

**National Association of Counties**

**Audits of Financial Status Report for  
July 1, 1997, through April 30, 1998**

**and**

**Indirect Cost Proposal for Calendar Year 1998**

# **FINAL REPORT**

U.S. Department of Labor  
Office of Inspector General  
Final Report No. 03-01-003-07-735  
Date Issued: September 21, 2001

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## EXECUTIVE SUMMARY

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The U.S. Department of Labor (DOL), Office of Inspector General (OIG), conducted an audit of the Financial Status Report (FSR) prepared by the National Association of Counties (NACo) for the costs claimed under the DOL Grant Agreement F-6254-7-00-80-60 for the period July 1, 1997, through April 30, 1998, totaling \$202,145. We also audited NACo's Indirect Cost Rates for Calendar Year (CY) 1998 and total indirect costs of \$7,041,452. As a result of the accounting adjustments made to the charges within the indirect cost pool for CY 1998, we examined CYs 1995, 1996, 1997, and 1999 to determine if unallowable costs were charged to the indirect cost pool.

### AUDIT RESULTS

Our audit of direct costs disclosed no reportable findings. However, the audit of indirect costs resulted in unallowable rent, management fees, and bad debts of \$266,585, and unallowable nonpersonnel costs of \$12,443, or total questioned costs of \$279,028 for CY 1998. Because of our findings in CY 1998, we performed more testing and we found additional unallowable costs of \$964,364 for CYs 1995, 1996, 1997, and 1999. In total, we questioned unallowable indirect costs in the indirect cost pool for CYs 1995 through 1999 in the amount of \$1,243,392. These questioned costs resulted in a reduction to the proposed indirect cost rates which resulted in cost reductions of \$10,098 for DOL programs and \$50,669 for all Federal programs for CYs 1995 through 1999. A summary of our findings follows.

Expense	1995	1996	1997	<b>1998</b>	1999	Total
a. Rent	\$168,476	\$177,284	\$221,000	<b>\$192,924</b>	\$199,569	\$959,253
b. Mgt Fee	47,259	48,812	49,938	<b>50,951</b>	52,026	248,986
c. Bad Debt	0	0	0	<b>22,710</b>	0	22,710
d. Non-personnel	<u>0</u>	<u>0</u>	<u>0</u>	<b><u>12,443</u></b>	<u>0</u>	<u>12,443</u>
Total	<u><b>\$215,735</b></u>	<u><b>\$226,096</b></u>	<u><b>\$270,938</b></u>	<u><b>\$279,028</b></u>	<u><b>\$251,595</b></u>	<u><b>\$1,243,392</b></u>

## **1. Unallowable Indirect Costs Totaling \$1,243,392**

### **a. Rent Expense**

Our audit of building expenses in the indirect cost pool for CY 1998 disclosed that NACo was claiming both depreciation and Consumer Price Index (CPI) increases for building rent. According to OMB Circular A-122, compensation for use of buildings may be made through depreciation. NACo properly backed out the basic building rent at the end of CY 1998, but not the CPI increase to building rent. Thus, we questioned \$192,924 charged to the indirect cost pool for the CPI adjustment to rent expense. Because of our finding in CY 1998, additional unallowable CPI costs to building rent in the indirect cost pool for CYs 1995, 1996, 1997, and 1999 resulted in additional questioned costs of \$766,329. Therefore, the total questioned costs were \$959,253 for CYs 1995 through 1999.

### **b. Management Fees**

Our audit of management fees for CY 1998 disclosed that NACo charged the indirect cost pool \$50,951 to manage its building operations. According to OMB Circular A-122, unallowable costs include management fees. Thus, we questioned \$50,951 charged to the indirect cost pool for management fees. Because of our finding in CY 1998, additional management fees charged in CYs 1995, 1996, 1997, and 1999 resulted in additional questioned costs of \$198,035. Therefore, the total questioned costs for managements fees were \$248,986 for CYs 1995 through 1999.

### **c. Bad Debt Expense**

Our audit of bad debts for CY 1998 disclosed that NACo charged the indirect cost pool \$22,710 for bad debts. According to OMB Circular A-122, Attachment B, para. 3, bad debt expenses are unallowable. NACo did not claim bad debt expenses for CYs 1995, 1996, 1997, and 1999.

### **d. Unallowable Nonpersonnel Expenses**

Our audit of nonpersonnel expenses for CY 1998 disclosed unallowable costs charged to the indirect cost pool totaling \$32,443. Statistical sampling was used to test large-dollar expense categories which resulted in a projected questioned cost of \$26,357. Judgmental sampling was used to test small-dollar expense categories which resulted in an additional \$6,086 of unallowable costs. Because NACo established a contingency for questioned costs in its indirect cost pool by reducing the pool by \$20,000, the net questioned cost impacting the 1998 indirect cost rate is \$12,443.

\* \* \* \* \*

We recommend that the Director, Office of Cost Determination, disallow \$1,243,392 of indirect costs claimed by NACo for CYs 1995 through 1999 and adjust the indirect cost rates as appropriate. These questioned costs resulted in a reduction to the proposed indirect cost rates which resulted in cost reductions of \$10,098 for DOL programs.

**Auditee's Response:**

In a letter dated April 17, 2001, NACo disagreed with our questioned costs in the areas of rent expense, management fees, and nonpersonnel expenses (specifically contingency credits), but agreed the bad debts should not have been claimed in the indirect cost pool.

NACo's written comments are discussed in more detail in each of our findings. The full text of NACo's response has been included at the end of this report.

