

Office of the Inspector General

James M. Fornataro
Associate Commissioner
for Acquisition and Grants

Assistant Inspector General
for Audit

Costs Claimed by the State of Illinois on the Social Security Administration's Contract
Number 600-94-13524

The attached final report presents the results of our audit of the costs claimed by the State of Illinois on the Social Security Administration's Contract Number (CN) 600-94-13524 (A-13-97-51024). The objective of our audit was to determine if costs claimed by the State of Illinois for CN 600-94-13524 were allowable, allocable, and reasonable in accordance with applicable Federal regulations and the terms of the contract. This report also provides the Contracting Officer with cost information to determine final value of the contract and to use in closing out the contract.

You may wish to comment on any further action taken or contemplated on our recommendations. If you choose to offer comments, please provide your comments within the next 60 days. If you wish to discuss the final report, please call me at (410) 965-9700.

Pamela J. Gardiner

Attachment

cc:
Yvette S. Jackson
Deputy Commissioner for Finance,
Assessment and Management

Mr. Jim Donkin
Chief of Internal Audit
Illinois Department of Human Services
110 West Lawrence Street
Springfield, Illinois 62704

Dear Mr. Donkin:

The enclosed final report presents the results of our audit of the costs claimed by the State of Illinois on the Social Security Administration's Contract Number (CN) 600-94-13524 (A-13-97-51024). The objective of our audit was to determine if costs claimed by the State of Illinois for CN 600-94-13524 were allowable, allocable, and reasonable in accordance with applicable Federal regulations and the terms of the contract.

You may wish to comment on any further action taken or contemplated on our recommendations. If you choose to offer comments, please provide your comments within the next 60 days. If you wish to discuss the final report, please call me at (410) 965-9700.

Sincerely,

Pamela J. Gardiner
Assistant Inspector General
for Audit

Enclosure

cc:
Yvette S. Jackson
Deputy Commissioner for Finance,
Assessment and Management
Kathleen Fletcher
Senior Public Service Administrator

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**COSTS CLAIMED BY THE STATE
OF ILLINOIS ON THE SOCIAL
SECURITY ADMINISTRATION'S
CONTRACT NUMBER 600-94-13524**

September 1998

A-13-97-51024

AUDIT REPORT



EXECUTIVE SUMMARY

OBJECTIVE

The objective of this audit was to determine if costs claimed by the State of Illinois for Contract Number (CN) 600-94-13524 were allowable, allocable, and reasonable in accordance with Federal regulations and the terms of the contract. This report also provides the Contracting Officer (CO) with cost information to determine the final value of the contract and use in closing out the contract.

BACKGROUND

The Social Security Administration's (SSA) Office of Acquisition and Grants (OAG) requested an audit of costs incurred by the State of Illinois (CN 600-94-13524) for Referral and Monitoring Agency (RMA) services to refer, assess, and monitor drug addicts and alcoholics (DA&A) receiving Supplemental Security Income (SSI) benefits.¹ The contracted service period was from July 1, 1994, through September 28, 1995. The costs claimed under CN 600-94-13524 are defined in terms of the contract and the *Office of Management and Budget (OMB) Circulars A-87 and A-122*. The circulars provide criteria to establish allowability, allocability, and reasonableness of costs claimed by State and nonprofit entities for Federal cost reimbursement contracts.²

We limited our audit to the review of costs incurred by the State of Illinois and its subcontractor for CN 600-94-13524. We did not assess, and do not express an opinion of the overall acceptability of the State of Illinois or its subcontractor's internal controls or accounting systems. We performed our audit work at the State of Illinois Department of Alcohol and Substance Abuse and its subcontractor, Treatment Alternatives for Special Clients (TASC), both located in Chicago, Illinois. We also performed work at OAG at SSA Headquarters in Baltimore, Maryland. The field work was conducted from September 1997 through November 1997.

¹ SSI provides income maintenance payments to low-income individuals who are aged, blind, or disabled. DA&As were determined disabled if they met income and other eligibility requirements, but this category was eliminated in March 1996 by P.L.104-121. However, prior to the elimination of the DA&A category, each State had an RMA contractor who referred, assessed, and monitored both title II and title XVI DA&A recipients.

