U.S. DEPARTMENT OF LABOR
OFFICE OF INSPECTOR GENERAL

Audit of
Central Valley Opportunity Center, Inc.
Grant Number C-5441-5-00-81-55

U.S. Department of Labor
Office of Inspector General
Report No. 09-00-003-03-365
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ACRONYMS

AGR	Annual Grantee Report
CFR	Code of Federal Regulations
CVOC	Central Valley Opportunity Center, Inc.
DOL	Department of Labor
ETA	Employment and Training Administration
FSR	Financial Status Report (ETA 8597)
FY	Fiscal Year
JTPA	Job Training Partnership Act
MSFW	Migrant and Seasonal Farmworker
OCD	Office of Cost Determination
OIG	Office of Inspector General
OMB	Office of Management and Budget
PY	Program Year

EXECUTIVE SUMMARY

The U.S. Department of Labor (DOL), Office of Inspector General (OIG), conducted an audit of the Central Valley Opportunity Center, Inc. (CVOC). The scope of the audit covered the CVOC's operations of the Employment and Training Administration's (ETA) Grant Number C-5441-5-00-81-55 for Program Years (PY) 1995 and 1996 (July 1, 1995, through June 30, 1997) and the CVOC's costs reported on the ETA 8597, Financial Status Reports (FSR) to DOL (Exhibits A and B). The audit also covered the CVOC's indirect cost rate proposals, which are on a fiscal year basis rather than a program year, for Fiscal Years (FY) 1996 and 1997 (October 1, 1995, through September 30, 1997) (Exhibits C and D). We expanded the scope of our audit through September 30, 1998, in those areas where we noted problems continuing past the end of these audit periods.

Overall, we concluded that the CVOC is properly meeting the objectives of the Migrant and Seasonal Farmworker (MSFW) Program grant. The CVOC made proper participant eligibility determinations in accordance with Federal regulations and company policies. The CVOC's participant files and information contained in its participant data systems generally supported program statistics reported on the Annual Grantee Report (AGR). However, documentation in participant files did not support some employability enhancement line items. The CVOC met both of its performance measures for the entered employment rate and average hourly wage at termination (Exhibits E and F).

However, we concluded that the financial systems used to report costs on the FSRs and the indirect cost proposals need significant improvements to accurately reflect allowable costs in accordance with grant provisions, Federal regulations and OMB Circular A-122. We are questioning program costs totaling $526,728. This includes $15,814 of duplicate questioned costs we are questioning in more than one finding. In addition, while we are questioning all indirect costs due to noncompliance with ETA directives, we are also questioning $34,817 within the indirect cost pools.

The following summarizes our audit findings:

! **<u>Program Income Was Not Added to MSFW Grant Funds or Deducted From Program Costs</u>**

The CVOC earned $145,176 in program income directly from MSFW grant activities, but did not credit this income to the grant. As a result, MSFW grant funds did not receive the benefit of program income that could have trained additional farmworkers. We estimate that the CVOC could have trained an additional 10 MSFW participants in PY 1995 and 20 MSFW participants in PY 1996 with these funds. (See Finding A.)

- **<u>Final Indirect Cost Proposals Were Filed Late and Contain Unallowable Costs</u>**

  The CVOC's did not submit the final indirect cost rate proposals for FY 1996 and FY 1997 to DOL within required time frames. Also, we identified unallowable costs that the CVOC included in the indirect cost pools for both fiscal years. We question total indirect costs of $354,861 related to the late filings, which includes $143,907 for PY 1995, $166,450 for PY 1996, and $44,504 for PY 1997. We also question unallowable costs included in the indirect cost pools of $3,556. (See Finding B.)

- **<u>MSFW Program Costs Were Overstated and Included Unallowable Costs</u>**

  The CVOC's FSRs for PYs 1995 and 1996 included unallowable program costs. The CVOC included these unallowable program costs in the FSR because the CVOC: (1) did not properly apply the administrative cost limitation for PY 1995; (2) could not fully support all program costs; (3) incorrectly charged unrelated program costs to the MSFW program. As a result, the CVOC overstated allowable program costs in the FSRs by $24,743 for PY 1995 and by $1,948 for PY 1996. (See Finding C.)

- **<u>Travel Costs Were Not in Compliance With Federal Regulations</u>**

  The CVOC claimed unallowable travel costs for reimbursement from DOL. Specifically, the CVOC: (1) incurred unallowable travel costs for the Board of Directors' retreats; (2) paid unallowable travel costs incurred by the Executive Director; and (3) could not support lodging costs incurred with adequate supporting documentation. The indirect cost pools contained unallowable costs for these travel costs and are overstated by a total of $31,261. (See Finding D.)

- **<u>Employability Enhancements on the Annual Grantee Report Are Not Fully Supported</u>**

  Employability enhancements reported to DOL on the AGR for PY 1995 are not fully supported by documentation contained in the CVOC's participant files. We found that 52 percent of the participant files tested, which were included in the employability enhancement category in the AGR as "Attained Documented Skill Gain," did not contain copies of training certificates evidencing the completion of classroom training. We also found that 45 percent of the participant files tested for the "Completed a GED" employability enhancement did not support the data recorded in the CVOC's participant data system used as support for the AGR. (See Finding E.)

In summary, we recommend that the Assistant Secretary for Employment and Training direct the CVOC to:

- Improve internal controls by monitoring administrative cost limitations.

- Comply with grant provisions and OMB Circular A-122 regarding timely submission of final indirect cost rate proposals.

- Establish specific internal controls to identify and exclude all unallowable direct and indirect costs.

- Establish written procedures to ensure employability enhancements are fully supported in its participant files and participant data systems.

We also recommend the Director, Office of Cost Determination, make final determinations on $354,861 of indirect costs and $34,817 of questioned costs in the indirect cost pools. We also recommend that the Assistant Secretary for Employment and Training disallow direct costs and associated administrative and indirect costs noted earlier in this report.

The CVOC Response

The CVOC responded to our draft report with written comments dated March 17, 2000.

The CVOC disagreed with Finding A. They stated that there were additional operating expenses which would offset any program income.

The CVOC disagreed with Finding B. The CVOC stated that by maintaining regular communications with the Office of Cost Determination it had complied with the rules for extension of time. The CVOC also disagreed with the costs questioned as unallowable and provided additional support for these costs.

Regarding Finding C, the CVOC agreed administrative cost limitations had been exceeded, unrelated costs were charged to the MSFW program, and a voided check was not credited to program funds. In addition, the CVOC provided additional documentation to support program charges.

The CVOC partially concurred with Finding D. The CVOC agreed that there were instances where lodging rates were exceeded and per diem rates were not calculated correctly. The CVOC agreed to make the necessary adjustments for these instances. The CVOC disagreed, however, with the OIG conclusion that the costs needed prior ETA approval or that the costs were unreasonable.

The CVOC also disagreed with Finding E. The CVOC stated that the AGRs were accurate. However, the CVOC did agree to implement procedures to ensure that participant files were complete and that employability enhancements reported were fully supported.

OIG Comments

Based on the CVOC's response, which included additional documentation for certain costs, we revised our questioned costs amounts. However, our basic conclusions and recommendations remain unchanged. We have provided additional comments after each finding.

INTRODUCTION

Background

Congress enacted the Job Training Partnership Act (JTPA) to establish programs to prepare youth and adults facing serious employment barriers for participation in the labor force. These programs provide job training and other services that increase employment and earnings, increase educational and occupational skills, and decrease welfare dependency. The programs improve the quality of the workforce and enhance the productivity and competitiveness of the nation.

As part of JTPA, Congress recognized a compelling need to establish comprehensive training and employment programs for migrant and seasonal farmworkers. JTPA Title IV, Section 402 authorizes the Migrant and Seasonal Farmworker (MSFW) program. Grantees receiving MSFW program funds are nonprofit organizations who have an understanding of the problems of migrant and seasonal farmworkers, a familiarity with the area served, and a previously demonstrated capability to effectively administer an employability development program for migrant and seasonal farmworkers.

The Central Valley Opportunity Center (CVOC) is a nonprofit, tax exempt organization incorporated in the State of California. The organization receives its principal funding from the U.S. Department of Labor (DOL) and the State of California, Department of Community Services and Development. Through the operation of its grant from DOL, the CVOC provides a comprehensive approach to delivering employment and training services to its farmworker population. The CVOC designs its services to lead farmworkers to economic self-sufficiency through employment in the private-sector labor market.

The DOL awarded Grant Number C-5441-5-00-81-55 to the CVOC. For Program Year (PY) 1995, DOL obligated $1,250,233 in MSFW program funds for the CVOC. For PY 1996, DOL obligated $1,144,818 in MSFW program funds for the CVOC.

Principal Criteria

- Job Training Partnership Act of 1982, Public Law 97-300, as amended.

- 20 CFR Part 633 - Migrant and Seasonal Farmworker Programs.

- 29 CFR Part 95 - Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, and with Commercial Organizations, Foreign Governments, Organizations Under the Jurisdiction of Foreign Governments, and International Organizations.

- 29 CFR Part 96 - Audit Requirements for Grants, Contracts and Other Agreements.

- 48 CFR Chapter 1, Part 31, Subpart 31.7 - Contracts with Non-Profit Organizations.