**Auditor's Conclusion:**

We do not agree with the explanations provided by NACo for allowing claimed rent expenses, management fees, and nonpersonnel expenses (specifically contingency credits). These recommendations are unresolved and will be addressed in ETA's formal resolution process.

NACo agrees that the bad debt expense should not have been claimed in the indirect costs pool. This recommendation is resolved but will remain open pending receipt of documentation that the bad debt expense has been removed from the indirect cost pool.

~ **ACRONYMS** ~

CD	Cost Determination
CFR	Code of Federal Regulations
CPI	Consumer Price Index
CY	Calendar Year
DOL	U.S. Department of Labor
ETA	Employment and Training Administration
FSR	Financial Status Report
OCD	Office of Cost Determination
OIG	Office of Inspector General
OMB	Office of Management and Budget
NACo	National Association of Counties

~ **GLOSSARY** ~

- Questioned Cost – A cost that is questioned because
- of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; or
  - at the time of the audit, such cost is not supported by adequate documentation; or
  - a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.
- Base – A group of direct costs used to distribute the indirect cost pool.
- Direct Cost – A cost that can be readily identified specifically with a particular final cost objective.
- Indirect Cost – A cost which cannot be readily identified with a particular final cost objective, but has been incurred for common or joint objectives.
- Pool – All costs which are allocated to benefitting activities by means of a base which measures the relative degree of benefit.

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## INTRODUCTION AND BACKGROUND

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### **A. Introduction**

The U.S. Department of Labor (DOL), Office of Inspector General (OIG), conducted an audit of the Financial Status Report (FSR) prepared by the National Association of Counties (NACo) for the costs claimed under the DOL Grant Agreement F-6254-7-00-80-60 for the period July 1, 1997, through April 30, 1998, totaling \$202,145. We also audited NACo's Indirect Cost Rates for Calendar Year (CY) 1998 and total indirect costs of \$7,041,452. As a result of the accounting adjustments made to the charges within the indirect cost pool for CY 1998, we examined CYs 1995, 1996, 1997, and 1999 to determine if these unallowable costs were charged to the indirect cost pool.

### **B. Background**

NACo was created in 1935 and is the only national organization that represents county governments in the United States. With its headquarters on Capitol Hill, NACo is a full-service organization that represents over 1,800 counties and provides an extensive line of legislative, research, and technical services as well as public affairs' assistance to its members. The association acts as a liaison with other levels of government, works to improve public understanding of counties, serves as a national advocate for counties, and provides counties with resources to help them find innovative methods to meet the challenges they face. Under the authority of the Job Training Partnership Act, NACo was awarded a grant from DOL to provide technical assistance to county executives.

OMB Circular No. A-122, *Cost Principles for Nonprofit Organizations*, sets out a uniform basis for establishing allowable and allocable costs for Federal contracts with nonprofit organizations. OMB Circular No. A-122 also contains principles for determining allowable costs for use in preparation of indirect cost proposals. These principles can be further restricted by contract.

On April 28, 1999, NACo and the Office of Cost Determination (OCD) negotiated an Indirect Cost Agreement (Agreement). The Agreement established final rates through December 30, 1994, and provisional rates for January 1, 1995, through June 30, 1999.



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## OBJECTIVES AND SCOPE

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The objectives of this audit were to determine whether the:

1. Direct and indirect costs claimed by NACo were reasonable, allocable, and otherwise allowable under the cost principles set forth in OMB Circular No. A-122, *Cost Principles for Nonprofit Organizations*, and the terms of the grant.
2. Direct costs and indirect costs were supported by adequate records.
3. Indirect cost rates were prepared in accordance with applicable Federal laws and regulations.
4. Allocation of indirect costs was based upon methods reasonably indicative of the benefits received.

Our scope was to audit NACo's (1) direct costs claimed for FYs 1995 through 1999, and (2) proposed and final indirect costs rates for calendar years 1995 through 1999. Because there were no findings in the area of direct costs claimed on NACo's FSRs for the period July 1, 1997, through April 30, 1998, we did not audit the direct costs for the remaining periods. In addition, we audited NACo's indirect cost rates for CY 1998 and total indirect costs of \$7,041,452. Because there were no significant findings, we did not audit the proposed and final indirect cost rates for CYs 1995, 1996, 1997, and 1999.

We conducted the audit in accordance with the generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Our audit included such tests of accounting records and other auditing procedures as we considered necessary.

Our audit was performed using criteria established by OMB Circular A-122 and the terms of the Agreement. To meet our objectives, we reviewed selected transactions, records, and internal controls to determine NACo's compliance with applicable laws and regulations.

Our fieldwork was conducted at NACo's office in Washington, D.C., during the period October 5, 1999, through March 5, 2000. An entrance conference was held on October 5, 1999, with the Finance Director and other officials from NACo. An exit conference was held with NACo officials on August 2, 2000, at which time the results of our audit were discussed. Additional information was received from NACo on August 29, 2000.

The Honorable Emily S. DeRocco  
Assistant Secretary for Employment  
and Training  
U.S. Department of Labor  
200 Constitution Avenue, NW  
Washington, DC 20210

**ASSISTANT INSPECTOR GENERAL'S REPORT ON ETA  
FINANCIAL STATUS REPORT AND INDIRECT COST RATES**

We have audited the Financial Status Report (FSR) (Exhibit A) prepared by the National Association of Counties (NACo) for the costs claimed under the U.S. Department of Labor (DOL) Grant Agreement F-6254-7-00-80-60 for the period July 1, 1997, through April 30, 1998, and have issued our report thereon dated August 29, 2000. We also audited the NACo's *Indirect Cost Rates* (Exhibit E) for Calendar Year 1998. The amounts claimed in the FSR and the indirect cost rates proposed in the *Indirect Cost Proposal* are the responsibility of NACo's management. Our responsibility is to express an opinion on the costs claimed and the indirect cost rates based on our audit.