² *OMB Circular A-87*, "Cost Principles for State, Local and Indian Tribal Governments;" *OMB Circular A-122*, "Cost Principles for Nonprofit Organizations."

RESULTS OF REVIEW

The State of Illinois claimed a total of \$1,376,799 for its contract (CN 600-94-13524). Except for \$123,142 in questioned costs related to labor, fringe benefits, and the subcontractor's office space and indirect costs, we determined the claimed costs were allowable, allocable, and reasonable in accordance with applicable Federal regulations and the terms of the contract.

- COSTS RELATED TO LABOR AND RELATED FRINGE BENEFITS ARE QUESTIONED
- SUBCONTRACTOR COSTS RELATED TO OFFICE SPACE AND INDIRECT COSTS ARE ALSO QUESTIONED

Subcontractor Inappropriately Claimed Office Space Costs

Subcontractor Used Indirect Rates That Differed from Incurred Rates

RECOMMENDATION

We recommend that SSA recover the questioned costs of \$123,142 from the State of Illinois on CN 600-94-13524.

SSA COMMENTS

SSA agreed with the intent of the recommendation. However, the Agency did not provide comments and will consider the recommendation at the time of negotiation and administrative close-out of the contract. (See Appendix C for the full text of the Agency's comments.)

STATE OF ILLINOIS AND SUBCONTRACTOR COMMENTS

The State of Illinois and TASC did not concur with our questioning certain costs. In its response, the State of Illinois did not concur with our questioning of the direct labor and related fringe benefits costs for the project coordinator labor category. While not commenting on the questioned subcontractor indirect and office parking costs, the State of Illinois did not concur with our questioning of TASC's claimed office space interest costs. In addition, TASC did not concur with our questioning of office space costs and most of the questioned indirect costs. (See Appendix D for the full text of the State of Illinois and TASC comments.)

OIG RESPONSE

We considered the comments provided by the State of Illinois and subcontractor. As a result of the additional support provided by the State of Illinois, we adjusted the amount of questioned direct labor and related fringe benefits costs. The adjusted costs are reflected in our recommendation. However, we do not agree with and have not made adjustments for all other nonconcurrences made by the State of Illinois and subcontractor. All of the remaining nonconcurrences pertain to costs not compliant with applicable Federal regulations or the terms of the contract; or in excess of costs actually incurred. (See the explanatory notes in Appendix B for detailed OIG responses to State of Illinois and subcontractor comments.)

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INTRODUCTION

OBJECTIVE

The objective of this audit was to determine if costs claimed by the State of Illinois for CN 600-94-13524 were allowable, allocable, and reasonable in accordance with Federal regulations and the terms of the contract. This report also provides the CO with cost information to determine the final value of the contract and use in closing out the contract.

BACKGROUND

SSA's OAG requested an audit of costs incurred by the State of Illinois under its contract (CN 600-94-13524) for RMA services to refer, assess, and monitor DA&A receiving SSI benefits. The contracted service period was from July 1, 1994, through September 28, 1995.

The costs claimed under CN 600-94-13524 are defined in terms of the contract. Additionally, *OMB Circulars A-87* and *A-122* provide criteria that establish allowability, allocability, and reasonableness of costs claimed by State and nonprofit entities for Federal cost reimbursement contracts. Criteria examples include payroll and distribution; allocable cost; support of salaries and wages; compensation for personal services; interest, fund raising, and investment management costs; and travel costs. (See Appendix A for a detailed explanation of the circulars' criteria.)

SCOPE AND METHODOLOGY

We limited our audit to the review of costs incurred by the State of Illinois and its subcontractor for CN 600-94-13524. We did not assess, and do not express an opinion of the overall acceptability of the State of Illinois or its subcontractor's internal controls or accounting systems. Therefore, we assessed control risk as "high" and expanded our substantive tests, which our audit reflects and which provides a reasonable basis for our conclusions.

We did review, on a limited basis, the contractor's and subcontractor's internal controls. In doing so, we assessed control risk and determined the extent of substantive testing. We also examined, on a test basis, evidence supporting the amounts claimed; inspected disclosures in the data; reviewed records; assessed the accounting principles used and significant estimates made by the contractor; and evaluated the overall data and records presentation.