- Office of Management and Budget (OMB) Circular A-110 - Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations.

- OMB Circular A-122 - Cost Principles for Non-Profit Organizations.

- OMB Circular A-133 - Audits of Institutions of Higher Learning and Other Non-Profit Institutions.

- Employment and Training Administration Farmworker Bulletins 92-6 and 95-9.

OBJECTIVES, SCOPE AND METHODOLOGY

The Office of Inspector General, Office of Audit, performed an audit of Grant Number C-5441-5-00-81-55 awarded to the CVOC for PY 1995 (July 1, 1995 through June 30, 1996) and PY 1996 (July 1, 1996 through June 30, 1997) covering the costs reported on the Financial Status Reports (FSR), ETA 8597 (Exhibits A and B). We included the indirect cost proposals, which are on a fiscal year basis rather than a program year basis, for Fiscal Years (FY) 1996 and 1997 (October 1, 1995 through September 30, 1997). We expanded the scope of our audit through September 30, 1998, in those areas where we noted problems continuing past the end of these audit periods. Our work past the audit periods noted consisted only of quantifying the dollar impact of continuing problems.

Financial Audit

The primary purpose of our financial audit was to determine whether the costs the CVOC claimed were reasonable, allowable, and allocable in accordance with applicable cost principles and Federal regulations.

In planning our audit, we performed a quality control review of the independent auditor's workpapers supporting the Fiscal Year (FY) 1996 OMB Circular A-133 entity-wide audit of the CVOC. The review was performed in order to build upon and avoid duplication of the audit work performed at the CVOC by the independent auditor, and to obtain an understanding of the CVOC's accounting and program internal controls used in reporting to DOL.

Indirect Cost Audit

The primary purpose of our indirect cost audit was to determine whether the indirect costs included in the CVOC indirect cost proposals were reasonable, allowable, and allocable in accordance with applicable cost principles and Federal regulations.

As previously noted, we used the work of the CVOC's independent auditor supporting the FY 1996 OMB Circular A-133 entity-wide audit of the CVOC. We reviewed the independent auditor's work in order to build upon and avoid duplication of the audit work performed at the CVOC and to obtain an understanding of the CVOC's accounting internal controls used in developing indirect cost rates.

Program Results Audit

The overall purpose of our program results audit was to determine whether the CVOC accurately reported program statistics on the Annual Grantee Report (AGR) regarding participant outcomes, the types of training and services provided, and the number of terminated participants served by the program as required by 20 CFR § 633 and 29 CFR § 95. We statistically selected and reviewed 67 participant files to determine whether eligible participants' training records were complete and supported information reported to DOL on the AGR. We calculated the actual level of program performance based upon the participant outcomes reported on the AGR to determine whether the CVOC met its performance measures.

Entrance/Exit Conferences

We held our entrance conference with the CVOC's Executive Director, Board of Directors Chairperson, Controller and State Program Director on April 14, 1999. We started field work on April 20, 1999, and completed it on January 26, 2000. We held an exit conference with the CVOC's staff on February 17, 2000.

Mr. Raymond L. Bramucci
Assistant Secretary
for Employment and Training
Employment and Training Administration
U.S. Department of Labor
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Washington, D.C. 20210

ASSISTANT INSPECTOR GENERAL'S REPORT ON THE
FINANCIAL STATUS REPORTS (ETA 8597)

We have audited the *Financial Status Reports,* ETA 8597 (Exhibits A and B), prepared by the CVOC for the period July 1, 1995 through June 30, 1996, and July 1, 1996 through June 30, 1997, under DOL Grant Number C-5441-5-00-81-55. We also audited the Statements of Indirect Costs (Exhibits C and D) prepared by the CVOC for the periods October 1, 1995 through September 30, 1996 and October 1, 1996 through September 30, 1997. The grant agreement requires the *Financial Status Reports* and the Statements of Indirect Costs to be prepared in accordance with OMB Circular A-122 and ETA regulations. These requirements are a comprehensive basis of accounting other than generally accepted accounting principles. The amounts reported on the *Financial Status Reports* and the Statements of Indirect Costs are the responsibility of the CVOC's management. Our responsibility is to express an opinion on the Financial Status Reports and the Statements of Indirect Costs based on our audit.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the costs claimed in the *Financial Status Reports* and the Statements of Indirect Costs are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the costs claimed. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the costs reported. We believe our audits provide a reasonable basis for our opinion.

As discussed in the Findings and Recommendations section of this report, the CVOC had significant weaknesses which resulted in misstatements of program costs for PYs 1995 and 1996. As a result, program costs may be misstated by as much as $195,253 for PY 1995 and $241,352 for PY 1996. In addition, while we are questioning all indirect costs due to noncompliance with ETA directives, we are also questioning $34,817 within the indirect cost pools for resolution by the Office of Cost Determination. ETA will make a final determination on the audit recommendations regarding allowability of direct cost and improving internal controls, in accordance with Department of Labor Manual Series 8-500. The Office of Cost Determination will make final determinations regarding allowability of indirect costs in accordance with the same directive. This directive requires resolution of audit recommendations within 180 days of this report.

Opinion on Financial Statements

Due to the potential effect of the disallowance of program costs on the Financial Status Reports and the Statements of Indirect Costs, we are not able to express, and do not express, an opinion on Financial Status Reports for the periods July 1, 1995 through June 30, 1996, and July 1, 1996 through June 30, 1997, or the *Statements of Indirect Costs* for the periods October 1, 1995 through September 30, 1996, and October 1, 1996 through September 30, 1997, in accordance with the provisions of the grant agreement, ETA regulations and OMB
Circular A-122.

Report on Internal Control

In planning and performing our audits of the Financial Status Reports submitted by the CVOC for PY 1995 and PY 1996 and the Statements of Indirect Costs for FY 1996 and FY 1997, we considered the CVOC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the costs reported and not to provide reasonable assurances on the internal control over financial reporting.

We determined our auditing procedures for the purpose of expressing our opinion on the costs reported and not to provide assurance on the internal control structure.

We obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk for the CVOC.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that in our judgment could adversely affect the CVOC's ability to record, process, summarize and report financial data in a manner that is consistent with the assertions of management in the *Financial Status Reports* and the *Statements of Indirect Costs.* The findings discussed in the Findings and Recommendations section of this report are considered reportable conditions and are discussed in the Findings and Recommendations section of this report.

We also noted certain matters that we consider to be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Findings A and B are considered material weaknesses and are discussed in the Findings and Recommendations section of this report.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, none of the reportable conditions discussed in the Findings and Recommendations section of this report are considered to be material weaknesses.

Report on Compliance with Laws and Regulations

Compliance with laws and regulations applicable to this grant, as well as provisions of the grant agreement itself, is the responsibility of the CVOC management. As part of obtaining reasonable assurance about whether the costs claimed are free of material misstatements, we performed tests of the CVOC's compliance with certain provisions of laws, regulations, and contracts/grants, noncompliance with which could have a direct and material effect on the *Financial Status Reports* or the *Statements of Indirect Costs.* However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance. These are described in the Findings and Recommendations section of this report and are required to be reported by *Government Auditing Standards*. The ultimate resolution of these findings cannot be presently determined. Accordingly, no provision for any liability that may result has been recommended for recognition on the *Financial Status Reports* (Exhibits A and B) or the *Statements of Indirect Costs* (Exhibits C and D). ETA and OCD will resolve the noncompliance issues in accordance with Department of Labor Manual Series 8-500, which requires resolution within 180 days of this report.

This report is intended solely for the information and use of the CVOC and ETA and is not intended to be, and should not be, used by anyone other than these specified parties.

John J. Getek
Assistant Inspector General
for Audit

February 18, 2000

FINDINGS AND RECOMMENDATIONS

Overall, we concluded that the CVOC is properly meeting the objectives of the MSFW program grant. The CVOC made proper participant eligibility determinations in accordance with Federal regulations and company policies. The CVOC accurately reported program statistics on the AGR regarding participant termination categories, selected termination summary information, participation in program activities and services received. However, the CVOC could not fully support the employability enhancement line items. The CVOC met both of its performance measures for the entered employment rate and average hourly wage at termination (Exhibits E and F).

However, we concluded that the financial systems used to report costs on the FSR contain weaknesses that allowed the CVOC to charge unallowable costs to the MSFW program. The financial systems need significant improvements to provide accurate financial reports of eligible grant costs. The following findings discuss these weaknesses and the questioned costs.

A. Program Income Was Not Added to MSFW Grant Funds Nor Deducted From Program Costs

The CVOC earned $145,176 in program income directly from MSFW grant activities, but did not credit this income to the grant. This occurred because the CVOC interpreted program income to mean net income, and concluded there was no net income. As a result, MSFW grant funds did not receive the benefit of program income that could have trained additional farmworkers.

As part of the MSFW program, the CVOC conducts a variety of training classes in program services that generate income. For example, the CVOC provides culinary training to MSFW participants and, as part of the training, sells food prepared by those students in the CVOC cafeteria. The funds provided by the sale of the food are program income.

Federal regulations and the grant agreement provide requirements for the treatment of program income. Specifically, 29 CFR § 95.2(bb) defines program income as:

> . . . gross income earned by the recipient that is directly generated by a supported activity or earned as a result of the award. . . .