We conducted our audit in accordance with the 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 the audit to obtain reasonable assurance about whether the FSR and the *Indirect Cost Rates* are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the FSR and the indirect cost rates. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the FSR and the indirect cost rates. We believe that our audit provides a reasonable basis for our opinion.

The accompanying FSR was prepared for the purpose of complying with Federal regulations and the grant agreement between the DOL and NACo. This FSR was prepared based on costs reported to DOL during the period which are reported on the accrual basis of accounting. However, the report excludes the results of operations of other programs operated by NACo, and does not include disclosures required by financial statements prepared in conformity with generally accepted accounting principles.

In our opinion, except for the effects of the DOL Office of Cost Determination's resolution of the questioned costs (as discussed in the *Findings and Recommendations* section of this report), the accompanying FSR (Exhibit A) and the *Indirect Cost Rates* (Exhibit E) present fairly, in all material respects, the costs claimed for the period July 1, 1997, through April 30, 1998, and the *Indirect Cost* rates for Calendar Year 1998, in accordance with OMB Circular A-122 and the federal grant provisions.

JOHN J. GETEK  
Assistant Inspector General for Audit  
Date: August 29, 2000

The Honorable Emily S. DeRocco  
Assistant Secretary for Employment  
and Training  
U.S. Department of Labor  
200 Constitution Avenue, NW  
Washington, DC 20210

## **ASSISTANT INSPECTOR GENERAL'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL**

We conducted an audit of the Financial Status Report (FSR) (Exhibit A) prepared by the National Association of Counties (NACo) for the costs claimed under the U.S. Department of Labor (DOL) Grant Agreement F-6254-7-00-80-60 for the period July 1, 1997, through April 30, 1998, and have issued our report thereon dated August 29, 2000. We also audited NACo's *Indirect Cost Rates* (Exhibit E) for Calendar Year 1998. The amounts claimed in the FSR and the indirect cost rates proposed in the *Indirect Cost Proposal* are the responsibility of NACo's management. Our responsibility is to express an opinion on the costs claimed and the indirect cost rates based on our audit.

### **Compliance**

As part of obtaining reasonable assurance that NACo's financial statements are free of material misstatement, we performed tests of NACo's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of the FSR and the indirect cost rates. 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered NACo's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the FSR and the indirect cost rates and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of NACo management and the U.S. Department of Labor. However, the report is a matter of public record and its distribution is not limited.

JOHN J. GETEK  
Assistant Inspector General for Audit  
Date: August 29, 2000

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## FINDINGS AND RECOMMENDATIONS

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We audited the FSR prepared by NACo for the costs claimed for the period July 1, 1997, through April 30, 1998, totaling \$202,145. We also audited NACo's Indirect Cost Rates for CY 1998 and total indirect costs of \$7,041,452. As a result of the accounting adjustments made to the charges within the indirect cost pool for CY 1998, we examined CYs 1995, 1996, 1997, and 1999 to determine if these unallowable costs were charged to the indirect cost pool. Our audit of direct costs disclosed no reportable findings.

### 1. Unallowable Indirect Costs Totaling \$1,243,392

Our audit of indirect costs resulted in unallowable rent, management fees, and bad debts of \$266,585, and unallowable nonpersonnel costs of \$12,443, or total questioned costs of \$279,028 for CY 1998. Because of our findings in CY 1998, we performed more testing and we found additional unallowable costs of \$964,364 for CYs 1995, 1996, 1997, and 1999. In total, we questioned unallowable indirect costs in the indirect cost pool for CYs 1995 through 1999 in the amount of \$1,243,392.

Expense	1995	1996	1997	<b>1998</b>	1999	Total
a. Rent	\$168,476	\$177,284	\$221,000	<b>\$192,924</b>	\$199,569	\$959,253
b. Mgt Fee	47,259	48,812	49,938	<b>50,951</b>	52,026	248,986
c. Bad Debt	0	0	0	<b>22,710</b>	0	22,710
d. Non-personnel	<u>0</u>	<u>0</u>	<u>0</u>	<b><u>12,443</u></b>	<u>0</u>	<u>12,443</u>
Total	<u>\$215,735</u>	<u>\$226,096</u>	<u>\$270,938</u>	<b><u>\$279,028</u></b>	<u>\$251,595</u>	<u>\$1,243,392</u>

#### a. Rent Expense

Our audit of building expenses in the indirect cost pool for CY 1998 disclosed that NACo was claiming both depreciation and Consumer Price Index (CPI) increases for building rent. Both depreciation and CPI increases for building rent were charged to the indirect cost pool because NACo does not consider annual CPI increases to rent as rent.

NACo's accounts for its building as a capital lease, and according to OMB Circular A-122, Attachment B, para. 11.a, compensation for use of buildings may be made through depreciation as an indirect cost. NACo properly backed out the basic building rent at the end of CY 1998, but not the CPI increase to building rent.

While NACo is not claiming the building rent, it is claiming annual CPI increases for building rent. According to OMB Circular A-122, Attachment B, para. 46.d, rental costs under a capital lease are allowable only up to the amount that would be allowed had the organization purchased the property, i.e., to the amount that minimally would pay for depreciation.

We consider CPI adjustments to the building rent as an integral part of rent and questioned \$192,924 of CPI rent increases charged to the indirect cost pool in CY 1998. Because of our finding in CY 1998, additional unallowable CPI costs to building rent in the indirect cost pool for CYs 1995, 1996, 1997, and 1999 resulted in additional questioned costs of \$766,329. The total questioned costs for CYs 1995 through 1999 are \$959,253.