To evaluate claimed costs, we used *OMB Circulars A-87 and A-122*, plus the terms and conditions of the contract. Costs that did not meet the requirements of these circulars and the contract were questioned for SSA's use in determining the final value of the contract and closing it out.

Work was performed at the State of Illinois Department of Alcohol and Substance Abuse and its subcontractor, TASC, both located in Chicago, Illinois. We also performed work at OAG at SSA Headquarters in Baltimore, Maryland. The field work was conducted from September 1997 through November 1997. Our audit was conducted in accordance with generally accepted government auditing standards.

RESULTS OF REVIEW

Except for the questioned costs discussed below, we determined the costs claimed by the State of Illinois on CN 600-94-13524 are allowable, allocable, and reasonable in accordance with applicable Federal regulations and the terms of the contract.

We question whether \$123,142 of the costs were allowable, allocable, and reasonable (See Table 1 which summarizes the questioned cost items).

Table 1 - Schedule of Questioned Costs

Questioned Cost Item	Questioned Costs
State of Illinois Costs:	
Labor Costs	\$ 37,236
Fringe Benefits	<u>9,033</u>
Total State of Illinois Costs	\$ 46,269
Subcontractor Costs:	
Office Space	\$ 25,246
Indirect Costs	<u>51,627</u>
Total Subcontractor Costs	\$ 76,873

COSTS RELATED TO LABOR AND RELATED FRINGE BENEFITS ARE QUESTIONED

We question \$37,236 of the claimed labor costs because of insufficient documentation of employee time per section B-10(b) of *OMB Circular A-87*. Likewise, the fringe benefits associated with the unsubstantiated labor costs (\$9,033) are also questioned. Rather than questioning the full amount of labor costs as unsupported, we determined a reasonable amount of direct labor costs by relying on the best available documentation of employee time which was a second RMA contract, CN 600-95-22673.³

We analyzed time charges on the subsequent RMA contract to determine a reasonable number of employee hours that were allocable to CN 600-94-13524. We then applied the actual labor rate to our recommended number of labor hours to determine the

³ On the second RMA contract, awarded in 1995, the State of Illinois began partially documenting SSA-related time charges and expanded the RMA services provided in CN 600-94-13524.

recommended labor costs. The difference between the claimed labor costs and the recommended labor costs is the amount we question. Likewise, we applied the State of Illinois fringe benefit rate of 24.26 percent to determine the related questioned fringe benefit costs.

SUBCONTRACTOR COSTS RELATED TO OFFICE SPACE AND INDIRECT COSTS ARE ALSO QUESTIONED

We are also questioning \$76,873 of the subcontractor's claimed costs because the costs are not in accordance with the terms of the contract and/or applicable Federal regulations. Details of the questioned subcontractor costs are discussed below.

Subcontractor Inappropriately Claimed Office Space Costs

The subcontractor inappropriately charged SSA \$25,246 in office space costs. TASC claimed \$23,219 in unallowable interest costs that are specifically excluded as an allowable charge under Attachment B item 19 of *OMB Circular A-122*. TASC also claimed \$2,027 in daily commuting parking costs as office space. The parking costs are not allowable and reasonable for the following reasons.

First, parking costs are not provided for in the terms of the lease agreement which is the basis for office space costs. Second, the parking costs are related to the employees' daily commuting costs to their "home-office." If the subcontractor agreed to reimburse employees for home-office parking expenses, these items should have been considered as employee compensation and reported on the employees' wage statements. TASC did not consider these costs employee compensation and did not include these costs on the employees' wage statements. Finally, the parking costs were not incurred as a part of business-related travel while the employees were in travel status.

We question whether these costs are allowable because the costs do not meet the criteria of compensation as described in *OMB Circular A-122*, Attachment B item 6, or the criteria for travel as described in *OMB Circular A-122*, Attachment B item 50.

