

**Financial Audit of  
Dallas Inter-Tribal Center  
Title IV-A Indian and Native American Program  
Grant No. B-5303-5-00-81-55  
Audit Period: July 1, 1997, to June 30, 2000**



**U.S. Department of Labor  
Office of Inspector General  
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ABBREVIATIONS

CFO	Chief Financial Officer
DAIC	Dallas American Indian Council
DINAP	Division of Indian and Native American Programs
DOL	U.S. Department of Labor
ETA	Employment and Training Administration
JTPA	Job Training Partnership Act
OCD	Office of Cost Determination
PY	Program Year
UICT	Urban Inter-Tribal Center of Texas
WIA	Workforce Investment Act

EXECUTIVE SUMMARY

We conducted a financial audit of the Dallas Inter-Tribal Center's (the Center) Job Training Partnership Act (JTPA), Title IV-A Indian and Native American Program grant No. B-5303-5-00-81-55 for the period July 1, 1997, through June 30, 2000. This grant was awarded to the Center by the U. S. Department of Labor (DOL), Employment and Training Administration (ETA). The Center's reported expenditures were \$964,626 for the 3-year audit period.

The audit objective was to determine if the Center's accounting system properly classified, allocated, and reported allowable costs to the Center's JTPA program.

The Center charged \$13,064 of indirect costs to its JTPA grant without an approved indirect cost rate and allocated costs among programs and between JTPA's cost categories in an arbitrary and inconsistent manner. The Center's cost allocation methodologies resulted in \$123,596 of indirect administrative costs being directly allocated to the JTPA program and some administration costs being reported as program costs.

In addition to inadequate allocation methodologies, the Center's accounting system did not:

- ! Control costs by budget line item.
- ! Post transactions to the general ledger in a timely manner.
- ! Charge costs to the proper period.
- ! Have a review process to catch and prevent posting errors.

Finally, the Center charged unsubstantiated rental costs of \$2,994 to the JTPA program for space in a donated building the Center owns.

### **Recommendations**

We recommend the Assistant Secretary for Employment and Training:

- ! Require the Center to establish an adequate joint cost allocation system and charge indirect costs based on an approved indirect cost plan. The joint cost allocation plan should accurately measure the benefits provided to each program and Workforce Investment Act<sup>1</sup> cost categories and be supported by current data.

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<sup>1</sup>Current Center programs are now funded by the Workforce Investment Act which replaced JTPA.

- ! Disallow the \$13,064 of indirect costs charged to the JTPA grant without an approved indirect cost rate and which were not documented.
- ! Determine the allowability of the \$123,596 of indirect administrative costs which were directly allocated to the JTPA program on a basis not related to the costs being charged.
- ! Require the Center to establish an adequate accounting system in accordance with 29 CFR 95.21 to record, control, and report costs.
- ! Disallow \$2,994 of unallowable rent charges. No further rent charges for the Jefferson Boulevard building should be allowed.

**Auditee's Response to Draft Report and Auditor's Conclusion**

The Center did not respond to the draft audit report. Therefore, this report is issued in final without a response.

BACKGROUND

The Dallas Inter-Tribal Center (Center) was incorporated in 1971 as a nonprofit Native American corporation to provide healthcare and social services such as education and resource development to Indian families residing in the Dallas/Fort Worth, Texas, area.

The Center's board members incorporated the Dallas American Indian Council (DAIC) in November 1992, as a Texas nonprofit corporation organized for the sole purpose of holding title to property, collecting income, and turning over all net income to the Center. DAIC's sole asset is the donated land and building on Jefferson Boulevard in Dallas where the Center operates.

In 1998, the Center changed its name and started doing business as the Urban Inter-Tribal Center of Texas (UICT). The Center currently operates two satellite offices in Fort Worth, Texas.

During our audit period, the DOL funded the Center's employment and training programs through Job Training Partnership Act (JTPA) grants under which the Center provided the following services:

- ! Classroom, on-the-job, and general equivalent diploma (GED) training for qualified Native Americans.
- ! Career counseling and guidance.
- ! Job placement assistance.

The Center also administered other programs such as Community/Health Services programs funded by the Indian Health Service and the Women, Infants, and Children Program funded by the U.S. Department of Agriculture.