#### **b. Management Fees**

Our audit of management fees for CY 1998 disclosed that NACo charged the indirect cost pool \$50,951 for management fees to manage its building operations. According to OMB Circular A-122, Attachment B, para. 46.d, unallowable costs includes management fees.

NACo occupied 25.53 percent of building space located at 440 First Street NW, Washington, D.C., while subleasing the remaining 74.47 percent. To manage its building, NACo hired an outside firm and pays an annual management fee. According to OMB Circular A-122, Attachment B, para. 46.d,

Rental costs under leases which are required to be treated as capital leases under GAAP, are allowable only up to the amount that would be allowed had the organization purchased the property on the date the lease agreement was executed, i.e., to the amount that minimally would pay for depreciation or use allowances, maintenance, taxes, and insurance. . . . Unallowable costs include amounts paid for . . . management fees . . . that would not have been incurred had the organization purchased the facility.

Because of our finding in CY 1998, additional management fees charged in CYs 1995, 1996, 1997, and 1999 resulted in additional questioned costs of \$198,035. Therefore, the total costs questioned for management fees is \$248,986 for CYs 1995 through 1999.

#### **c. Bad Debts Expense**

Our audit of bad debts expense for CY 1998 disclosed that NACo charged the indirect cost pool \$22,710 for bad debts. According to OMB Circular A-122, Attachment B, para. 3, bad debt expenses are unallowable. NACo did not claim bad debts for CYs 1995, 1996, 1997, and 1999.

**d. Unallowable Nonpersonnel Expenses**

Our audit of nonpersonnel expenses for CY 1998 disclosed unallowable costs charged to the indirect cost pool totaling \$32,443. We used statistical sampling to test large-dollar expense categories which resulted in projected questioned cost of \$26,357. We used judgmental sampling to test small-dollar expense categories which resulted in an additional \$6,086 of questioned costs. Because NACo had established a contingency for questioned costs in its indirect cost pool by reducing the pool by \$20,000, the net questioned cost impacting the CY 1998 indirect cost rate is \$12,443. (See Exhibit E.)

Of 1,586 records totaling \$655,614, we statistically sampled nonpersonnel expenses for CY 1998. We tested 114 nonpersonnel charges totaling \$198,235 related to large-dollar expense categories such as professional fees, staff travel, miscellaneous administrative costs, meeting expenses, and purchased services. Our audit disclosed eight instances where the expenditures were either unallowable, unsupported, and, in certain instances, unreasonable under OMB Circular A-122, resulting in \$12,664 of questioned costs. (See Exhibit G.) The question costs projected over the entire sample universe resulted in total questioned cost of \$26,357.

In addition, we took a judgmental sample of nonpersonnel charges related to small-dollar expense categories for CY 1998. We tested 33 nonpersonnel charges related to small-dollar expense categories, totaling \$66,854. Our audit disclosed three instances where the expenditures were considered to be unallowable under OMB Circular A-122, resulting in \$6,086 of questioned costs. (See Exhibit H.) The questioned costs resulted, in part, from NACo's interpretation of guidelines set forth in OMB Circular A-122.

NACo officials stated that the annual staff holiday party should not be disallowed because it is held for employee morale for the benefit of all staff. Except for the amount spent on alcoholic beverages, we agreed with their explanation and do not question these costs. (See sample number 105 in Exhibit G.)

**Recommendation**

We recommend that the Director, Office of Cost Determination disallow \$1,243,392 of indirect costs claimed by NACo for CYs 1995 through 1999 and adjust the indirect cost rates as appropriate. These questioned costs resulted in a reduction to the proposed indirect cost rates which resulted in cost reductions of \$10,098 for DOL programs.

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## **Auditee’s Response – Rent Expense**

In the response to our draft report, NACo officials stated that the CPI rent increases represent allowable indirect costs under at least two separate arguments.

*Argument No. 1:* Payments for the CPI increases represents allowable “facilities” costs under OMB Circular A-122.

NACo officials stated that whether NACo’s lease payments are characterized as capital (i.e., depreciation and interest expense) or operating lease payments (i.e., rent expense) is irrelevant since the amount paid to NACo’s landlord each month clearly represents a payment that covers allowable “depreciation” and/or “operations and maintenance” costs under the guidelines of OMB Circular A-122 and the U. S. Department of Labor’s own publication “A Guide for Indirect Cost Rate Determinations.”

*Argument No. 2:* Under generally accepted accounting principles (GAAP), CPI increases would be accounted for as allowable depreciation and interest expense.

NACo officials stated that, under GAAP, each year’s allowable depreciation expense would be increased, since the effect of the CPI increases would be to increase depreciation expense and fully recover all depreciation over the term of the lease. Additionally, since this calculation is based on present values of future rent payments, a small amount of the CPI increase would be accounted for as interest expense.

## **Auditor’s Conclusion – Rent Expense**

We disagree with NACo’s position. If NACo had rented its office space under an operating lease, the CPI increases each year would be allowable rental costs which generally increase with inflation. However, because NACo acquired its office space under a capital lease, OMB Circular A-122, Attachment B, para. 46.d, limits rental costs as follows: “rental costs . . . are allowable only up to the amount that would be allowed had the organization purchased the property on the date the lease agreement was executed, i.e., to the amount that minimally would pay for depreciation or use allowances, maintenance, taxes, and insurance.”

This portion of the recommendation remains unresolved.