Subcontractor Used Indirect Rates that Differed from Incurred Rates

We question \$51,627 in indirect costs because our audit tests identified different indirect rates than those used by the subcontractor. The subcontractor claimed indirect rates of 18.95 percent and 23.73 percent for Fiscal Year (FY) 1995 and FY 1996, respectively. These rates differed from the actual indirect rates incurred by the subcontractor. TASC finalized an indirect rate of 15.30 percent for FY 1995 with the Department of Health and Human Services, and finalized an indirect rate of 15.90 percent for FY 1996 with the Department of Justice. As a result, we applied TASC's incurred indirect rates to the applicable FY 1995 and FY 1996 cost

allocation base to determine the recommended indirect costs. A summary of the claimed, recommended, and questioned indirect costs are presented in Tables 2-4.⁴

Table 2 - Schedule of Claimed Indirect Costs by TASC on CN 600-94-13524

Fiscal Period	Claimed Direct Costs (A)	Claimed Indirect Rates (B)	Claimed Indirect Costs (A*B)
1995	\$ 847,985	18.95%	\$160,716
1996	213,844	23.73%	50,755
Total	\$1,061,829		\$211,471

Table 3 - Schedule of Recommended Indirect Costs for TASC on CN 600-94-13524

Fiscal Period	Recommended Direct Costs (C)	Recommended Indirect Rates (D)	Recommended Indirect Costs (C*D)
1995	\$ 828,566	15.30%	\$126,770
1996	208,017	15.90%	33,074
Total	\$1,036,583		\$159,844

Table 4 - Schedule of Questioned Indirect Costs for TASC on CN 600-94-13524

Fiscal Period	Claimed Indirect Costs (A*B)	Recommended Indirect Costs (C*D)	Questioned Indirect Costs (A*B) - (C*D)
1995	\$160,716	\$126,770	\$33,946
1996	50,755	33,074	17,681
Total	\$211,471	\$159,844	\$51,627

To assist the CO in determining the final value and contract close out of the above contract, we have included detailed analyses of the auditors' evaluation methodology in determining recommended contract costs in Appendix B.

⁴ The amounts in Tables 2 through 4 are rounded to the dollar. Percentages are rounded to the second decimal place. Any differences are due to rounding.

RECOMMENDATION

RECOMMENDATION

We recommend SSA recover the questioned costs of \$123,142 from the State of Illinois on CN 600-94-13524.

SSA COMMENTS

SSA agreed with the intent of our recommendation. However, the Agency did not provide comments and will consider the recommendation at the time of negotiation and administrative close-out of the contract. (See Appendix C for the full text of the Agency's comments.)

STATE OF ILLINOIS AND SUBCONTRACTOR COMMENTS

The State of Illinois and TASC did not concur with our questioning certain costs. In its response, the State of Illinois did not concur with our questioning of the direct labor and related fringe benefits costs for the project coordinator labor category. While not commenting on the questioned subcontractor indirect and office parking costs, the State of Illinois did not concur with our questioning of TASC's claimed office space interest costs. In addition, TASC did not concur with our questioning of office space costs and most of the questioned indirect costs. (See Appendix D for the full text of the State of Illinois and TASC comments.)

OIG RESPONSE

We considered the comments provided by the State of Illinois and subcontractor. As a result of additional support provided by the State of Illinois, we accept the direct labor and related fringe benefits costs for the project coordinator labor category. The cost adjustments are reflected in our recommendation. However, we do not agree with and have not made adjustments for all other nonconcurrences made by the State of Illinois and subcontractor. All of the remaining nonconcurrences pertain to costs not compliant with applicable Federal regulations or terms of the contract; or in excess of costs actually incurred. (See the explanatory notes in Appendix B for OIG responses to State of Illinois and subcontractor comments.)

APPENDICES

CRITERIA FOR CLAIMED COSTS

The Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments," dated January 28, 1981:

- **Section B-10(b) Payroll and distribution**

Payroll must be supported by time and attendance records or equivalent records. Employees chargeable to more than one cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort.

OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments," dated May 4, 1995:

- **Section C-3 Allocable cost**

Cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

- **Attachment B item 11(h) Support of salaries and wages**

Charges to Federal awards whether direct or indirect must be supported by personnel activity reports or equivalent documentation. They must reflect an after-the-fact distribution of the actual activity, must account for total activities for which the employee is compensated, and must coincide with one or more pay periods.

OMB Circular A-122 "Cost Principles for Nonprofit Organizations," dated June 27, 1980:

- **Section A-2 Allowability**

For costs to be allowable they must be reasonable for the performance of the award, conform to any limitations set forth in the award, and be in accordance with generally accepted accounting principles.