OBJECTIVES, SCOPE AND METHODOLOGY

Objective

The audit objective was to determine if the Center's accounting system properly classified, allocated, and reported allowable costs to the Center's JTPA program.

Scope

Our review of internal controls was limited to the Center's internal controls related to the financial reporting requirements, cost allocation methodology, and the cost classification system for the period July 1, 1997, through June 30, 2000. We did not perform this audit to express an opinion on the Center's financial reports taken as a whole and no such opinion is given.

Methodology

We performed the following audit procedures to accomplish our objectives:

- ! Reviewed payroll records including the time and attendance system.
- ! Reviewed a random sample of travel vouchers directly charged to the JTPA grant.
- ! Reviewed the allocation of the Center's joint costs that benefited more than one program to determine the appropriateness of JTPA's share of the costs.
- ! Reviewed the allocation of JTPA's costs between the program and administration costs categories.

We performed the audit in accordance with generally accepted auditing standards and government auditing standards promulgated by the Comptroller General.

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

FINDINGS AND RECOMMENDATIONS

The Center did not respond to the draft report issued to them on October 25, 2001. Therefore, this report is issued in final without auditee comments.

The Center's Cost Allocation System was Inadequate to Properly Account for and Report Program Costs.

The Center charged \$13,064 of indirect costs to its JTPA grant without an approved indirect cost rate and allocated costs among its programs and between JTPA's program and administration cost categories in an arbitrary and inconsistent manner. The

Center's cost allocation methodologies resulted in \$123,596 of indirect administration costs being directly allocated to the JTPA program and JTPA administration costs being reported as program costs to avoid exceeding JTPA's 20 percent administration cost limit.

In PY 1997, the Center charged the JTPA program \$13,064 for indirect costs without documenting the costs and without an approved indirect cost rate. Consequently, we were unable to determine if the indirect costs were allowable or if the cost allocation method used was proper.

During PY 1997, the Department of Labor's Office of Cost Determinations informed the Center that it would no longer be allowed to charge indirect costs. The letter stated:

*It is necessary at this time to notify all awarding agencies of the Department of Labor and other Federal Departments that future awards are to be made without provisions for indirect costs, and that all indirect costs claimed against awards already made are subject to disallowance and recovery by the awarding agency.*

Consequently, the Center stopped charging indirect costs and began allocating all costs directly to the JTPA and other programs. However, the Center did not establish a methodology for allocating the costs in a consistent, fair, and reasonable manner among programs or between JTPA program and administration cost categories.

Office of Management and Budget (OMB) Circular No. A-122, Cost Principles for Nonprofit Organizations, Attachment A, paragraph C, provides:

*1. Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. . . .*



2. . . . *typical examples of indirect cost for many non-profit organizations may include . . . general administration and general expenses, such as the **salaries and expenses of executive officers, personnel administration, and accounting.*** [Emphasis added.]

OMB A-122 Attachment A, paragraph D2a, provides:

*Where an organization's major functions benefit from its **indirect costs** to approximately the same degree, the allocation of indirect costs may be accomplished by (i) separating the organization's total costs for the base period as either direct or indirect, and (ii) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate which is used to distribute indirect costs to individual awards. The rate should be expressed as the percentage which the total amount of allowable indirect costs bears to the base selected.* [Emphasis added.]

OMB Circular No. A-122, Attachment A, paragraph D.4 “Direct Allocation Method,” provides:

*a. . . . **Joint costs**, such as depreciation, rental costs, operation and maintenance of facilities, telephone expenses, and the like are prorated individually as direct costs to each category and to each award or other activity **using a base most appropriate to the particular cost being prorated.***

*b. This method is acceptable, provided each joint cost is prorated using a **base which accurately measures the benefits provided to each award** or other activity. The bases must be established in accordance with **reasonable criteria, and be supported by current data.** . . .*

*c. Under this method, **indirect costs** consist exclusively of **general administration and general expenses.*** [Emphasis added.]

The Center’s basis for allocating costs among programs and between JTPA program and administration cost categories varied depending on the type of costs. Some allocation methodologies appeared reasonable; yet, other methodologies used were inappropriate for the type of costs being allocated.

For example, general administrative costs that would normally be charged through an approved indirect cost rate -- Center director’s and general support staff’s salaries, fringe benefits, and other related administrative costs (space, utilities, etc.) -- were allocated to JTPA based on predetermined rates for which the Center provided no documentation to support the allocations.