## **Auditee’s Response – Management Fees**

In the response to our draft report, NACo officials stated that OIG misinterpreted and misapplied OMB Circular A-122, Attachment B, para. 46.d, in questioning “management fees” charged to indirect costs. NACo stated that the basis for its argument is identical to that for the questioning of the CPI rent increases described in the preceding section.

NACo officials pointed out that allowable indirect costs are classified as either “facilities” or “administration” per OMB Circular A-122, Attachment A (General Principles), Section C (Indirect Costs). NACo officials further stated that Section C, para. 3, identifies “operations and

maintenance expenses” as a component of “Facilities” cost. Section C, para. 3(b)(3) lists several allowable components of “operations and maintenance costs,” including janitorial services, repairs to buildings, and care of grounds.

NACo officials responded that they delegated the following duties to the management company under the management agreement:

1. Ensure proper and efficient management, operation, and maintenance of the building;
2. Enter into contracts for cleaning, maintaining, repairing, or servicing the building;
3. Maintain or cause to be maintained the building and common areas.

These and all other duties described in the agreement all fall within the allowable “operations and maintenance” costs from OMB Circular A-122 and DOL guidelines. These duties clearly fall outside the scope of costs disallowed by Attachment B, para. 46.d, which contemplates “profit” and fees “that would not have been incurred had the organization purchased the facility.” Each of these activities, NACo officials contend, would have most definitely been necessary had it purchased the building.

#### **Auditor’s Conclusion – Management Fees**

We disagree with NACo’s position. Our analysis of the Real Property Management and Leasing Agreement showed that the bulk of services to be provided under this agreement involve the leasing and management of the building space not occupied by NACo. It also appears that a large part of the management fees paid involve leasing fees and construction management fees for the 74.47 percent of the property not occupied by NACo. In the absence of adequate data to determine to what extent the management fees pertain to the 25.53 percent of space occupied by NACo versus the 74.47 percent of space occupied/available for lease by tenants, we continue to question all management fees claimed.

This portion of the recommendation remains unresolved.

#### **Auditee’s Response – Bad Debt Expense**

In the response to our draft report, NACo officials agreed that the bad debt expense is an unallowable cost under OMB Circular A-122, Attachment B, Item 3. NACo officials stated these amounts were claimed in error.

#### **Auditor’s Conclusion – Bad Debt Expense**

This portion of the recommendation is resolved but will remain open pending documentation that the bad debt expense has been removed from the indirect cost pool.

### **Auditee's Response – Unallowable Nonpersonnel Expenses**

In the response to our draft report, NACo officials stated that they previously deducted credits against costs in the indirect cost pools (contingency credits) of \$20,000 for CY 1996, \$20,000 for CY 1998, and \$11,316 for CY 1999. NACo planned to use these amounts as offsets to any questioned costs found by auditors. In a letter to the OIG dated August 24, 2000, NACo officials stated the deductions were made as an allowance against error.

NACo officials requested that OIG reconsider the amounts deducted from the indirect cost pools for Calendar Years 1996 and 1999 so it is not doubly penalized.

In another area, NACo officials requested OIG to reconsider costs that were recommended for disallowance for its annual holiday party because it is held for employee morale. NACo acknowledged that OIG did reduce the amount disallowed for the party (less non-allowed expenditures for alcohol) and that OIG took into account the \$20,000 credit (contingency credit) NACo deducted from the indirect cost pool for CY 1998.

### **Auditor's Conclusion – Unallowable Nonpersonnel Expenses**

NACo officials did not dispute the OIG-adjusted amounts of unallowable nonpersonnel expenses questioned in CY 1998. However, NACo noted that it had previously told OIG auditors it had included contingency credits in its indirect costs claimed of \$20,000 in CY 1996, \$20,000 in CY 1998, and \$11,316 in CY 1999, and that the auditors only gave NACo credit for the \$20,000 contingency in 1998. We audited nonpersonnel expenses for CY 1998. OIG verified that NACo did have a contingency credit of \$20,000 which we did offset against the unallowable nonpersonnel expenses. However, we did not audit nonpersonnel expenses in 1996 and 1999. Thus, we did not take into consideration any contingency credits.

This portion of the recommendation remains unresolved.