- **Section A-3 Reasonable**

In order to be reasonable the costs shall be recognized as ordinary and necessary for the performance of the award.

APPENDIX A

- **Section A-4 Allocable**
Costs are allocable if incurred specifically for the award and are treated consistently with other costs incurred for the same purpose in like circumstances.
- **Attachment B item 6 Compensation for personal services**
Include all compensation paid or accrued for employee services rendered during the period of award.
- **Attachment B item 19 Interest, fund raising and investment management costs**
Interest on borrowed capital is unallowable.
- **Attachment B item 50 Travel costs**
Include the expenses for transportation, lodging, subsistence, and related items incurred by employees that are in travel status on official business of the organization.

Schedules and Explanatory Notes for Claimed and Recommended Costs on Contract Number 600-94-13524

We question \$123,142 of the costs claimed by the State of Illinois and its subcontractor Treatment Alternatives for Special Clients (TASC) on Contract Number (CN) 600-94-13524. This appendix provides the following details:

- Tables 1 through 5¹ depicting claimed, recommended, and questioned costs by the State of Illinois and its subcontractor TASC; and
- Explanatory notes detailing the auditor's conclusions; contractor's basis for claimed costs; auditor's evaluation methodology used to determine the questioned and/or recommended costs; State of Illinois, subcontractor, and OIG comments and responses.

In Tables 6 and 7¹ of this appendix, we provide our results by the subcontractor's fiscal year (FY) because our recommended indirect rates for FYs 1995 and 1996 are different than those claimed by TASC.

Table 1 - Claimed Costs by the State of Illinois on CN 600-94-13524

Cost Element	Claimed (A)	Recommended (A) - (B)	Questioned (B)	Ref. Or Note
Direct Labor	\$ 81,504	\$ 44,268	\$ 37,236	Note 1
Fringe Benefits	19,774	10,741	9,033	Note 2
Travel	2,092	2,092	0	
Subcontractor TASC	1,273,361	1,196,488	76,873	Table 2
Other Costs	<u>68</u>	<u>68</u>	<u>0</u>	
Total Costs	<u>\$1,376,799</u>	<u>\$1,253,657</u>	<u>\$123,142</u>	

¹ The amounts in Tables 1 through 7 have been rounded to the dollar. Percentages are rounded to the second decimal place. Any differences are due to rounding.

Table 2 - Claimed Costs by Subcontractor TASC on CN 600-94-13524

Cost Element	Claimed (A)	Recommended (A)-(B)	Questioned (B)	Note
Direct Labor	\$ 648,400	\$ 648,400	\$ 0	Note 3
Fringe Benefits	148,691	148,691	0	
Temp Services	16,895	16,895	0	
Travel	32,429	32,429	0	
Telephone	23,979	23,979	0	
Office Supplies	28,294	28,294	0	
Office Space	104,485	79,239	25,246	
Equipment	5,896	5,896	0	
Maintenance				
Equipment	29,149	29,149	0	
Other Costs	23,611	23,611	0	
Subtotal:				
Direct Costs	\$ 1,061,829	\$ 1,036,583	\$ 25,246	
Indirect Costs	211,471	159,844	51,627	
Subtotal Costs	\$ 1,273,300	\$ 1,196,427	\$ 76,873	
Immaterial Difference	61	61	0	
Total Costs Claimed For TASC by the State of Illinois	<u>\$1,273,361</u>	<u>\$1,196,488</u>	<u>\$ 76,873</u>	

Explanatory Notes:**1. State of Illinois - Direct Labor**

a. Summary of Conclusions:

We question \$37,236 of direct labor costs because the State of Illinois did not keep adequate documentation to support the direct labor costs claimed. These costs are questioned under *the Office of Management and Budget (OMB)*

APPENDIX B

Circular A-87 which states that “Salaries and Wages chargeable to more than one grant program or cost objective will be supported by appropriate time distribution records.”

b. Basis of Claimed Costs:

The State of Illinois contends that *OMB Circular A-87* does not require States to document time charges. As such, it determined direct labor costs on CN 600-94-13524 by applying estimated direct labor time percentages to the actual labor rates for the employees assigned to the contract.

c. Audit Evaluation:

Because the State of Illinois did not document actual time spent by employees on CN 600-94-13524, we used the actual documented time charges on a second Social Security Administration (SSA) contract (CN 600-95-22673) for Referral and Monitoring Agencies (RMA) services to develop recommended labor hours. Subsequently, we applied actual labor rates to the recommended labor hours for individuals assigned to the contract.