In addition, Subpart C § 24(b) of OMB Circular A-110 requires that program income be either (a) added to funds committed to the project by the Federal awarding agency and the recipient, and used to further eligible project or program activities (addition method), or (b) deducted from the total project or allowable program costs. In either method, the Circular allows grantees to deduct costs incident to generating gross program income to arrive at net program income, **provided these costs have not been charged to the grant**.

The grant agreement authorizes the CVOC to use the "addition method" if the CVOC generates any net program income. This requires that program income be added to the project funds provided by the DOL and the CVOC and be used to further eligible program activities: the training of migrant farmworkers.

However, the CVOC failed to recognize program income generated from the MSFW grant in accordance with these criteria. We found that the CVOC recorded all of the program income earned to its non-Federal revenue account although DOL participated in the cost of generating the program income. The MSFW program received none of the benefit of the program income.

MSFW funds pay the costs for providing the culinary and printing training on a prorated basis based on the number of MSFW students in the class. Specifically, in PY 1995, 82 percent of the students in the food service training were MSFW students and DOL paid 82 percent of the class cost. The CVOC applied the same ratio for the cost of the printing classes. These costs included instructors' salaries, supplies, and other direct and indirect costs. As a result, DOL participates heavily in the costs of generating this program income. Therefore, DOL should receive benefit from the program income.

The CVOC stated that OMB Circular A-110 allowed it to deduct costs of generating the program income to arrive at net income, which the CVOC could credit or add to the grant. Since the costs of conducting the training always exceeded the program income, the CVOC concluded there was no net program income to apply to the DOL grant. They also stated that the CVOC was not charging DOL for all costs -- there were development, equipment and other direct costs for which DOL did not pay.

We disagree with this interpretation of the Federal requirements. OMB Circular A-110 specifically states that costs of generating program income may be offset against that income "provided these costs have not been charged to the award." In the CVOC's case, the CVOC has charged the costs of generating the income (e.g., instructors' salaries, cost of food and supplies, etc.), to the grant award. Therefore, this section of OMB Circular A-110 does not apply to the CVOC. The CVOC has to either (a) follow one of the two acceptable methods of handling program income under OMB Circular A-110, or (b) offset costs with gross income before charging them to the MSFW grant award. Either way, the MSFW program gets the benefit of the program income.

We identified program income of $145,176 as follows: (1) $33,949 for PY 1995; (2) $65,608 for PY 1996; (3) $42,852 for PY 1997, and (4) $2,767 for the first 3 months of PY 1998. The CVOC did not credit this income to the MSFW program.

As a result, the CVOC trained fewer MSFW participants. The DOL grant agreement authorizes the CVOC to add the program income to the funds committed to the project and spend these funds on eligible project activities. Based on the planned number of MSFW participants and grant funds available, the average costs to train a participant in PY 1995 and PY 1996 were $3,290 and $3,262, respectively. Using these amounts, we estimate that the CVOC could have trained an additional 10 MSFW participants in PY 1995 and 20 MSFW participants in PY 1996 if program income had been added properly to the MSFW program.

The CVOC is violating Federal requirements for the proper accounting of program income. We question $145,176 in program income that was not added to MSFW grant funds or deducted from program costs.

Recommendations

We recommend that the Assistant Secretary for Employment and Training:

1. Direct the CVOC to account for the $145,176 of program income in accordance with OMB Circular A-110.

2. Direct the CVOC to change its accounting procedures to comply with Federal regulations and the grant agreement regarding program income.

The CVOC Comments on the Draft Report

The CVOC disagreed with this finding and the recommendations. The CVOC stated:

> The definition of Program Income indicates "NET" income must be returned to the program or used for program activities. Even though C.V.O.C. records gross by-product income from the cooking, auto, printing and child care classes in the CORE revenue accounts; our past experience has been to realize no net income. The 402-program is not being charged for certain costs that are usually charged to the program. The CORE account is charged not only a percentage of operating costs but also development, equipment, supplies and other one-time expenses necessary to the operation of the program. CVOC has provided the accounting records to the OIG audit team which allocates all applicable costs to the 402 programs along with the revenues that were credited to the CORE account, the overall net income reflects a loss during the periods audited. CVOC followed the guidelines of A-110, Section 24 when expending costs and crediting revenues. CVOC has provided evidence that this by-product program income was applied to allowable grant activities. According to our records and in reviewing the OIG's calculation, the $153,082.00 represents gross revenue. In accordance with the “Special Conditions, 4.” of the “Assurance and Certifications Section” of the DOL Grant Agreement which states:

> ***"The grantee is authorized to utilize the "addition method" if any Program Income is generated throughout the duration of this grant. The grantee is allowed to deduct costs incident to generating Program Income to arrive at net Program Income."***
>
> The CVOC position is that once necessary overhead costs, not charged to the DOL Program, were deducted from the gross revenues, the "Net Income" generated was zero during the entire period.

The CVOC also provided documentation which reduced the program income being questioned.

The CVOC's entire response is included in this report as Appendix A.

OIG Evaluation of the CVOC Comments

We continue to disagree with the CVOC on this finding for two reasons. First, although the CVOC refers to costs of producing the income not charged to the MSFW program, none of their documentation supports this statement. The only costs supported in the latest submissions that were not charged to the MSFW program are CVOC's share of total program costs. For example, in PY 1996 the CVOC determined that 60 percent of the students were MSFW students and 40 percent were non-MSFW students. Therefore, the MSFW program was charged for 60 percent of the costs and the non-MSFW (CORE) account was charged for 40 percent. CVOC did not provide any supporting documentation for "development, equipment, supplies and other one-time costs necessary to the operations of the program."

Secondly, in the CVOC response, it proposes to apply total program income to only the CVOC share of costs, not total costs. This reduces the CVOC share of costs (40 percent) with no credit to the MSFW share of program costs.

This conflicts with OMB Circular A-110 which states that the grantee may offset program income with the costs of producing the income. It does not allow CVOC to offset only the CVOC portion of costs with no remainder applied to the MSFW program. OMB Circular A-110 states that the grantee may apply program income to the costs of producing that income. This would be the cost of conducting each class - not just CVOC's share of the class cost.

Therefore, this finding and the recommendations are still valid and ETA should take action to have the CVOC properly account for program income. This finding is open and unresolved.

B. Final Indirect Cost Proposals Were Filed Late and Contained Unallowable Costs

The CVOC's final indirect cost rate proposals for FY 1996 and FY 1997 were not filed timely to meet grant requirements. The CVOC did not (1) submit them to DOL within required time frames, or (2) exclude unallowable costs. The CVOC submitted the proposals late because the CVOC decided to wait until its entity-wide audits were completed before filing its final indirect cost rate proposals. Weak internal controls in the financial management system allowed the unallowable costs to be included. We question total indirect costs of $354,861 due to the late filings, which includes $143,907 for PY 1995, $166,450 for PY 1996, and $44,504 for PY 1997. Included in these questioned costs are unallowable costs of $3,556.

To collect indirect administrative costs, the CVOC develops annual indirect cost rate proposals based upon actual costs incurred. The CVOC submits these proposals to the Office of Cost Determination (OCD) for review and approval. OCD approves the final indirect cost rates for use on grants and contracts funded by the DOL and other Federal agencies. Based upon the approved final rates, OCD also approves provisional indirect cost rates for use in succeeding years.

The CVOC's grant agreement with DOL and OMB Circular A-122 set forth specific Federal requirements, including cost principles, for developing and filing the final indirect cost rate proposals. However, the CVOC did not meet these requirements as discussed in the following sections.

<u>The CVOC Did Not Timely File Final Indirect Cost Rate Proposals</u>

For both FY 1996 and FY 1997, the CVOC submitted its final indirect rate proposals to OCD after the required due dates. The CVOC elected to wait until after its entity-wide audits, also delinquent, were completed before submitting the final indirect cost rate proposals to OCD. At the beginning of our audit, OCD had still not approved the rates. OCD is now awaiting our audit results before taking action on the CVOC proposals. We are questioning $143,907 in indirect costs charged to the grant for PY 1995, $166,450 for PY 1996, and $44,504 for PY 1997. In total, we question the $354,861 for indirect costs charged to the grant due to the late filings by the CVOC.

The CVOC uses a provisional indirect cost rate throughout the year as approved by OCD. Once the actual costs are determined, Federal regulations require the CVOC to submit a final indirect cost rate proposal within 6 months after the close of its fiscal year.

OMB Circular A-122, Attachment A, subparagraph E.2.c. states: "Organizations that have previously established indirect cost rates must submit a new indirect cost proposal once the final indirect costs are determined." The Circular also states that costs are allowable only if they meet the requirements of the Circular.

Section II.D of the indirect cost negotiation agreement approved by OCD, dated September 25, 1996, states, in part, that: "Within six months after a grantee/contractor's fiscal year end, a final rate must be submitted based on actual costs. . . ."

The grant agreement, Special Clause No. 1 states, in part, that: ". . . In order to avoid major audit problems, disallowed costs and to receive timely reimbursement of indirect costs, grantees should take those necessary steps to comply with this clause as well as the critical time frames for submission of indirect cost proposals. . . ."