**FINANCIAL STATUS REPORT**  
(Long Form)  
(Follow instructions on the back)

Exhibit A

1. Federal Agency and Organizational Element to Which Report is Submitted <b>US DEPT OF LABOR</b>		2. Federal Grant or Other Identifying Number Assigned By Federal Agency <b>F-6254-7-00-80-60</b>		OMB Approval No. <b>0348-0039</b>	Page of <b>1</b> pages
3. Recipient Organization (Name and complete address, including ZIP code) <b>NATIONAL ASSN OF COUNTIES RESEARCH FOUNDATION a sub of the NATIONAL ASSN OF COUNTIES, 440 FIRST ST NW, WASH, DC 20001</b>					
4. Employer Identification Number <b>53-0190321</b>		5. Recipient Account Number or Identifying Number <b>32-761</b>		6. Final Report <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
7. Basis <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual					
8. Funding/Grant Period (See instructions) From: (Month, Day, Year) <b>7/1/98</b>		To: (Month, Day, Year) <b>4/30/98</b>		9. Period Covered by this Report From: (Month, Day, Year) <b>4/1/98</b>	
To: (Month, Day, Year) <b>4/30/98</b>					
10. Transactions:					
		I	I	III	
		Previously Reported	This Period	Cumulative	
a. Total outlays		185,486	16,659	202,145	
b. Refunds, rebates, etc.					
c. Program income used in accordance with the deduction alternative					
d. Net outlays (Line a, less the sum of lines b and c)		185,486	16,659	202,145	
<b>Recipient's share of net outlays, consisting of:</b>					
e. Third party (in-kind) contributions					
f. Other Federal awards authorized to be used to match this award					
g. Program income used in accordance with the matching or cost sharing alternative					
h. All other recipient outlays not shown on lines e, f or g					
i. Total recipient share of net outlays (Sum of lines e, f, g and h)		0	0	0	
j. Federal share of net outlays (line d less line i)		185,486	16,659	202,145	
k. Total unliquidated obligations				0	
l. Recipient's share of unliquidated obligations				0	
m. Federal share of unliquidated obligations				0	
n. Total Federal share (sum of lines j and m)				202,145	
o. Total Federal funds authorized for this funding period				222,201	
p. Unobligated balance of Federal funds (Line o minus line n)				20,256	
<b>Program Income, consisting of:</b>					
q. Disbursed program income shown on lines c and/or g above					
r. Disbursed program income using the addition alternative					
s. Undisbursed program income					
t. Total program income realized (Sum of lines q, r and s)				0	
11. Indirect Expense					
a. Type of Rate (Place "X" in appropriate box)					
<input checked="" type="checkbox"/> Provisional <input type="checkbox"/> Predetermined <input type="checkbox"/> Final <input type="checkbox"/> Fixed					
b. Rate		c. Base		d. Total Amount	
e. Federal Share					
113.61%		6,882		7,819	
				7,819	
12. Remarks: Attach any explanations deemed necessary or information required by Federal sponsoring agency in compliance with governing legislation.					
13. Certification: I certify to the best of my knowledge and belief that this report is correct and complete and that all outlays and unliquidated obligations are for the purposes set forth in the award documents.					
Typed or Printed Name and Title <b>Shannon Smack, Assistant Controller</b>				Telephone (Area code, number and extension) <b>202-942-4268</b>	
Signature of Authorized Certifying Official <i>Shannon Smack</i>				Date Report Submitted <b>4/30/98</b>	

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289-104

Standard Form 289 (Rev. 7-97)  
Prescribed by OMB Circulars A-102 and A-110



**Comparison of Reported Costs versus Actual Costs  
July 1, 1997 through April 30, 1998**

	Costs Reported to DOL on FSR	NACo Costs Internal Report	G/L 1997	G/L 1998	G/L Total Costs 1997/1998	Difference Actual vs. Reported	Adjustment to Overhead Difference
Personnel		\$ 85,468.00	\$ 58,700.47	\$26,767.59	\$ 85,468.06		\$ .06
Overhead/Indirect Cost		<u>97,100.00</u>	<u>66,689.00</u>	<u>28,292.00</u>	<u>94,981.00</u>		<u>(2,119.00)</u>
Total		\$182,568.00	\$125,389.47	\$55,059.59	\$180,449.06		\$(2,118.94)
<b>Other Direct Expenses:</b>							
Phone/FAX		\$ 2,118.00	\$ 1,733.88	\$ 383.51	\$ 2,117.39	\$ (.61)	
Dues		343.00	195.00	147.50	342.50	(.50)	
MIS Charges		4,909.00	3,265.74	1,643.20	4,908.94	(.06)	
On Line Charges		802.00	544.29	256.75	801.04	(.96)	
Supplies/ Office Admin.		295.00	268.20	26.42	294.62	(.38)	
Subscriptions		349.00	00	349.00	349.00	00	
USPS Postage		1,297.00	723.02	572.34	1,295.36	(1.64)	
Travel		4,462.00	3,879.36	580.77	4,460.13	(1.87)	
Reproduction		99.00	14.70	84.00	98.70	(.30)	
Printing		6,027.00	4,051.25	1,974.50	6,025.75	(1.25)	
Express Mail		487.00	356.10	130.92	487.02	.02	
Miscellaneous		508.00	.00	508.22	508.22	.22	
Staff Entertainment		.00	21.97	.00	21.97	21.97	
Adjustment to Overhead		<u>(2,119.00)</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.06</u>	<u>(2,118.94)</u>
Total Other Expenses		\$ <u>19,577.00</u>	\$ <u>15,053.51</u>	\$ <u>6,657.13</u>	\$ <u>21,710.64</u>	\$ <u>14.70</u>	\$ <u>2,133.64</u>
<b>Total Other Expenses</b>	<b><u>\$202,145.00</u></b>	<b><u>\$202,145.00</u></b>	<b><u>\$140,442.98</u></b>	<b><u>\$61,716.72</u></b>	<b><u>\$202,159.70</u></b>	<b><u>\$ 14.70</u></b>	<b><u>\$ 14.70</u></b>

**Computation of Indirect Cost Rate  
for Calendar Year 1995**

Allowed Building Cost per NACo	\$2,376,448	
Subtract Building Questioned Costs	<u>215,735</u>	Finding No. 1
Net Building Costs per Audit	2,160,713	
Multiplied by NACo Occupancy Rate	20.25%	
NACo Occupancy Cost per Audit	<u>437,544</u>	
Net Cost Before Federal Occupancy Allowance	\$2,754,068	
Add Occupancy Allowance	437,544	
Net Allowable Indirect Cost per Audit	<u>\$3,191,612</u>	(A)
Base: Direct Salaries	<u>\$2,705,186</u>	(B)

<b>Indirect Cost Rate</b>	<b>Proposed</b>	<b>Recommended</b>	
Net Federal Allowable Costs	\$3,235,358	\$3,191,612	(A)
Base: Direct Salaries	<u>\$2,705,186</u>	<u>\$2,705,186</u>	(B)
Overhead Rate	119.60%	117.98%	(A divided by B)