The Center directly allocated the following **indirect costs** of \$123,596 to the JTPA program for PYs 1997, 1998, and 1999. (See Schedule 2 for PY details.)

Indirect Costs That Were Allocated to JTPA as Direct Costs		
Position Title	Percent	Amount Charged
Executive Director	25.0%	\$45,900
Administrative Assistant	25.0%	25,472
Chief Financial Officer	20.0%	30,412
Accounting Clerk	20.0%	9,405
Secretary	25.0%	12,407
<b>Total</b>		<b>\$123,596</b>

While we do not contest that some costs for these individuals are allowable JTPA costs, the allowable amount is unknown because the allocation plans are unsubstantiated. These costs are indirect costs and should have been allocated based on an approved indirect cost rate.

In addition to indirect costs being improperly allocated to JTPA, once joint costs were allocated to the JTPA program, we could not determine how the Center allocated costs between the administration and program cost categories for financial reporting purposes. For each payment posted to the general ledger, JTPA’s direct costs and allocated share of joint costs were allocated on the general ledger between the program and administration cost categories. For the most part, those cost allocations appeared reasonable. Therefore, for reporting JTPA costs, the Center should have totaled the program/administration cost category allocations from the general ledger, but did not. The Center reclassified the total posted costs between the administration and program cost categories to significantly reduce the amount of administration costs reported.

The following are examples of the Center’s inconsistent, unacceptable, and undocumented cost allocation methodologies:

- ! Retirement costs of \$3,828 were classified and reported in the program (training assistance) cost category; yet, the account included retirement benefits for both administrative and program employees.

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- ! Payroll services costs were allocated among programs (JTPA, Indian Health Service, etc.) based on the actual number of payroll checks processed each pay period. However, since the number of checks processed was not updated regularly, the wrong percentages were used at various times. Nevertheless, payroll services costs are administration costs; yet, the Center allocated the majority of JTPA's share of these costs to the program cost category.
- ! Office supplies' costs were allocated based on the programs' funding levels. Allocation based on budget is not an acceptable basis for allocating costs.
- ! The JTPA program director allocates 50 percent of his salary and fringe benefits costs to the program cost category. He allocates the other 50 percent to the administration cost category. We are unaware of any program related functions he performs, especially at the 50 percent level.

In our opinion, the examples discussed above and the Center's reclassifying JTPA costs between the program and administration cost categories from the general ledger to the reports was to avoid reporting administration costs in excess of the JTPA Title IV-A, 20 percent administration cost limit. Our opinion is based on the fact that even after manipulating administration costs down by the inadequate accounting methods, the Center's reported JTPA administration costs averaged 21.7 percent for our 3-year audit period. Had costs been properly reported, administration costs would have been significantly over the 20 percent limit.

OMB Circular A-122 is clear regarding the requirements for indirect costs and cost allocation plans. Costs are to be allocated to benefited activities on a reasonable and consistent basis. The lack of an approved indirect cost plan and inconsistent, inappropriate direct allocation methods bring into question the accuracy of costs charged to the Center's programs.

**Recommendations**

We recommend the Assistant Secretary for Employment and Training:

- ! Require the Center to establish an adequate joint cost allocation system and charge indirect costs based on an approved indirect cost plan. The joint cost allocation plan should accurately measure the benefits provided to each program and Workforce Investment Act cost categories and be supported by current data.
- ! Disallow the \$13,064 of indirect costs which were charged to the JTPA grant without an approved indirect cost rate and which were not documented.

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- ! Determine the allowability of the \$123,596 of indirect administrative salary costs which were directly allocated to the JTPA program without justification.

The Center's Accounting Procedures, Internal Controls, and System in Effect During the Audit Period Were Inadequate to Control Federal Funds.

The Center did not:

- ! Have an adequate cost allocation system to allocate some costs among programs and allocate JTPA costs between cost categories. (See prior finding.)
- ! Use a budgetary accounting system to control costs, including administrative cost limitations.
- ! Post transactions to the general ledger in a timely manner.
- ! Use a cut-off date for end-of-period posting.
- ! Have a review process to catch and prevent posting errors.

Furthermore, the Center simultaneously maintained two general ledgers in PY 1999. One general ledger was for the Dallas Inter-Tribal Center and the other general ledger was for the Urban Inter-Tribal Center of Texas. Costs charged to JTPA were split between the two general ledgers simply because of a name change of the organization.