The CVOC did not meet these filing requirements. Specifically, for FY 1996 (ending September 30, 1996), the final indirect cost rate proposal was due to OCD by March 31, 1997. For FY 1997 (ending September 30, 1997), the final indirect cost rate proposal was due to OCD by March 31, 1998. However, the CVOC did not submit proposals for either fiscal year until August 20, 1999, more than 2 years late for FY 1996.

In a letter from OCD, dated October 23, 1996, OCD notified the CVOC of the March 31, 1997 due date for the FY 1996 proposal. In a subsequent letter from OCD, dated December 10, 1997, OCD further notified the CVOC that its FY 1996 and FY 1997 proposals were delinquent and that failure to submit the proposals would result in disallowance of indirect costs for both years. The letter specifically stated that if OCD did not receive the proposals by February 28, 1998, the CVOC would be considered in noncompliance with Federal regulations for reimbursement of indirect costs. It also advised the CVOC that OCD would advise awarding agencies of the Department and other Federal agencies to recover amounts paid for indirect costs that OCD did not approve. The CVOC did not meet this deadline. Although the CVOC was in contact with OCD after the December 10, 1997 letter, the CVOC could not provide any documentation that OCD had granted further delays for submission of the delinquent proposals.

The CVOC violated Special Clause No. 1 of Grant Number C-5441-5-00-81-55 and OMB Circular A-122, Attachment A, subparagraph E.2.c. As a result of the CVOC's failure to submit its final indirect cost rate proposals timely, we question total indirect costs of $354,861 charged to the grant: $143,907 for PY 1996, $166,450 for PY 1996, and $44,504 for PY 1997.

Unallowable Costs Are Included in the Indirect Cost Pools for FY 1996 and FY 1997

The CVOC charged unallowable costs other than the travel costs discussed in Finding C to the indirect cost pools for FY 1996 and FY 1997. The CVOC did not have adequate internal controls in place to identify these unallowable costs and exclude them from the indirect cost pool. We identified $3,556 in unallowable items included in the indirect cost pools. As previously noted, these questioned costs are in addition to the $26,113 already questioned in the CVOC's Single Audits.

OMB Circular A-122 sets forth cost principles for determining eligible program costs. However, the CVOC did not follow these cost principles in the items discussed in the following paragraphs.

- We identified $1,089 in questioned costs for unallowable costs related to promotional items and memorabilia, including gifts and souvenirs. These costs were: (1) $200 for Christmas gift baskets for the Board of Directors; (2) $338 for lapel pins for the Board of Directors and the CVOC employees; (3) $129 for embroidered polo shirts used as raffle prizes for a general meeting of all the CVOC employees; and (4) $422 for embroidered polo shirts given to attendees at a Board retreat. The CVOC charged the first two items totaling $538 to the indirect cost pool for FY 1996 and the second two items totaling $551 to the indirect cost pool for FY 1997. The costs are not necessary or reasonable costs under 20 CFR § 633.303(a). Further, 48 CFR § 31.603(b)(9) states that costs of promotional items and memorabilia including gifts and souvenirs are unallowable costs.

- We identified $1,014 in ceremonial dinner costs for the installation of Board officers. The costs included alcoholic beverages and food. OMB Circular A-122, Attachment B, Paragraph 12 provides that costs of ceremonial functions and the costs relating thereto such as meals are unallowable. Federal regulations at 48 CFR § 31.603(b)(6) provide that costs of alcoholic beverages are unallowable. The amounts questioned are $297 for FY 1996 and $717 for FY 1997.

- We identified $850 in unsupported membership dues that the CVOC charged to the indirect cost pool for FY 1997. The CVOC paid the membership dues without a supporting invoice. According to the Executive Director, the CVOC fell behind in membership dues during FY 1992 when financial conditions were a concern. By FY 1997 financial conditions had improved and the CVOC decided to pay its overdue membership dues. However, the CVOC could not support this expenditure. Since the CVOC did not document these costs with a supporting invoice, they are not allowable costs according to OMB Circular A-122, Attachment A, subparagraphs 2.e and 2.g or Federal regulations at 20 CFR § 633.303(b)(5) and (b)(9).

- We identified $603 in questionable advertising costs which were identified by the FY 1996 Single Audit but were inadvertently left out of the audit report. This occurred due to a math error in the Single Audit workpapers. These costs are not allowable under 20 CFR § 633.303(a).

The CVOC did not comply with applicable regulations because it did not have adequate internal controls in place to identify and exclude the unallowable costs identified above. The CVOC is violating the regulations cited above. We question costs of $3,556 for unallowable costs included in the indirect cost pools. The indirect cost pools are overstated by $1,438 for FY 1996 and by $2,118 for FY 1997.

Recommendations

We recommend that the Director, Office of Cost Determination:

1. Make a final determination on allowability of the $354,861 questioned indirect costs ($143,907 for PY 1995, $166,450 for PY 1996, and $44,504 for PY 1997).

2. Disallow costs of $3,556 ($1,438 for FY 1996 and $2,118 for FY 1997) in the indirect cost pools.

3. Direct the CVOC to establish specific internal controls to identify and exclude all unallowable indirect costs in accordance with its grant agreement, Federal regulations and OMB Circular A-122.

4. Direct the CVOC to comply with grant provisions and OMB Circular A-122 and submit its final indirect cost rate proposals within 6 months after the close of its fiscal year.

The CVOC's Comments on Draft Report

The CVOC provided the following comments on the draft report.

> <u>The CVOC Did Not Timely File Final Indirect Cost Rate Proposals</u>
>
> CVOC disagrees that the OIG should be questioning the Indirect Costs of $184,121 (FY1996) and $170,740 (FY1997) due to the untimely submission of the Final Indirect Costs Proposals. CVOC was in contact with the Department of Labor regarding the delinquent audits and the delinquent indirect cost proposals. CVOC staff also spoke and corresponded with Walter Saulter, Cost Negotiator, several times regarding the delinquent filing of the Final Indirect Cost Proposals and delinquent audits. Mr. Saulter also visited CVOC in late 1995 and early 1996 to provide assistance to the Controller in preparation of the Indirect Cost Proposals. CVOC feels that by maintaining regular communications with the Regional Office of Cost Determination we did comply with the rules for extension of time and that we had received an implied extension of time from Mr. Saulter. The 95-96 and 96-97 Final Indirect Cost Proposals were submitted to Walter Salter [sic] in August 1999. However, final processing of these two proposals has been suspended by the OIG pending the results of their audit.

The CVOC also stated that:

> In discussions with Mr. Saulter, we agreed to wait until the audits for 95/96 and 96/97 were completed before submitting the finals audits and the Indirect Cost Rate Proposals simultaneously. CVOC was issued a provisional rate for the FY95-96 and utilized this rate during the periods in question. CVOC was unable to complete a trial balance for the periods

FY95-96 and 96-97 until after the audits of these two periods. Obviously the issues, which were identified during the Independent Audits, would have an affect on the preparation of the final indirect cost rate proposal. The requirement to submit an audited trial balance in support of the costs listed in the Indirect Cost Proposals precluded CVOC from submitting the Final Indirect Cost Proposal for these two periods. In an attempt to ensure that the Indirect Cost Rates, established for these two periods, were accurate, CVOC prepared them after the Independent Auditor completed the audits of FY95-96 and 96-97.

OIG Evaluation of the CVOC's Response

The CVOC Did Not Timely File Final Indirect Cost Rate Proposals

We disagree with CVOC's response regarding the untimely filing of the final indirect cost rate proposals for Fiscal Years 1996 and 1997. There is no linkage between the required time frames for the submission of the final indirect cost rate proposals, which are due within 6 months after the end of the CVOC's fiscal year, and the 13-month due date for the submission of the Single Audit reports required by OMB Circular A-133. The OCD's letter to CVOC, dated December 10, 1997, clearly advised CVOC that if the indirect cost rate proposals were not received by February 28, 1998, the CVOC would be considered in noncompliance with Federal regulations for reimbursement of indirect costs. The letter also clearly advised CVOC that OCD would advise the Department and other Federal agencies to recover amounts paid that OCD did not approve. The CVOC did not comply with these directives and did not provide any written documentation supporting further delays approved by OCD for the submission of the delinquent proposals. Therefore, we continue to question the $354,861 of indirect costs. The recommendations regarding this section remain open and unresolved.

Unallowable Costs Are Included in the Indirect Cost Pools for FY 1996 and FY 1997

We have reviewed the supporting documentation provided by CVOC under separate cover and have removed $25,620 from costs questioned in the draft report. However, we disagree with CVOC's response regarding the questioned $422 for polo shirts given to the CVOC Board members. Promotional items and gifts are unallowable costs under Federal regulations.
We disagree with CVOC's response regarding the questioned $850 for duplicate membership dues. All of the supporting documentation provided to date indicates that these dues were paid twice for fiscal years 1996-1997 – once from unrestricted funds and once from program funds.
These costs continue to be questioned and the recommendations related to the indirect cost pools remain open and unresolved.

