S. Department of Labor (DOL), its cognizant Federal agency. The recipient stated it has no reason to believe that DOL will find the method unreasonable, and that our review disclosed that the allocation process does not result in an inequitable distribution of costs. However, the process is not clearly described in the recipient's cost policy statement.

We identified the following issues with the recipient's revised policy that need clarification:

- The revised policy states in Section II that certain direct costs associated with managing grants are charged to intermediate pools and allocated out at least once a month based on labor time. However, the policy does not define the term "labor time." It could mean labor hours, direct labor, or total labor.
- The policy does not identify by name or number the general ledger accounts allocated. Section III of the policy lists costs by name, but does not clearly indicate if these costs are part of the allocation process and included in an intermediate pool. In addition, the policy does not indicate the intermediate pools used. Our tests disclosed that the recipient uses at least one intermediate pool for each funding agency. The Department of Labor, Health and Human Services, and EPA are three Federal agencies that we identified. There are also various other intermediate pools for private funding sources. The policy should disclose the pools used and the Federal agency or funding source assigned to each.
- The policy states the costs are allocated out at least once a month, but does not state whether the costs are allocated individually or as a pool. This process should be described.

EPA's *Guide on How to Prepare an Indirect Cost Rate Proposal for a Non-Profit Organization*, dated June 19, 2006 states that a cost policy statement is part of the indirect cost proposal; changes to the policy should be submitted with the indirect cost proposal when they occur. Therefore, the recipient needs to revise its cost policy and submit it to its cognizant Federal agency for review.

The recipient did not agree with our recommendations regarding the inequitable allocation of employee leave. The recipient disagreed that it allocated leave on a judgmental basis. Leave balances are maintained by department (the division in which grants from the same agency are grouped). Leave is accrued based on the number of hours worked under a grant and balances are maintained by department. The liability and expense were incurred when the leave is accrued, not when it is taken. When an employee is paid for all accrued leave, each of the grant agreements would bear their fair share of the costs. The recipient stated, however, that in the interest of moving forward, it is prepared to instruct its staff to reduce leave balances proportionately rather than the practice of using the department with the most accrued leave balance. The recipient submitted a revised policy stating that:

*Vacation and Sick Leave are accrued to various Cost Centers based on direct labor hours. Leave earned but not used during each fiscal year is*

*recorded as cost in the period incurred. Use of Leave Hours are [sic] distributed among departments with available leave balances.*

The revised policy, when implemented, would address the recommendation. However, the audit tests indicated that leave was recorded in departments as an expense when it is taken and reported on employee timesheets, and not accrued as the recipient described in the response to the audit report. In resolving the report, EPA needs to verify that the recipient has changed how it charges leave to its assistance agreements.

The recipient agreed to revise its accounting manual to include procedures for the final accounting of administrative costs and a reconciliation of administrative costs in FSRs and FCTRs to the general ledger. The procedure states that reported administrative costs on the final FSR should be incurred costs and not reserve amounts. In our opinion, the revised policy, if followed, will ensure that amounts reported on the final FSR are incurred amounts and not unexpended amounts.

## Schedule of Reported Outlays

	Cumulative Costs as of September 30, 2007								Total	Note
	Q83279001	Q83279101	Q83279201	Q83279401	Q83279501	Q83297501	Q83297601	Q83297701		
Enrollee costs	\$ 702,806	\$ 112,936	\$ 437,890	\$ 788,916	\$ 1,499,395	\$ 299,142	\$ -	\$ 371,675	\$ 4,212,760	
Administrative Costs										
Salaries & Fringe Benefits	\$ 21,686	\$ 6,435	\$ 16,164	\$ 49,294	\$ 49,455	\$ 17,475	\$ -	\$ 11,146	\$ 171,655	
Other Costs								3,680	\$ 63,670	
Indirect Costs	6,837	2,605	5,877	19,840	18,598	6,233		17,036	\$ 193,943	
Reserve	<u>31,654</u>	<u>5,292</u>	<u>20,125</u>	<u>37,243</u>	<u>68,305</u>	<u>14,288</u>			<u>\$ 740,956</u>	1
Total Administrative Costs	<del>\$ 46,401</del>	<del>\$ 8,854</del>	<del>\$ 12,250</del>	<del>\$ 37,614</del>	<del>\$ 74,789</del>	<del>\$ 19,997</del>	<del>\$ 2,100</del>	<del>\$ 8,180</del>	\$ 1,170,224	
Total Claimed Outlays	<del>\$ 849,207</del>	<del>\$ 148,122</del>	<del>\$ 560,140</del>	<del>\$ 959,060</del>	<del>\$ 1,910,541</del>	<del>\$ 432,139</del>	<del>\$ 62,100</del>	<del>\$ 461,675</del>	\$ 5,382,984	

Note 1: The EPA SEE program office allows the recipient to report unexpended administration costs as a reserve in order to ensure that funds are available throughout the agreement period. The final reporting of actual incurred administrative costs will take place on the final Financial Status report at the completion of the agreement, and any reserve will be eliminated.