**Computation of Indirect Cost Rate  
for Calendar Year 1996**

Allowed Building Cost per NACo	\$2,254,221	
Subtract Building Questioned Costs	<u>226,096</u>	Finding No. 1
Net Building Costs per Audit	2,028,125	
Multiplied by NACo Occupancy Rate	24.07%	
NACo Occupancy Cost per Audit	<u>488,170</u>	
Net Cost Before Federal Occupancy Allowance	\$2,866,161	
Add Occupancy Allowance	488,170	
Net Allowable Indirect Cost per Audit	<u>\$3,354,331</u>	(A)
Base: Direct Salaries	<u>\$2,905,402</u>	(B)

<b>Indirect Cost Rate</b>	<b>Proposed</b>	<b>Recommended</b>	
Net Federal Allowable Costs	\$3,408,760	\$3,354,331	(A)
Base: Direct Salaries	<u>\$2,905,402</u>	<u>\$2,905,402</u>	(B)
Overhead Rate	117.32%	115.45%	(A divided by B)



**Computation of Indirect Cost Rate  
for Calendar Year 1997**

Allowed Building Cost per NACo	\$2,018,295	
Subtract Building Questioned Costs	<u>270,938</u>	Finding No. 1
Net Building Costs per Audit	1,747,357	
Multiplied by NACo Occupancy Rate	25.44%	
NACo Occupancy Cost per Audit	<u>444,528</u>	
Net Cost Before Federal Occupancy Allowance	\$2,797,580	
Add Occupancy Allowance	444,528	
Net Allowable Indirect Cost per Audit	<u>\$3,242,108</u>	(A)
Base: Direct Salaries	<u>\$2,932,858</u>	(B)

<b>Indirect Cost Rate</b>	<b>Proposed</b>	<b>Recommended</b>	
Net Federal Allowable Costs	\$3,311,131	\$3,242,108	(A)
Base: Direct Salaries	<u>\$2,932,858</u>	<u>\$2,932,858</u>	(B)
Overhead Rate	112.90%	110.54%	(A divided by B)

**Computation of Indirect Cost Rate  
for Calendar Year 1998**

Allowed Building Cost per NACo	\$1,941,535	
Subtract Building Questioned Costs	<u>266,585</u>	Finding No. 1a - c
Net Building Costs per Audit	1,674,950	
Multiplied by NACo Occupancy Rate	25.53%	
NACo Occupancy Cost per Audit	<u><u>427,615</u></u>	

Net Cost Before Federal Occupancy Allowance	\$3,183,889	
Add Occupancy Allowance	427,615	
Subtract Nonpersonnel Questioned Costs	<u>12,443</u>	Finding No. 1d

Net Allowable Indirect Cost per Audit \$3,599,061 (A)

Base: Direct Salaries \$3,047,323 (B)

<b>Indirect Cost Rate</b>	<b>Proposed</b>	<b>Recommended</b>	
Net Federal Allowable Costs	\$3,679,615	\$3,599,061	(A)
Base: Direct Salaries	<u>\$3,047,323</u>	<u>\$3,047,323</u>	(B)
Overhead Rate	120.75%	118.11%	(A divided by B)

**Computation of Indirect Cost Rate  
for Calendar Year 1999**

Allowed Building Cost per NACo	\$1,794,934	
Subtract Building Questioned Costs	<u>251,595</u>	Finding No. 1
Net Building Costs per Audit	1,543,339	
Multiplied by NACo Occupancy Rate	25.74%	
NACo Occupancy Cost per Audit	<u>397,255</u>	
Net Cost Before Federal Occupancy Allowance	\$3,405,666	
Add Occupancy Allowance	397,255	
Net Allowable Indirect Cost per Audit	<u>\$3,802,921</u>	(A)
Base: Direct Salaries	<u>\$2,988,236</u>	(B)

<b>Indirect Cost Rate</b>	<b>Proposed</b>	<b>Recommended</b>	
Net Federal Allowable Costs	\$3,867,753	\$3,802,921	(A)
Base: Direct Salaries	<u>\$2,988,236</u>	<u>\$2,988,236</u>	(B)
Overhead Rate	129.43%	127.26%	(A divided by B)

**Summary of Questioned Costs for Nonpersonnel Testing  
Calendar Year 1998 – Statistical Sample**

<b>Sample #</b>	<b>Ref - 1</b>	<b>Ref - 2</b>	<b>Date</b>	<b>Description</b>	<b>Criteria</b>	<b>Questioned</b>
29	JE 801	ASM	5/10/99	Alcoholic Beverages	OMB Circular A-122, Attachment B, Selected Items of Cost. 2. Costs of alcoholic beverages are unallowable.	\$1,989.00
64-A	070198	27799	6/24/98	Lunch in Columbus, OH on 6/24/99	Lunch in Washington, DC, on the same date erroneously charged by the same individual.	21.75
64-B	12074	27363	6/23/98	United Airlines flight upgrade certificates	OMB Circular A-122, Attachment B, Selected Items of Cost. 55.c. The difference in cost between first-class air accommodations and less than first-class air accommodations is unallowable . . . .	375.00
74	185596	30730	12/31/98	Alcoholic Beverages	OMB Circular A-122, Attachment B, Selected Items of Cost. 2. Costs of alcoholic beverages are unallowable.	1,608.73
85	103198	30207	11/01/98	Fund Raising	OMB Circular A-122, Attachment B, Selected Items of Cost. 25.a. Costs associated with the following activities are unallowable: (4) Any attempt to influence: (i) The introduction of Federal or State legislation; or (ii) the enactment or modification of any pending Federal or State legislation . . . ; or (5) Legislative liaison activities . . . .	685.00
					<b>Sub-Total</b>	<b>\$4,679.48</b>