C. MSFW Direct Program Costs Were Overstated and Included Unallowable Costs

The CVOC's FSRs for PYs 1995 and 1996 were overstated by the inclusion of unallowable direct program costs. These unallowable direct program costs were included in the FSRs because the CVOC:

--- did not properly apply the administrative cost limitation for PY 1995;

--- could not fully support all MSFW program costs; and

--- incorrectly charged unrelated costs to the MSFW program.

As a result, allowable program costs reported in the FSRs for PY 1995 and PY 1996 were overstated by $26,691. As explained in the following section, this includes (1) $14,492 of excessive administrative cost which could become allowable if a significant portion of the indirect costs are disallowed as recommended in Finding B, (2) $10,251 of unsupported costs, including associated administrative and indirect costs and, (3) $1,948 of costs unrelated to the MSFW program, including associated administrative and indirect costs. The administrative and indirect costs related to the unsupported and unrelated costs total $1,322 and these costs have already been questioned in Finding B. If indirect costs are not excluded as a result of Finding B, this portion of these costs has to be reconsidered as part of this finding. These unallowable costs are discussed in the following paragraphs.

<u>Administrative Cost Limitation</u>

The CVOC exceeded the administrative cost limitation set forth in Federal regulations. The CVOC's financial management system did not provide for comparison of its administrative costs to total program costs. Due to this lack of control, administrative cost limitations were exceeded by $14,492.

MSFW grantees are allowed to incur costs for the general administration of the MSFW program. These costs include management salaries and fringe benefits, fiscal and procurement costs, and other general costs. However, Federal regulations limit the reimbursement of these costs to 20 percent of the total grant amount.

Federal regulations at 20 CFR § 633.304(b)(1) state that: "Costs for administration of the grant shall not exceed 20 percent of the total amount of the grant." Further, 29 CFR § 95.21(b)(3) states, in part, that: "Recipients' financial management systems shall provide for . . . effective control over and accountability for all funds, property and other assets. . . ."

The CVOC financial management system did not properly limit the administrative costs to 20 percent. For PY 1995, the reported program costs totaled $1,177,773 with an administrative cost limitation of

$235,554. However, the CVOC billed, and was reimbursed for, administrative costs totaling $250,046. This resulted in an overbilling of $14,492.

Therefore, the CVOC needs to eliminate the $14,492 overbilling of administrative costs and improve its financial management system to compare administrative costs to total program costs and prevent such overbillings.

The CVOC researched its accounting records and determined that $10,502 of this cost should have been charged to training and has reduced the administration category for this cost. We concur with the reclassification. The CVOC agreed to remove the remaining $3,990.

<u>Unsupported Program Costs</u>

The CVOC could not support direct program and associated administrative and indirect costs of $10,251 as follows: (1) $1,418 in PY 1995; and, (2) $8,833 in PY 1996. This occurred because the CVOC did not submit amended FSRs to ETA, and supporting documents were either lost or never obtained for numerous charges. We question these unsupported direct program costs of $10,251.

Federal regulations at 20 CFR § 633.314 and Farmworker Bulletin No. 92-6, Section III provide reporting requirements for all MSFW grantees. The FSR is required to be filed no later than 45 days after the end of each report period, and the accuracy is required to be verified. OMB Circular A-122, Attachment A also requires that in order for costs to be allowable, such costs must be adequately documented.

The CVOC did not fully comply with these requirements. Specifically, we found that the CVOC had unsupported charges in two areas. First, its general ledger did not support total program costs as reported to ETA. In PY 1995 the CVOC general ledger showed total program costs of $1,176,597. However, the CVOC billed ETA on the FSR $1,177,779, a difference of $1,182. Reducing total grant direct costs by $1,182 also reduces allowable administrative and indirect costs by $236, a total reduction of $1,418. A similar situation occurred in PY 1996 where the CVOC reported costs of $1,088,594 on the FSR while the general ledger supported only $1,085,067 an overbilling of $3,527. Administrative and indirect costs billed would not be affected by this reduction. Combined with the questioned costs of $1,418 for PY 1995, unsupported costs of $4,945 are being questioned.

Secondly, we found transactions recorded in the general ledger were not adequately supported in the amount of $3,095 for PY 1996. The CVOC could not provide adequate documentation to support these costs. Details of these charges have been given to the CVOC. Since these costs could not be supported, we are questioning the $3,095 plus associated indirect costs of $526 for a total of $3,621.

Thirdly, during PY 1996, the CVOC issued a check for $2,400, of which $1,440 was charged to the MSFW program. A second check for the same amount was erroneously prepared but not issued to the payee. When the CVOC realized that a duplicate check had been made for the payment, it voided the second check but did not credit the MSFW program. In this case, the MSFW program was improperly charged twice for the same expenditure. We are questioning the $1,440 plus associated indirect costs of $245 for a total of $1,685.

Unrelated Costs Charged to MSFW Program

The CVOC inappropriately charged unrelated costs to the MSFW program. The CVOC has not established adequate controls to prevent unallowable costs from being charged. Due to these weaknesses, MSFW program costs were overstated by $1,948 including $1,487 for PY 1995 and $456 for PY 1996.

The CVOC has numerous programs in addition to the MSFW program. These programs include Community Service Block Grants, several state and local funded programs, and a CVOC funded training program.

Federal regulations require the CVOC to account for each program's costs separately. Specifically, DOL regulations and OMB Circular A-122, Attachment A, subparagraph 4.a.(1) allow costs to be allocated to a grant only if they are incurred specifically for the award.

However, the CVOC inappropriately charged $1,948 to the MSFW program. Specifically, we found the CVOC allowed three types of unallowable costs to be charged to the MSFW program.

1. During PY 1995, the CVOC improperly charged on-the-job-training salaries of a non-MSFW participant. The student was a JTPA Title III participant but was not eligible for the MSFW program. The salaries of $623 and administrative and indirect costs of $125 should have been charged to the JTPA Title III program.

2. During PY 1995, The CVOC charged the MSFW program for the total cost of transporting students from Madera, California, to Merced, California, for classroom training. The students transported included non-MSFW students. The non-MSFW programs should bear their fair share of the transportation costs. Based on the percentage of non-MSFW program students, $616, plus administrative costs of $123, should have been charged to non-MSFW programs.

3. During PY 1996, the CVOC charged the MSFW program $394 for airfare for a member of the CVOC Board of Directors to attend a conference. This $394 plus $67 of indirect costs should not have been charged directly to the MSFW program.

Details of these overstated program costs were presented to the CVOC during our field work.

Therefore, MSFW program costs were overstated by $1,948 and we are questioning this amount. The CVOC concurred and has made the necessary accounting adjustments.

Recommendations

We recommend that the Assistant Secretary for Employment and Training:

1. Direct the CVOC to repay the $26,691 in questioned costs.

2. Direct the CVOC to improve internal controls by monitoring administrative cost limitations.

The CVOC Comments on the Draft Report

Administrative Cost Limitation

In its response, the CVOC stated:

> CVOC concurs with this finding and has transferred $10,502 that was incorrectly charged to program administration to training costs. The remaining $3,990 will be removed and returned to DOL through the closeout process. This oversight occurred when CVOC transferred carryover program dollars from the PY95 program into the PY96 year but failed to transfer or adjust administrative funds to ensure the 20% cap was not exceeded.

Unsupported Program Costs

The CVOC agreed that program costs were overstated in PY 1995 and in PY 1996. The CVOC stated that the amounts would be adjusted in the grant closeout and funds would be remitted to DOL.

The CVOC also provided additional documentation regarding $13,911 questioned in the draft report for PY 1995. The CVOC did not provide any additional detail or support for the $3,095 questioned for PY 1996.

Regarding the voided check not credited to the MSFW program, the CVOC concurred and stated that it had made the accounting adjustments in their system. The CVOC agreed to adjust the final reports and remit the amounts to DOL.

Unrelated Costs Charged to MSFW Program

The CVOC concurred and stated that it had made the accounting adjustments in their system. The CVOC agreed to adjust the final reports and remit the amounts to DOL.

OIG Evaluation of the CVOC Comments

Administrative Cost Limitation

We accept the CVOC's actions on this section.

Unsupported Program Costs

The CVOC submitted additional documentation for $13,911 questioned in the draft report for PY 1995 and we have accepted this documentation. This amount has been removed from our questioned costs. The CVOC, however, did not provide any support for the $3,095 questioned for PY 1996 and this amount remains questioned.

Unrelated Costs Charged to MSFW Program

We accept the CVOC's actions on this section.

The recommendations for this finding will remain open and unresolved until the remaining $3,095 is resolved and CVOC agrees to improve internal controls.

D. Indirect Travel Costs Are Not in Compliance With Federal Regulations

Unallowable travel costs are being claimed in the indirect cost pools for reimbursement from DOL. The CVOC does not have adequate internal controls in place over travel costs to ensure compliance with Federal regulations, OMB Circular A-122, or specific grant provisions. Further, the CVOC is misinterpreting the allowability of certain travel costs. Unallowable travel costs were incurred because the CVOC: (1) did not have prior approval for Board of Directors' travel; (2) paid unallowable travel costs incurred by the Executive Director; and (3) could not support lodging costs incurred with adequate supporting documentation. Indirect cost pools are overstated by a total of $31,261, which includes $11,589 for FY 1996, $18,769 for FY 1997, and $903 for FY 1998. These questioned costs are in addition to $25,112 previously questioned and removed as a result of the CVOC Single Audits.