We do not agree with the State of Illinois’ assertion that *OMB Circular A-87* does not require it to keep documentation to support actual time spent by the individuals assigned to SSA’s contracts. It is our opinion that *OMB Circular A-87* required the State of Illinois to keep some form of documentation that supports the *actual* time spent on the contracts. *OMB Circular A-87* dated January 28, 1981, which is applicable to the period of performance for CN 600-94-13524 through September 1, 1995, states:

“Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort.”

OMB Circular A-87 was revised on May 4, 1995. The revised A-87, which covers part of the period of performance of CN 600-94-13524, states:

“Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity or equivalent document which meets the standards in subsection (5)”, which states in part, that the personnel activity reports “. . . must reflect an after-the-fact distribution of the actual activity of each employee.” Subsection (5) also

APPENDIX B

states that “Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards.”

d. State of Illinois Comments:

The State of Illinois did not agree with our questioning of direct labor costs for the project coordinator labor category. The State of Illinois contends that at all times during this contract they had a project coordinator who worked solely on this project. For the second RMA contract referred to by SSA, the State of Illinois provided signed certifications indicating the period of time that the project coordinator work full time as required by *OMB Circular A-87* effective September 1, 1995. The State of Illinois contends that these certifications were not required under the previous Circular.

e. OIG Response:

Based on our review of the additional documentation provided by the State of Illinois in support of claimed project coordinator direct labor costs, we agree with the State of Illinois and adjusted the questioned direct labor costs by \$32,608. The remaining direct labor costs of \$37,236 are questioned as indicated above, because of insufficient documentation of employee time per section B-10(b) of *OMB Circular A-87*.

2. State of Illinois - Fringe Benefits

a. Summary of Conclusions:

Because we question direct labor charges, we also question \$9,033 of the related fringe benefits costs claimed by the State of Illinois.

b. Basis of Claimed Costs:

The State of Illinois claimed fringe benefits costs that are equivalent to 24.26 percent of direct labor costs.

c. Audit Evaluation:

Direct labor is the allocation base to which fringe benefit rates are applied. To derive questioned fringe benefit costs, we applied the claimed fringe benefit rates of 24.26 percent for CN 600-94-13524 to our questioned direct labor costs.

APPENDIX B

d. State of Illinois Comments:

As indicated in the direct labor explanatory note, the State of Illinois disagreed with our questioning of direct labor costs associated with the project coordinator labor category. Similarly, they also disagreed with our questioning of the related fringe benefit costs.

e. OIG Response:

Based on our review of the additional documentation provided by the State of Illinois, we have adjusted the questioned direct labor costs by \$32,608. Similarly, we have reduced questioned fringe benefits costs \$7,911 by applying the claimed fringe benefit rate of 24.26 percent to the accepted direct labor costs of \$32,608. The remaining fringe benefit costs \$9,033 are questioned because of insufficient documentation of employee time per section B-10(b) of *OMB Circular A-87*.

3. Subcontractor TASC - Office Space Costs

a. Summary of Conclusions:

We question a total \$25,246 of claimed office space costs. Our review of office space costs disclosed unallowable interest costs in the amount of \$23,219 which are being questioned under *OMB Circular A-122*. *OMB Circular A-122* indicates that costs incurred for interest on borrowed capital or temporary use of endowment funds, however represented, are unallowable. We also question \$2,027 for parking costs. The subcontractor does not consider these costs to be employee compensation or business travel. Therefore, we question these costs as unallowable costs because the costs represent personal expenses, and do not meet the criteria of employee compensation as described in *OMB Circular A-122*, which states "Compensation for personal services includes all compensation paid currently or accrued by the organization for services of employees rendered during the period of award."

b. Basis of Claimed Costs:

Office space costs are comprised of accounts such as building lease, utilities, janitorial services, and a portion of the occupancy pool. TASC uses the occupancy pool to accumulate office space charges for its corporate office. The subcontractor allocates the costs contained in the occupancy pool to specific projects based on the percentage of the total employees assigned to a specific project. TASC also claimed personal parking expenses as office space costs.

c. Audit Evaluation:

Our questioned office space cost of \$25,246 is detailed below:

<u>Office Space:</u>	<u>Questioned Amount</u>
Occupancy Pool	\$ 23,219
Parking	<u>2,027</u>
Total	<u>\$25,246</u>

We question the interest included in the subcontractor’s occupancy pool amounts that are specifically excluded as an allowable charge under Attachment B item 19 of *OMB Circular A-122*.

TASC also claimed \$2,027 in daily commuting parking costs as office space. The parking costs are not allowable and reasonable for the following reasons. First, parking costs are not provided for in the terms of the lease agreement which is the basis for office space costs. Secondly, the parking costs are related to the employees’ daily commuting costs to their home-office. If the Subcontractor agreed to reimburse employees for home-office parking expenses, these items should have been considered as employee compensation and reported on the employees’ wage statements. TASC did not consider these costs employee compensation and did not include these costs on the employee’s wage statements. Finally, the parking costs were not incurred as a part of business related travel while the employee was in travel status.

d. State of Illinois and Subcontractor Comments:

The State of Illinois and TASC did not concur with our questioning of \$23,219 of office space interest costs claimed by TASC. Both the State of Illinois and TASC contend that these costs are in the original proposal and Best and Final Offer and as such, constitutes an advance understanding between SSA and the State of Illinois regarding the acceptability of interest costs. Additionally, TASC disagreed with our questioning of \$2,027 of office space parking costs because it made reasonable efforts and arrangements to reduce and control travel costs through the purchase of monthly parking rather than on a daily fee basis. Finally, TASC believes that these costs were bona fide business expenses that are reasonable, ordinary and necessary under *OMB Circular A-122.A.3*.

e. **OIG Response:**

We disagree with the State of Illinois' and TASC's assertion that inclusion of the interest costs as in their original proposal and Best and Final Offer constituted an advance understanding between SSA and the State of Illinois. It was correct of TASC to provide the detailed components of its office space costs in its proposals. However, TASC should not have billed these costs to SSA because they are specifically excluded as an allowable charge under Attachment B item 19 of *OMB Circular A-122*. Additionally, we disagree with TASC's assertion that the questioned \$2,027 of office space parking costs should be considered travel costs. Based on our review, these costs were for daily commuting parking costs that TASC did not consider as compensation to the employees. Therefore, we question these costs as unallowable because the costs do not meet the criteria of compensation as described in *OMB Circular A-122*, Attachment B item 6, or the criteria for travel as described in *OMB Circular A-122*, Attachment B item 50.

4. Indirect Costs

a. **Summary of Conclusions:**

We question indirect costs of \$51,627, which represents the difference between the subcontractor's claimed indirect costs of \$211,471 and our recommended indirect costs of \$159,844.

b. **Basis of Claimed Costs:**

TASC derived the claimed indirect costs by applying an estimated indirect rate to the claimed direct costs. The details of TASC's claimed indirect costs are detailed below by fiscal period:

Table 3 - Indirect Costs Claimed by TASC

Fiscal Period	Claimed Direct Costs (A)	Claimed Indirect Rates (B)	Claimed Indirect Costs (A*B)
1995	\$ 847,985	18.95%	\$160,716
1996	213,844	23.73%	50,755
Total Overall	\$1,061,829	19.92%	\$211,471

Based on our discussions with TASC's Director of Financial Reporting, the overall claimed indirect cost rate of 19.92 percent of direct costs was consistent with the indirect rate of 19.30 percent contained in its "Best and Final Offer" to the State of Illinois.

c. Audit Evaluation:

As indicated above, TASC's claimed indirect costs were based on the application of a provisional indirect rate of approximately 19.92 percent of direct costs. At the end of each FY, TASC should have, but did not, adjust the provisional indirect rate claimed to actual indirect rate. Our recommended indirect costs

of \$159,844 reflects the difference between TASC's provisional rate of 19.92 percent and its actual indirect rates for FYs 1995 and 1996.