**Summary of Questioned Costs for Nonpersonnel Testing  
Calendar Year 1998 – Statistical Sample**

<b>Sample #</b>	<b>Ref - 1</b>	<b>Ref - 2</b>	<b>Date</b>	<b>Description</b>	<b>Criteria</b>	<b>Questioned</b>
87	070198	28047	8/07/98	No Purpose for Trip Indicated	OMB Circular A-122, Attachment A, General Principles. A.2. To be allowable under an award, costs must meet the following general criteria: g. Be adequately documented.	529.00
89	100298	29698	10/01/98	Executive Committee travel charges to Germany	OMB Circular A-122, Attachment B, Selected Items of Cost. 55.e. Direct charges for foreign travel costs are allowable only when the travel has received prior approval of the awarding agency.	1,728.85
91	090198	29280	9/01/98	Executive Committee Annual Conference excessive and unreasonable transportation charges	OMB Circular A-122, Attachment A, General Principles. A.2. To be allowable under an award, costs must meet the following general criteria: a. Be reasonable for the performance of the award and be allocable thereto under these principles.	4,204.60
105	101598	30540	12/30/98	Alcoholic Beverages	OMB Circular A-122, Attachment B, Selected Items of Cost. 2. Costs of alcoholic beverages are unallowable.	1,522.50
					<b>Total</b>	<b>\$12,664.43</b>

**Summary of Questioned Costs for Nonpersonnel Testing  
Calendar Year 1998 – Judgmental Sample**

<b>Sample #</b>	<b>Ref - 1</b>	<b>Ref - 2</b>	<b>Date</b>	<b>Description</b>	<b>Criteria</b>	<b>Questioned</b>
22	14	29667	10/30/98	Board Dues paid to Generations United	OMB Circular A-122, Attachment B, Selected Items of Cost. 25.a. Costs associated with the following activities are unallowable: (4) Any attempt to influence: (i) The introduction of Federal or State legislation; or (ii) the enactment or modification of any pending Federal or State legislation . . . ; or (5) Legislative liaison activities . . . .	\$5,000.00
24	010299	30827	12/31/98	Donation to National Press Employee Christmas Club	OMB Circular A-122, Attachment B, Selected Items of Cost. 9. Contributions and donations by the organization to others are unallowable.	50.00
26	9808-4691	28774	9/08/98	Invitations and Envelopes for NACo's Open House	OMB Circular A-122, Attachment B, Selected Items of Cost. 1. Advertising and public relations costs. f. Unallowable advertising and public relations costs include the following: (4) Costs of advertising and public relations designed solely to promote the organization.	1,036.00
					<b>Total</b>	<b>\$6,086.00</b>

**Statistical Sample Projection of Questioned Costs  
for Nonpersonnel Testing  
Calendar Year 1998**

Activity	Point Estimate	Standard Error	Upper Limit
Nonpersonnel Accounts	\$26,357	\$8,832	\$40,930

Confidence Level: 95% One Sided

Estimation Methodology: These estimates and the standard errors have been calculated using formulas for the Stratified random sampling appraisal methodology.

Reference: Elementary Survey Sampling, by Schaefer, 1996 edition.

**Indirect Cost Rates and Reductions  
for Calendar Years 1995 through 1999**

Description	CY 1995	CY 1996	CY 1997	CY 1998	CY 1999	Total Questioned Costs
Audited Indirect Cost Rate <sup>†</sup> (See Exhibits B through F.)	117.98%	115.45%	110.54%	<b>118.11%</b>	127.26%	
NACo's Indirect Cost Rate (See Exhibits B through F.)	119.60%	117.32%	112.90%	<b>120.75%</b>	129.43%	
Indirect Cost Rate Decrease per Audit <sup>‡</sup>	<u>1.62%</u>	<u>1.87%</u>	<u>2.36%</u>	<u>2.64%</u>	<u>2.17%</u>	
Total Direct DOL Salaries	\$94,996	\$100,177	\$103,729	<b>\$94,942</b>	\$79,794	
Multiplied by Rate Decrease per Audit	<u>1.62%</u>	<u>1.87%</u>	<u>2.36%</u>	<u>2.64%</u>	<u>2.17%</u>	
Total DOL Cost Reduction due to Questioned Costs <sup>‡</sup>	<u>\$1,539</u>	<u>\$1,873</u>	<u>\$2,448</u>	<u>\$2,506</u>	<u>\$1,732</u>	<u>\$10,098</u>
Total Direct Salaries All Federal Programs	\$346,487	\$416,770	\$566,787	<b>\$567,050</b>	\$410,870	
Multiplied by Rate Decrease per Audit	<u>1.62%</u>	<u>1.87%</u>	<u>2.36%</u>	<u>2.64%</u>	<u>2.17%</u>	
Total Federal Cost Reduction due to Questioned Costs <sup>‡</sup>	<u>\$5,613</u>	<u>\$7,794</u>	<u>\$13,376</u>	<u>\$14,970</u>	<u>\$8,916</u>	<u>\$50,669</u>

<sup>†</sup> We audited NACo's indirect cost rates for CY 1998 and total indirect costs of \$7,041,452. Because of the accounting adjustments made to charges within the indirect cost pool for CY 1998, we examined the indirect cost pool for CYs 1995, 1996, 1997, and 1999 to determine if unallowable costs were charged.

<sup>‡</sup> The questioned costs resulted in a reduction to the proposed indirect cost rates, cost reductions of \$10,098 for DOL programs, and \$50,669 for all Federal programs for CYs 1995 through 1999.



## **AUDITEE'S RESPONSE**