The CVOC is governed by a Board of Directors. As part of their duties, the Board attends various conferences, fund-raising activities, planning sessions, and other functions that require travel. Also, the Executive Director travels extensively as part of his job, as does the staff working on the MSFW program. According to the CVOC, the Executive Director's employment contract with the Board allows him to incur costs for marketing, promoting good will and entertainment. These types of costs are generally incurred when he is in travel status. Although these practices may be acceptable in accordance with his employment contract, these costs are unallowable under Federal regulations, OMB Circular A-122, and specific grant provisions. Due to inadequate internal controls and misinterpretation of Federal regulations, $56,373 of unallowable costs have been included in the indirect cost pool. Of this amount, $25,112 has already been identified and questioned by the CVOC Single Audits and these costs have been removed by the CVOC. The additional $31,261 of unallowable costs identified in our audit are discussed in the following sections.

<u>Board Retreats Were Not Approved and Contained Unallowable Travel Costs</u>

During FY 1996 and FY 1997, the CVOC's Board of Directors held four Board retreats that were not approved for the MSFW program and contained travel costs which are unallowable. The general purposes and locations of the four retreats are summarized as follows: (1) a general Board training session related to the overall responsibilities of nonprofit Boards of Directors was held at the Sundowner Hotel Casino in Reno, Nevada; (2) a workshop on marketing and fund raising was held at the Monterey Beach Hotel in Monterey, California; (3) a strategic planning retreat was held at the Tenaya Lodge at Yosemite resort; and (4) a general meeting on various CVOC programs and activities was held at the Northstar at Tahoe resort. In addition to the Board of Directors and the Executive Director, these conferences were attended by other CVOC staff members. We identified $25,966 in travel costs related to the four Board retreats as summarized in the following table.

LOCATION AND COSTS OF BOARD RETREATS

Board Retreat Location	FY 1996	FY 1997	Total Costs
Sundowner Hotel Casino - Reno, NV	$ 3,702	$ 0	$ 3,702
Monterey Beach Hotel - Monterey, CA	4,972	0	4,972
Tenaya Lodge at Yosemite Resort	2,178	6,459	8,637
Northstar at Tahoe Resort	0	8,655	8,655
Total Indirect Cost Charges	$ 10,852	$ 15,114	$ 25,966

Criteria governing the allowability of travel costs are set forth in 20 CFR § 633 and OMB Circular A-122. Federal regulations at 20 CFR § 633.303(a) provide that for a cost to be allowable it must be <u>necessary</u> and reasonable for the proper and efficient administration of the program.

Regulations at 20 CFR § 633.303(g)(2) state that:

> Travel costs of section 402 administrative staff or members of governing boards of grantee organizations are allowable without the prior approval of the Department <u>if the travel specifically relates to programs under section 402. All other travel to be charged to JTPA section 402 grants shall require the prior approval of the Department</u>. These costs shall be charged to administration. [Emphasis added.]

Further, 20 CFR § 633.303(g)(6) states that: "Travel policies of all grantees, subgrantees and contractors shall be consistent with those set forth in the Department's Travel and Transportation Manual."

OMB Circular A-122, Attachment A, subparagraph 3.a., provides that a cost is reasonable if it is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award. Subparagraph 3.c. of the Circular provides that a cost is reasonable if the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization and to the Federal Government.

The travel costs incurred by the CVOC for the Board retreats do not meet these criteria for several reasons. Primarily, none of these travel costs were necessary or reasonable for the proper and efficient administration of the program. The MSFW program received no benefit from the Board and staff traveling to resort areas to conduct retreats or training as opposed to holding the training where less or no travel costs would be incurred.

Further, we do not believe that the CVOC acted with prudence in the circumstances considering its responsibilities to the organization and the Federal Government. These Board retreats could have been held in Merced, California, where the CVOC is located, at significantly reduced costs.

Finally, the CVOC did not have prior approval from ETA to incur these costs. The costs are not applicable to the MSFW program and, as such, require prior approval. Without this approval, they cannot even be considered for eligibility.

The CVOC did not have adequate internal controls in place and misinterpreted the allowability of these costs. The CVOC had concluded that these costs were necessary and reasonable. As a result, unallowable costs were charged to the indirect cost pool.

The lack of control affected the allowability of costs further. Within the $25,966 questioned, we also noted that the Board retreats included unallowable costs amounting to $8,624 for:

(1) lodging rates in excess of the Federal maximum allowable daily lodging rates for the Board retreat locations;

(2) payments for meals and incidental costs for conference attendees who received the CVOC's standard $35 daily per diem rate but had meals provided during the conferences; and

(3) alcoholic beverages.

The indirect cost pool is overstated by $3,408 for FY 1996 and by $5,216 for FY 1997 for these unallowable costs. The specific details of these questioned costs were provided to the CVOC during our audit field work and are summarized in the following table.

UNALLOWABLE BOARD TRAVEL COSTS

Unallowable Costs Due To:	FY 1996	FY 1997	Total Costs
1. Excessive lodging costs	$ 2,790	$ 2,309	$ 5,099
2. Duplicate meals & incidental costs	618	2,703	3,321
3. Alcoholic beverages	0	204	204
Total Indirect Cost Charges	$ 3,408	$ 5,216	$ 8,624

The above table does not include $323 for duplicate meals expense for FY 1996 already questioned by the CVOC independent auditor.

The CVOC did not fully comply with Federal grant requirements since they did not have adequate internal controls in place to ensure compliance. This resulted in a misinterpretation of the allowability of the costs. As noted above, the CVOC did not seek or obtain the prior approval of the DOL to charge the travel costs. In addition, we consider the travel costs for the retreats to be unnecessary and unreasonable for the proper and efficient administration of the program. Beyond this, the Board retreats contain costs unallowable under Federal regulations. Total costs questioned are $25,966.

Unallowable Travel Costs Incurred by the Executive Director

The Executive Director's program travel reimbursement claims contained unallowable travel costs which were not in compliance with Federal regulations. The CVOC did not have adequate internal controls in place to identify these unallowable costs and exclude them from the indirect cost pool. We identified $3,736 in questioned costs for the Executive Director's unallowable travel costs. In addition to these amounts, the CVOC Single Audits questioned over $15,000 of Executive Director's travel and this amount has already been removed from the indirect cost pools.

The CVOC Executive Director travels frequently on work not directly related to the MSFW program and these travel costs are charged to the indirect cost pool and then indirectly to the MSFW grant. The Executive Director travels for conferences, meetings, coordination with other nonprofit organizations and other activities that indirectly benefit the MSFW program. His travel costs include hotels, rental cars, meals and other incidental costs. His travel costs, as reimbursed by the CVOC, have also included entertainment and lobbying costs.

Cost principles for determining the allowability of these travel costs are set forth in OMB Circular A-122 and 20 CFR § 633. OMB Circular A-122 states that travel costs generally are allowable. However, entertainment costs and lobbying costs are specifically identified in the Circular as being unallowable. Further, 20 CFR § 633.303(g)(6) limits the CVOC's reimbursements to the maximums set in DOL policies.

The CVOC incorporated these policies and limitations into its accounting manual. However, it did not establish internal controls to ensure these requirements were implemented to identify and prevent unallowable costs from being charged to the MSFW program.

We found that travel costs claimed included unallowable items such as lodging costs in excess of the maximum allowable daily lodging rates, political lobbying activities, meal charges and entertainment related to marketing and promoting good will, an unsupported travel advance, duplicate claims for mileage and rental cars, personal entertainment charges for miscellaneous items including movies and on-line computer charges, and fines/fees resulting from a violation of local traffic laws. For example, in March 1997, the Executive Director traveled to Sacramento to attend a conference related to the MSFW program. He charged $116 per night for lodging while the Federal maximum rate was $72 per night. He also charged $10 for movie rental. These lodging and entertainment costs are not allowable.

In total, we identified $3,736 in unallowable travel costs for the Executive Director: $470 in FY 1996 and $2,363 in FY 1997 and $903 in FY 1998.

The CVOC's Single Audits had identified over $15,000 of unallowable travel costs incurred by the Executive Director and charged to the indirect cost pools. As a result of being questioned in the Single Audit reports, these costs have already been removed from the indirect cost pools and are not being questioned again.

However, the CVOC needs to take action to prevent the Executive Director's entertainment and lobbying costs from being charged to the indirect cost pool. Therefore, ETA needs to immediately instruct the CVOC to establish internal controls to prevent these costs from being charged to Federal programs.

<u>Lodging Costs Claimed Without Adequate Supporting Documentation</u>

The CVOC was unable to support some lodging costs claimed with actual lodging receipts. The CVOC did not have adequate internal controls in place to ensure that all costs claimed were supported with adequate documentation. We identified $1,559 in questioned travel costs which the CVOC could not support with lodging receipts.

Federal regulations at 20 CFR § 633.303(g)(6) state that: "Travel policies of all grantees shall be consistent with those set forth in the Department's Travel and Transportation Manual." Those policies require the submission of actual lodging receipts in order to be reimbursed. Further, 20 CFR § 633.309(b)(9) states that grantees shall ensure that their financial management system supports accounting records with source documentation. OMB Circular A-122, Attachment A, subparagraph 2.g provides that costs must be adequately documented in order to be allowable.