## **Status of Recommendations and Potential Monetary Benefit**

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
3-1	6	Require the recipient to revise its cost policy statement to clearly disclose the basis for allocation of costs, the costs being allocated, the intermediate cost pools used, and whether the costs are allocated individually or as a pool.	U	Director, Grants and Interagency Agreements Management Division			
3-2	6	Require the recipient to submit its revised cost policy statement to its cognizant Federal agency for review.	U	Director, Grants and Interagency Agreements Management Division			
3-3	6	Require the recipient to discontinue its practice of allocating employee leave based on an estimate of the employee's home department and instead use a more equitable method.	U	Director, Grants and Interagency Agreements Management Division			
3-4	6	Require the recipient to revise its accounting manual to include procedures to ensure that the final accounting of administrative costs occurs timely.	O	Director, Grants and Interagency Agreements Management Division			
3-5	6	Verify that the grantee has revised the process for distributing employee leave to grants and has updated its accounting manual to include procedures to conduct the final accounting of administrative costs.	U	Director, Grants and Interagency Agreements Management Division			

<sup>1</sup> O = recommendation is open with agreed-to corrective actions pending  
C = recommendation is closed with all agreed-to actions completed  
U = recommendation is undecided with resolution efforts in progress

**Appendix A*****Scope and Methodology***

We performed our examination in accordance with the *Government Auditing Standards*, issued by the Comptroller General of the United States, and the attestation standards established by the American Institute of Certified Public Accountants. We also followed the guidelines and procedures established in the *Office of Inspector General Project Management Handbook*.

We conducted this examination to express an opinion on the reported outlays as of September 30, 2007, and determine whether the recipient complied with all applicable laws and regulations, as well as with any special requirements under the agreement. We conducted our fieldwork from February 11, 2008, through April 2, 2008.

In conducting our examination, we performed procedures as detailed below:

- We interviewed EPA personnel and reviewed grants and project files to obtain background information on the recipient and the agreements.
- We interviewed recipient personnel to understand the accounting system and the applicable internal controls as they relate to the reported outlays.
- We reviewed the Fiscal Years 2005 and 2006 single audit reports to identify issues that could impact our examination.
- We reviewed the recipient's internal controls specifically related to our objectives.
- We performed tests of the internal controls to determine whether they were in place and operating effectively.
- We examined the reported outlays on a test basis to determine whether the outlays were adequately supported and eligible for reimbursement under the terms and conditions of the agreements and Federal regulations and cost principles.

The Office of Inspector General has not audited the recipient before. However, an Office of Grants and Debarment contractor reviewed the recipient's financial management system for FYs 2004 and 2005. We followed up on the findings reported.

All of the agreements have been granted a waiver from the requirements of the Environmental Results Order 5700.7 concerning the inclusion in the agreement work plan of well defined outputs and outcomes, recipient reporting on accomplishments, and program office monitoring of progress in achieving the outputs and outcomes. Therefore, we did not perform a review to determine if the recipient achieved the intended results of the awards.



**Appendix B**

***Recipient's Response<sup>1</sup>***

July 30, 2008

Leash Nikaidoh  
U.S. EPA Office of the Inspector General  
26 W. Martin Luther King Drive  
MS: Norwood  
Cincinnati, Oh 45268

Re: Draft Attestation [sic] Report - Incurred Cost Audit of Eight EPA Cooperative Agreements  
Assignment No. OA-FY-08-0051

Dear Ms. Nikaidoh:

Thank you very much for the opportunity to respond to the U.S. Environmental Protection Agency recent audit of the National Caucus and Center on Black Aged, Inc.'s (NCBA) EPA programs.

Attached please find NCBA's response to the Draft Attestation report. As our response includes several attachments, if possible, we request that all attachments be treated as confidential information and not be released to the public.

We hope that our response has addressed all the questioned issues.

Please contact me at 202-624-1139 if I can be of further assistance.

Sincerely,

Elias Hussein  
Executive Vice President

---

<sup>1</sup> The recipient provided attachments, as part of its response. The attachments have been treated as confidential, per the recipient's request, and have not been included in the report.

**Organization Response to the U.S. Environmental Protection Agency Office of Inspector General Draft Attestation Report: National Caucus and Center on Black Aged, Inc., Incurred Cost Audit of Eight EPA Cooperative Agreements.**

**Submitted July 30, 2008**

**Approval of Indirect Cost Rates**

The primary conclusion of the audit is that NCBA claimed indirect costs without approved indirect rates and did not obtain prior approval for its indirect cost methodology from its cognizant agency, the Department of Labor. NCBA has consistently negotiated an indirect cost rate agreement with the DOL for each year under review by EPA. NCBA's indirect cost methodology had the approval of its cognizant agency. We differ from the auditors conclusion because there is a fundamental difference between joint direct costs and indirect costs as defined by OMB Circular A-122. Joint direct costs and indirect costs are treated differently under the A-122 circular.