Our recommended indirect rate for FY 1995 of 15.30 percent is based on an indirect rate agreement between TASC and the Department of Health and Human Services. This indirect rate was based on actual costs incurred by TASC for FY 1995. The allocation base for this indirect rate is direct costs.

Our recommended indirect rate for FY 1996 (15.90 percent) is based on an indirect rate agreement between TASC and the Department of Justice. Table 4 details our recommended indirect costs by FY.

Table 4 - Recommended Indirect Costs for TASC

Fiscal Period	Recommended Direct Costs (C)	Recommended Indirect Rates (D)	Recommended Indirect Costs (C*D)
1995	\$ 828,566	15.30%	\$126,770
1996	208,017	15.90%	33,074
Total	\$1,036,583	15.42%	\$159,844

Table 5 - Questioned Indirect Costs claimed by TASC

Fiscal Period	Claimed Indirect Costs (A*B)	Recommended Indirect Costs (C*D)	Questioned Indirect Costs (A*B) - (C*D)
1995	\$160,716	\$126,770	\$33,946
1996	50,755	33,074	17,681
Total	\$211,471	\$159,844	\$51,627

APPENDIX B

In Tables 6 and 7 of this appendix, we provide our results by subcontractor FY, because our recommended indirect rates for FYs 1995 and 1996 are different than those claimed by the subcontractor.

Table 6 - FY 1995 Subcontractor Costs

Cost Element	Claimed	Recommended	Questioned
Direct Labor	\$ 508,522	\$ 508,522	\$ 0
Fringe Benefits	120,653	120,653	0
Temp Services	16,895	16,895	0
Travel	25,066	25,066	0
Telephone	18,980	18,980	0
Office Supplies	24,187	24,187	0
Office Space	80,569	61,150	19,419
Equip. Maint.	4,904	4,904	0
Equipment	26,465	26,465	0
Other Costs	21,744	21,744	0
Subtotal:			
Direct Costs	\$ 847,985	\$ 828,566	\$ 19,419
Indirect Costs	160,716	126,770	33,946
Total Questioned Costs	<u>\$1,008,701</u>	<u>\$955,336</u>	<u>\$53,365</u>

Table 7 - FY 1996 Subcontractor Costs

Cost Element	Claimed	Recommended	Questioned
Direct Labor	\$ 139,878	\$ 139,878	\$ 0
Fringe Benefits	28,038	28,038	0
Temp Services	0	0	0
Travel	7,363	7,363	0
Telephone	4,999	4,999	0
Office Supplies	4,107	4,107	0
Office Space	23,916	18,089	5,827
Equip. Maint.	992	992	0
Equipment	2,684	2,684	0
Other Costs	1,867	1,867	0
Subtotal:			
Direct Costs	\$ 213,844	\$ 208,017	\$ 5,827
Indirect Costs	50,755	33,074	17,681
Total Questioned Costs	<u>\$264,599</u>	<u>\$241,091</u>	<u>\$23,508</u>

d. State of Illinois and Subcontractor Comments:

The State of Illinois did not provide comments to our questioning of subcontractor indirect costs. TASC however, disagreed with all but \$6,538 of the \$51,627 questioned indirect costs. TASC contends that the final agreed to budget with the State of Illinois provided for an indirect rate of 19.3 percent, and this rate should be applied to the allowable direct costs and not the final approved indirect rates for fiscal years 1995 and 1996.

e. OIG Response:

We disagree with TASC's assertion. This contract is a cost-type contract and as such TASC is to receive payment for allocable indirect costs that are incurred. In order to determine the allocable incurred indirect costs for this contract, we applied TASC's final approved indirect cost rates of 15.3 percent and 15.9 percent for FYs ended June 30, 1995, and 1996 to our recommended direct costs. Tables 4 through 7 above details our recommended indirect costs.

SSA COMMENTS

**STATE OF ILLINOIS AND
SUBCONTRACTOR COMMENTS**

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For additional copies of this report, please contact the Office of the Inspector General's Public Affairs Specialist at (410) 966-9135. Refer to Common Identification Number A-13-97-51024.

SSA ORGANIZATIONAL CHART