The CVOC's policies implement these requirements by requiring all employees to have sufficient documentation to establish the amount, date, place and essential character of travel costs. Section VIII of the CVOC's Fiscal and Accounting Systems manual specifically requires the submission of a hotel/motel receipt for reimbursement.

However, the CVOC did not enforce these policies and did not require its employees to submit a travel voucher, or receipts. The employees are generally given travel advances to perform out-of-town travel, but they have not been required to submit a travel voucher to account for or liquidate the advance. In most cases, the CVOC prepays the lodging costs by issuing a separate check directly to the hotel, based on instructions from the employee. However, the individual travelers are not required to submit lodging receipts showing how the prepayments were allocated or that they actually made the trip as planned. Thus, the CVOC has no way of knowing that the lodging costs were actually incurred and, in many cases, no receipt or documentation from the hotel.

For example, the CVOC paid $3,526 to the Marriott Hotel in Key West, Florida, in October 1996, for lodging for five people. The employees all obtained travel advances for the trip, but none were required to submit travel vouchers showing where and when they actually went. Also, the CVOC could not locate the original documentation to support the $3,526 charge and could not obtain duplicate documentation because the hotel had changed ownership. Therefore, these costs are not supported.

In total, we identified $1,559 of lodging costs that were unsupported. This amount included $267 for FY 1996 and $1,292 for FY 1997. These costs are being questioned. However, to prevent this lack of documentation in the future, the CVOC needs to improve internal controls over payment of lodging costs.

Conclusion

Ineligible travel costs are being claimed in the indirect cost pools for reimbursement from DOL. We identified $31,261 in unallowable travel costs. This is in addition to over $25,112 questioned in the CVOC Single Audit reports. OCD needs to direct the CVOC to improve internal controls over travel costs to ensure compliance with Federal regulations.

Recommendations

We recommend that the Director, Office of Cost Determination:

1. Disallow questioned indirect costs in the indirect cost pools for Board retreats of $25,966, including $8,624 for unallowable Board members costs.

2. Disallow $3,736 in the indirect cost pools for unallowable Executive Director travel costs.

3. Disallow $1,559 in the indirect cost pools for unsupported lodging costs.

4. Direct the CVOC to cease charging travel costs not specifically related to the MSFW program to the indirect cost pool.

5. Direct the CVOC to establish specific internal controls to identify and exclude all unallowable travel costs in accordance with its grant agreement, Federal regulations and OMB Circular A-122.

The CVOC Comments on the Draft Report

The CVOC strongly disagreed with this finding and the recommendations. The CVOC stated:

> CVOC agrees that there are instances where lodging rates were exceeded and per diem rates were not calculated accurately, these errors will be adjusted and repaid as necessary. However, CVOC disagrees with the Audit Team conclusion that these training costs were "Unreasonable" or that CVOC <u>was required to have ETA prior approval for travel to these training sessions</u>. The DOL has encouraged CVOC and other non-profits to provide Board of Director training and to this end DOL has provided funding for technical assistance. CVOC has included documentation which supports our contention that these trainings were allowable and reasonable expenditures.

The detailed CVOC response is included in the report as Appendix A.

OIG Evaluation of the CVOC Response

<u>Board Retreats</u>

We do not concur with CVOC's response. The Board retreats do not specifically relate to the JTPA Section 402 program. As the CVOC indicated, these costs are administrative and were charged to the indirect cost pool. If they were specifically related to the MSFW program, they would have charged directly. Therefore, they do need the prior approval of the Department in accordance with 20 CFR § 633.303(g)(2). This finding remains open and unresolved.

Also, we continue to question whether these costs were "necessary and reasonable." Nothing in the CVOC response convinces us that these costs were necessary. CVOC could easily have had the retreats/training without incurring this cost.

<u>Unallowable Costs in Board Retreats</u>

We accept the CVOC's response that they agree the maximum lodging rates were exceeded and per diem rates were not calculated accurately, and that these errors would be adjusted and repaid as necessary. We also accept the CVOC's concurrence with the OIG's questioning of duplicate lunch, dinner, and reception costs and the agreement to transfer these charges to unrestricted funds.

The CVOC disagreed with questioned costs for continental breakfasts/light snacks at the retreats. The CVOC provided additional support for their position. We do not concur with the CVOC's response on this issue. Federal travel regulations and the Department's Travel and Transportation Manual in effect at the time these costs were incurred both prohibited duplicate payments for these costs. Specifically, costs for food provided by contract or purchase order, combined with the per diem paid to the attendee, cannot exceed the maximum per diem rate. By paying both, the CVOC exceeded allowable costs.

Unallowable Travel Costs Incurred by Executive Director

The CVOC concurred with $3,195 of the questioned $3,726 unallowable travel costs incurred by the Executive Director and provided supporting documentation for the remaining $531. Our review of that data indicates that the supporting documentation does not equal the amount of the check. Further, $227 of the costs were for travel advances to attend meetings which involved lobbying activities which are unallowable costs. Therefore, we still question the $531. This finding remains open and unresolved.

The CVOC's response did not agree with the reference to the $15,000 questioned by the independent auditor in the Single Audits and indicated that a ruling would be requested from the OCD for a portion of these costs. We did not question these costs in our report since the CVOC had already agreed with those findings and removed those costs from its indirect cost pools.

Unsupported Lodging Costs

The CVOC's response is unclear as to whether or not they agreed with this portion of the finding. This finding remains open and unresolved.

E. Employability Enhancements on the Annual Grantee Report Are Not Fully Supported

Employability enhancements reported to DOL on the AGR for PY 1995 are not fully supported by documentation contained in the CVOC's participant files. The CVOC did not establish procedures to ensure participant files were complete and reported data was fully supported. Therefore, the CVOC's participant files do not always support information reported on the AGR, and users of this information may not be provided with accurate information.

The AGR is the chief reporting vehicle used by grantees in the MSFW program to report program accomplishments. The AGR is divided into several sections, including those providing outcome information for employment and training terminees, and participation in program activities. ETA uses the information reported on the AGR to calculate grantee performance standards and determine levels of service. ETA also uses the MSFW program information submitted on the AGR by all grantees to compile a national roll-up for the MSFW program as a whole. ETA publishes the national roll-up information in its MSFW Data Book for the program year. The Data Book provides a benchmark to which individual grantees can compare their own programs.

Federal regulations at 20 CFR §§ 633.309(a) and (b)(1)-(4) require grantees to maintain participant data systems that provide federally-required records and reports that are accurate, uniform in definition, and verifiable for reporting purposes. The grantee must ensure that the system: (1) maintains data elements used in required Federal reports in accordance with established program definitions contained in the Act and the regulations; (2) follows consistent rules for aggregation of detailed data to summary levels; (3) is able to track data from detailed records to summary reports; and (4) maintains procedures to ensure that information is current, complete, consistent, and accurate.

In addition, Farmworker Bulletin No. 95-9, dated July 14, 1995, established the performance reporting system for the MSFW program. The Bulletin established performance reporting categories, including employability enhancements. The Bulletin contained specific line item reporting instructions for different employability enhancements including the categories "Attained Documented Skill Gain" and "Completed a GED." Documented skill gains for the first category must be achieved through active program participation which shows the level of proficiency needed for attainment of occupational and/or integrated skills. For the second category, participants who received a GED certificate at termination can be reported as completing a GED if they had not attained this level of education at intake.

The CVOC did not fully comply with these reporting requirements. The CVOC participant files did not consistently support the results reported. We statistically sampled 67 participant files for PY 1995 used to support the information contained in the AGR. The sample included 23 participant files supporting the "Attained Documented Skill Gain" data. We found that 52 percent (12 of 23) of the participants who were included in the employability enhancement category in the AGR as "Attained Documented Skill Gain" were lacking training certificates evidencing the completion of classroom training.

The sample also included 11 files supporting the "Completed a GED" data. We found that 45 percent (5 of 11) of the participant files tested for the "Completed a GED" employability enhancement either did not contain copies of GED Certificates or did contain copies which had not been entered into the CVOC's participant data system.

This lack of documentation occurred because the CVOC did not have adequate procedures in place requiring its participant files to be documented with copies of classroom training certificates or evidence of achievement of a GED certificate. Overall, program performance data reported on the AGR for employability enhancements is not fully supported by documentation contained in the CVOC's participant files.

Recommendation

1. We recommend that the Assistant Secretary for Employment and Training direct the CVOC to establish written procedures to ensure employability enhancements are fully supported in its participant files and participant data systems.