Under the circular, grantees are required to negotiate indirect cost rate agreements with their cognizant agency as a condition of claiming indirect costs. However under Attachment A Section D. point 4—Direct Allocation Method, the OMB recognizes that

“some non-profits treat all costs as direct costs except general administration and general expenses. These organizations generally separate their costs into three basic categories: (i) General administration and general expenses; (ii) fundraising, and (iii) other direct functions...”

Under this methodology joint costs are “prorated individually as direct costs to each category and to each award using a base most appropriate to the particular costs being pro-rated. This method is acceptable, provided each joint cost is prorated using a base which accurately measures the benefits provided to each award or other activity. The bases must be established in accordance with reasonable criteria, and be supported by current data. Under this method, indirect costs consist exclusively of general administration and general expenses. In all other respects, the organization's indirect cost rates shall be computed in the same manner as that described in subparagraph 2”

NCBA uses the direct allocation method to distribute joint costs associated with executing related grants—in the case of the EPA, at any given time, NCBA manages 15 to 25 cooperative agreements that have similar operational needs. Joint direct costs that have a causal relationship to time and effort are allocated on a monthly basis based on current time and effort data that is attributable to each final cost objective—in this case to each individual awards. In a service organization such as NCBA, time and effort is a well established base on which to allocate costs. Joint costs that are related to the occupation of space are allocated using an analysis of physical space. Both methods are well established in the industry as reasonable.

NCBA asserts that its joint cost methodology is reasonable. We note that the EPA auditors agree in that they did not question the reasonability of NCBA's joint cost allocation methodology only that it was not a negotiated rate. Under A-122, joint costs are not allocated based on a negotiated rate but rather based on current data and a reasonable methodology.

Nonetheless, NCBA has discussed this issue with its cognizant agency (DOL). Based on our meeting and discussions, DOL is in agreement that these costs represent joint direct costs and not indirect costs (see attachment I). On their recommendation, NCBA has updated its cost allocation policy to explicitly describe NCBA's joint cost methodology. As EPA did not find the methodology unreasonable, we have no reason to believe that the DOL will either. Attachment II contains NCBA's revised cost methodology (Cost Policy Statement). We believe that these joint costs should not be questioned and that no adjustment to grant expenses is needed.

### **Allocation of Employee Leave**

The auditors asserted that NCBA allocated leave on a judgmental process. This is not true. The auditors came to this conclusion because they did not take into account NCBA's leave tracking system in its entirety. The auditors focused on the process when the leave was taken not when it was accrued. NCBA accrues available leave based on the numbers of hours worked under a particular grant agreement. Leave balances are maintained by individual departments (departments are the over-arching division in which similar grants are grouped—e.g. all EPA grants are grouped under the EPA department, all DOL grants are grouped under the DOL department). For example if an employee earned 10 hours vacation leave by working 80% on EPA projects and 20% on DOL, that employee would have a leave balance of 8 hours in the EPA department and 2 hours in the DOL department. Time is accrued in proportion to effort as required by OMB A-122. These leave balances are maintained by the departments as hours available for the employees to use.

When an employee takes leave, he or she can use the leave hours accrued from any of the pools in which hours were earned (in proportionate to effort expended) so long as a balance is available (see attachment III). The liability for vacation leave (and hence the off-setting expense) was incurred in the accrual of the vacation leave not when it was taken. At some point, when the employee is paid for all accrued leave, each of the grant agreements would bear their fair share of the costs.

NCBA believes this is an equitable methodology in which to account for vacation leave and does not result in any material difference in terms of allocating expenses to final cost objectives. Reducing the leave balance of one cost center/grant where there is sufficient accrued leave balance available will not affect the final cost to the agreements. However, in the interest of moving forward, NCBA is prepared to instruct its staff to reduce leave balances proportionately rather than the practice of often times using the department with the most accrued leave balance (see attachment IV, item #1:51).

### **Final Reconciliation Procedures**

NCBA has agreed to insert in its accounting manual procedures for the final accounting of administrative costs and reconciliation of Financial Status Report and Federal Cash Transition Reports . These procedures can be found in Attachment IV, item #3:60 & #3:70).

**Appendix C**

***Distribution***

Office of the Administrator  
Director, Grants and Interagency Agreements Management Division  
Director, Office of Grants and Debarment  
Assistant Administrator for Environmental Information  
Assistant Administrator for Research and Development  
Associate Administrator for Policy, Economics, and Innovation  
Agency Follow-up Official (the CFO)  
Agency Follow-up Coordinator  
Associate Administrator for Congressional and Intergovernmental Relations  
Associate Administrator for Public Affairs  
Office of General Counsel  
Audit Follow-up Coordinator, Office of Grants and Debarment  
Deputy Inspector General