

August 30, 2005

MEMORANDUM FOR: EMILY STOVER DeROCCO  
Assistant Secretary  
for Employment and Training

FROM: *for* *Elliot P. Lewis*  
ELLIOT P. LEWIS  
Assistant Inspector General  
for Audit

SUBJECT: Audit of Georgia Department of Labor's  
Costs Charged to U.S. DOL Grants  
During the Period July 1, 1998 through June 30, 2001  
for State Fiscal Years 1999 Through 2001  
Audit Report 03-05-002-03-315

The Office of Inspector General (OIG) has completed an audit of the direct indirect costs claimed by the Georgia Department of Labor (GDOL) as being applicable to grant awards from the U. S. Department of Labor (USDOL) Employment and Training Administration (ETA). Our objective was to determine whether such costs were reasonable, allowable, and properly allocable under the Federal cost principles set forth in OMB Circular A-87 for State Fiscal Years (SFYs) 1999 through 2001.

Our review of the indirect cost proposal between GDOL and the USDOL Division of Cost Determination (DCD) found certain labor costs in the GDOL Office of the Commissioner were negotiated out of the indirect cost agreement for State Fiscal Years (SFYs) 1999 through 2001. We found that GDOL failed to exclude these labor costs from the actual Administrative Services and Technical (AS&T) cost pools that it allocated each month to its various USDOL grant awards. However, the DCD Atlanta Regional representative, in a memorandum to OIG, stated that the GDOL Office of the Commissioner provides benefit to USDOL programs and that a portion of the labor costs are allowable. We agreed with the DCD Atlanta Regional representative.

Based on our audit, we have no findings associated with the direct or indirect costs for SFYs 1999 through 2001; therefore, this report is for your information, and requires no response.

## **Background**

GDOL has five main areas of responsibility, specifically: (1) to administer the State's unemployment insurance program; (2) to administer the Federal Workforce Investment Act in Georgia; (3) to assist employers in their search for qualified workers and to assist individuals who are seeking jobs through a network of 53 offices throughout the State; (4) to administer State laws relating to working conditions, employee safety, and child labor; and (5) to gather, maintain, and report labor market information.

For the State fiscal year (SFY) ended June 30, 2001, GDOL reported total expenditures of \$189,847,242 and employed about 2,000 people. The USDOL grants, primarily awarded by the ETA, accounted for \$135.9 million of the reported expenditures, or about 72 percent.

### **Scope and Methodology**

The initial scope of this audit was the direct and indirect costs charged to the Unemployment Insurance (UI) program in Federal fiscal year 2001. The results of our initial audit work did not disclose any significant problems in the direct costs charged to USDOL grants, but did indicate significant problems with the allowability of certain indirect labor and associated costs being allocated each month to USDOL grant awards. Accordingly, the scope of the audit was expanded to the GDOL claims for, and recovery of, these indirect costs – commonly referred to as AS&T costs – charged to USDOL/ETA grants administered by GDOL for the SFYs ended June 30, 1999, 2000, and 2001.

We interviewed officials from the GDOL and the Atlanta Region, Division of Cost Determination, to determine the methodology used for allocating and charging AS&T costs to various benefiting cost objectives as required by OMB Circular A-87. We reviewed data concerning the GDOL's Indirect Cost Allocation Plans and the Negotiated Indirect Cost Rate (ICR) Agreements for SFYs 1999, 2000, and 2001. Our audit included information on DCD's allowance of indirect costs subsequent to the negotiated agreements for SFYs 1999 through 2001. Costs associated with the Office of the Commissioner that originally had been disallowed for inclusion in the indirect cost rate calculation have now been allowed by DCD for those years. Accordingly, since the indirect costs were originally disallowed by DCD, we did not audit those costs for reasonableness, allowability or allocability.

Our audit was performed in accordance with standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States. The audit fieldwork for this engagement was conducted at GDOL in Atlanta, Georgia.

## **Audit Results**

Initially, our review of GDOL's indirect cost proposal disclosed that the DCD Atlanta Regional Representative questioned as unallowable certain GDOL AS&T costs listed in the indirect cost agreement, including certain labor costs in the Office of the Commissioner for SFYs 1999 through 2001. The labor costs were questioned because: (1) the Commissioner of GDOL is elected by the people of the State of Georgia, and "general costs of government" are unallowable under OMB Circular A-87; and (2) in his opinion, there was too much bureaucracy in the Office of the Commissioner.

Our audit disclosed that GDOL failed to exclude these labor costs from the actual AS&T cost pools that it allocated each month to its various USDOL grant awards. However, the DCD representative, in a memorandum to OIG dated November 21, 2003, stated that he researched OMB Circular A-87 and U.S. Health and Human Services (HHS's) C-10 document concerning disallowing the cost of the Commissioner's Office and DCD could not produce any clear authority that would support the original decision to disallow the costs. The DCD representative stated that it was his office's opinion that the Office of the Commissioner is responsible for application and compliance with all the rules of law related to the implementation and completion of objectives associated with USDOL grant funds. The GDOL and the DCD representative concurred that a portion of the cost of the Commissioner's office is appropriately allocable to indirect AS&T. Additionally, the DCD representative determined that his original position that the Commissioner of GDOL was unallowable because it was "general cost of government" is incorrect. The Office of the Commissioner would not be considered "general government" because it is not a political subdivision as defined in the Circular. According to ETA regulations and Georgia state law, political subdivisions are local government entities that collect taxes and have police authority.

OMB Circular A-87 allows DCD to revise the negotiated indirect cost agreement. Specifically, Attachment E of the Circular provides that agreements can be subject to re-opening if the agreement is subsequently found to violate a statute, or the information upon which the plan was negotiated is later to be found materially incomplete or inaccurate.

## **Conclusion**

Based on our audit, although a portion of the indirect costs were determined unallowable in the negotiated indirect cost agreement, DCD determined that these costs are now allowable and should not have been excluded from the indirect cost pool for SFYs 1999 through 2001. We agree with DCD's determination, therefore this report is for your information, and requires no response.

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If you have any questions concerning this report, please contact Michael T. Hill, Regional Inspector General for Audit, in Philadelphia at (215) 446-3710.