The CVOC Comments on Draft Report

The CVOC stated:

> Although there were no disallowed costs associated with this finding, CVOC's position on this issue is that the information contained on the Agar's are accurate. Instances of errors in reporting are relatively few. The actual net effect of the aggregated data for this period was that CVOC reported 1 less "Attained Employability Enhancement" in the "Completed GED" category of the report criteria. During the 95-96 period, CVOC transitioned from a manual reporting system to the SPIR automated reporting system. During this conversion process, there were some changes in data collection and reporting. Although CVOC attempted to be as accurate as possible, a few reporting errors occurred. CVOC provided the OIG audit team with proof of GED completion by providing copies of GED test results and attainment from the fiscal files and subsequently filed these in the client's files that had not previously contained this copy. CVOC also provided proof to the OIG audit team of documented skills attainment. This was presented in the form of actual classroom competencies and tests upon which issuance of a "Certificate of Completion" is based. The issue here was that a copy of the actual "Certificate of Completion" issued to the student was not contained in some of the student files. The OIG states that:
>
>> ***"The CVOC did not fully comply with these reporting requirements. The CVOC participant files did not consistently support the results reported.*** **And** ***"Overall, program performance data reported on the AGR for***

employability enhancements is not fully supported by documentation contained in the CVOC participant files."

CVOC disagrees with this statement as the documentation that constitutes issuance of a "Certificate of Completion" is contained in the participant files. The Certificate of Completion, of and by itself, is not considered evidence of achievement of skills levels. The evidence of attainment of skill levels is determined through completion of the required competencies by passing specific written tests and demonstrated hands on skills of the subject matter. All these documents are in the participant files to support the information entered in the data system.

CVOC agreed that copies of the Certificates of Completion should have been maintained in the participant files and it was the policy of the agency to include the copy. One CVOC County Center kept its copy of the Certificate of Completion is a central file instead of in the individual participant file, but they changed this practice once this issue arose. CVOC also now requires that copies of "Certificates of Completion" and proof of GED attainment be submitted to its central MIS unit for verification prior to entry of data into the MIS participant data tracking.

CVOC feels that there is no need for the Assistant Secretary for Employment and Training to direct CVOC to establish written procedures on this issue and we have already accomplished this and have re-issued the policy and taken the necessary corrective actions to ensure policy compliance.

OIG Evaluation of the CVOC Response

Although CVOC disagreed with this finding, they did change their policies to now require that copies of "Certificates of Completion" and proof of GED attainment be placed in the original participant files, and for their field offices to submit copies of these documents to their central MIS unit for verification prior to entry of data into the MIS participant data tracking system. Since CVOC has already changed their procedures, no additional recommendations are necessary. This finding is resolved and closed.

EXHIBITS

EXHIBIT A – Statement of Audited Costs (FSR) PY 1995

EXHIBIT B – Statement of Audited Costs (FSR) PY 1996

EXHIBIT C – Statement of Indirect Costs FY1996

EXHIBIT D – Statement of Indirect Costs FY 1997

EXHIBIT E – Performance Data (AGR) PY 1995

EXHIBIT F – Performance Data (AGR) PY 1996

Exhibit A

Central Valley Opportunity Center, Inc.
Statement of Audited Costs (Financial Status Reports)
Program Year Ended June 30, 1996
Grant Number C-5441-5-00-81-55

Cost Categories		**Costs Reported**	**Questioned Costs By Finding**					**Less: Duplicate Questioned Costs**	**Costs Per Audit**
			A	**B**	**C**				
			Program Income	**Indirect Costs**	**Limitation Exceeded**	**Unsupported Costs**	**Unrelated Costs**		
1. Training Costs									
a. Classroom Training		$ 710,220				$ (1,182)	$ (623)		$ 708,415
b. On-the Job Training		22,216							22,216
c. Training Assistance		169,112							169,112
Subtotal: Training Costs		**901,548**				**(1,182)**	**(623)**		**899,743**
2. Supportive Services									
a. Training Related		7,479					(616)		6,863
b. Services only, NTR		18,700							18,700
Subtotal: Services		**26,179**					**(616)**		**25,563**
3. Administration									
a. Direct	$ 56,600					(59)	(62)		
b. Indirect	193,446			(143,907)	$ (14,492)	(177)	(186)		
Subtotal: Administration		**250,046**		**(143,907)**	**(14,492)**	**(236)**	**(248)**	**14,976**	**91,163**
Total Project Costs		**$ 1,177,773**		**(143,907)**	**(14,492)**	**(1,418)**	**(1,487)**	**14,976**	**1,016,469**
Less: Program Income			(33,949)						(33,949)
Net Project Costs		**$ 1,177,773**	**$ (33,949)**	**$ (143,907)**	**$ (14,492)**	**$ (1,418)**	**$ (1,487)**	**$ 14,976**	**$ 982,520**

Central Valley Opportunity Center, Inc.
Statement of Audited Costs (Financial Status Reports)
Program Year Ended June 30, 1997
Grant Number C-5441-5-00-81-55

Cost Categories	Costs Reported	Questioned Costs By Finding					Less: Duplicate Questioned Costs	Costs Per Audit
		A	B	C				
		Program Income	Indirect Costs	Limitation Exceeded	Unsupported Costs	Unrelated Costs		
1. Training Costs								
a. Classroom Training	$ 614,858				$ (6,470)			$ 608,388
b. On-the Job Training	52,131							52,131
c. Training Assistance	181,937				(1,592)			180,345
Subtotal: Training Costs	**848,926**				**(8,062)**			**840,864**
2. Supportive Services								
a. Training Related	3,678							3,678
b. Services only, NTR	26,379							26,379
Subtotal: Supp Services	**30,057**							**30,057**
3. Administration								
a. Direct $ 46,968						(394)		
b. Indirect 166,450			(166,450)		(771)	(67)		
Subtotal: Administration	**213,418**		**(166,450)**		**(771)**	**(461)**	**838**	**45,736**
Total Project Costs	**$ 1,092,401**		**(166,450)**		**(8,833)**	**(461)**	**838**	**916,657**
Less: Program Income		(65,608)						(65,608)
Net Project Costs	**$ 1,092,401**	**$ (65,608)**	**$ (166,450)**	**$ 0**	**$ (8,833)**	**$ (461)**	**$ 838**	**$ 851,049**

Central Valley Opportunity Center, Inc.
Statement of Indirect Costs
Fiscal Year Ended September 30, 1996

Expense Categories	Base Costs	Indirect Costs
Salaries	$ 1,034,806	$ 194,892
Fringe Benefits	365,192	52,255
Travel	27,429	6,150
Contractual Services	(50)	2,662
Professional Services	0	2,135
Equipment Purchases	0	1,978
Equipment Lease/Repairs	9,684	12,990
Repairs/Maintenance	40,243	19,072
Space Costs	146,803	10,821
Utilities	49,915	4,863
Supplies General	44,717	32,994
Insurance	44,227	5,871
Postage & Advertising	6,738	12,040
Taxes & Licenses	5,339	0
Employee Training	4,635	4,867
Membership/Dues	16,883	0
Depreciation	24,346	0
Program Supplies	271,671	0
Board/Committee Costs	10,866	13,228
Others	153,196	(1,928)
Totals	**$ 2,256,640**	**$ 374,890**

Total Indirect Costs	$374,890
Total Base	$2,256,640
Indirect Cost Rate	**16.61%**

Central Valley Opportunity Center, Inc.
Statement of Indirect Costs
Fiscal Year Ended September 30, 1997

Expense Categories	Base Costs	Indirect Costs
Salaries	$ 1,084,834	$ 138,128
Fringe Benefits	360,363	35,421
Travel	50,614	14,967
Contractual Services	(18)	6,332
Professional Services	0	2,257
Equipment Purchase	0	7,167
Equipment Lease/Repairs	25,855	10,629
Repairs/Maintenance	114,578	21,230
Space Costs	135,516	5,896
Utilities	72,953	10,676
Supplies General	69,932	15,931
Insurance	36,624	2,966
Postage & Advertising	19,762	9,595
Taxes & Licenses	5,394	0
Employee Training	5,894	2,449
Membership/Dues	14,844	9,396
Depreciation	24,346	0
Program Supplies	158,973	0
Board/Committee Costs	1,374	26,080
Others	128,932	1,168
Administration	(191,467)	187
Totals	**$ 2,119,303**	**$ 320,475**

Total Indirect Costs	$ 320,475
Total Base	$2,119,303

Indirect Cost Rate	**15.12%**

Central Valley Opportunity Center, Inc.
Performance Data (Annual Grantee Report)
Grant Number C-5441-5-00-81-55
Program Year Ended June 30, 1996

SELECTED DATA USED IN CALCULATING PERFORMANCE STANDARDS		
Terminations		
Entered Employment	122	
Enhanced Only	59	
Services Only	147	
Other Termination	26	
Total Terminations		**354**
Entered Employment Rate		
Minimum Standard Employment Rate		56.20%
Actual Employment Rate		82.40%
Hourly Wages		
Minimum Standard Hourly Wage		$ 5.10
Actual Wage at Termination		$ 5.48

Central Valley Opportunity Center, Inc.
Performance Data (Annual Grantee Report) [Unaudited]
Grant Number C-5441-5-00-81-55
Program Year Ended June 30, 1997

SELECTED DATA USED IN CALCULATING PERFORMANCE STANDARDS		
Terminations		
Entered Employment	114	
Enhanced Only	46	
Services Only	138	
Other Termination	21	
Total Terminations		**319**
Entered Employment Rate		
Minimum Standard Employment Rate		63.30%
Actual Employment Rate		84.40%
Hourly Wages		
Minimum Standard Hourly Wage		$ 5.53
Actual Wage at Termination		$ 6.26

APPENDIX A

CVOC Comments on the Draft Report