All of these factors contributed to the Center's underreporting PY 1997 program costs by \$54,219 and PY1998 costs by \$41,847. Because underreported costs for each year were recovered in the subsequent program years, the Center was reimbursed for all costs.

The Center's employment and training department prepared the annual financial reports from its records instead of the official accounting department's records. In addition to maintaining two accounting systems, the two systems were not reconciled to ensure the accuracy of the reported numbers. Neither the accounting department nor the chief financial officer received copies of the annual financial reports. Consequently, various year-end accruals and adjustments made to the accounting records were not taken into account when preparing the financial reports resulting in the underreporting of expenditures. The annual financial reports should be based on official

accounting records maintained by the Center. It should not be necessary for the program office to track costs in a separate system.

OMB Circular A-110 establishes uniform administrative requirements for Federal grants to nonprofit organizations. These requirements are codified at Title 29, Code of Federal Regulations (CFR). 29 CFR Section 95.21, "Standards for financial management systems," provides:

*(b) Recipients' financial management systems shall provide for the following:*

- (1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements. . . .*
- (2) Records that identify adequately the source and application of funds for federally-sponsored activities. . .*
- (3) Effective control over and accountability for all funds, property and other assets. . .*
- (4) Comparison of outlays with budget amounts for each award. . .*
- (6) Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.*
- (7) Accounting records including cost accounting records that are supported by source documentation.*

## **Recommendation**

We recommend the Assistant Secretary for Employment and Training require the Center to establish an adequate accounting system in accordance with 29 CFR 95.21 to record, control, and report costs.

The JTPA Program was Charged Rent for a Building the Center Owns.

The Center sporadically charged the JTPA Program unsubstantiated rental costs of \$2,994 for space in a donated building the Center owns and in which the Center has no cost basis.

The landlord/owner donated the property (land and building) at 209 East Jefferson, Dallas, Texas, to the Center on October 6, 1992, for a nominal \$10 payment. The Center conveyed title to the property to its affiliate, the Dallas American Indian Council (DAIC) on December 8, 1992. DAIC is composed of the same board members as the Center.

According to Center personnel, for 3 years after the property was donated, 1993 through 1996, the Center charged its programs rent based on the rental rate the Center had paid when the building was being rented from the previous owner. Yet, the Center had no rent costs during this period. We have not questioned these 3 years of unallowable rent costs because they were outside our audit period and we did not determine how much unallowable JTPA rent costs were charged.

In PYs 1997 and 1998 (though November), the Center sporadically charged rent to the JTPA program although the Center did not pay rent. JTPA's share of these unallowable rent charges was \$2,994 as follows:

<u>Month</u>	<u>JTPA Share</u>	<u>Total Monthly Rent</u>
July 1997	\$271	\$3,318 <sup>2</sup>
August 1997	271	\$3,318
September 1997	334	\$3,318
May 1998	1,059	\$6,250 <sup>3</sup>
November 1998	<u>1,059</u>	\$6,250
	<u>\$2,994</u>	Questioned Rent Charges

We are uncertain as to why the total monthly rent increased from \$3,318 to \$6,250 or was so sporadically charged to the JTPA program. Nevertheless, while any rent charges are unallowable, this sporadic process of charging unsubstantiated rent reflects on the inadequacy of the Center's accounting system and processes.

<sup>2</sup>At this rental rate, the Center would recover the fair market value of the building in 5.65 years.

<sup>3</sup>At this rental rate, the Center would recover the fair market value of the building in 3 years .

According to Center personnel, the building's fair market value at time the landlord donated the property was \$225,060. The Center did not provide any documentation to substantiate this valuation.

OMB Circular No. A-122, Attachment B, provides:

*11. Depreciation and Use Allowances.*

*a. Compensation for the use of buildings, other capital improvements . . . may be made through use allowances or depreciation. However, except as provided in subparagraph f, a combination of the two methods may not be used in connection with a single class of fixed assets. . . .*

*b. The computation of use allowances or depreciation shall be based on the acquisition cost of the assets involved. **The acquisition cost of an asset donated to the organization by a third party shall be its fair market value at the time of the donation.***

*c. The computation of use allowances or depreciation will exclude . . . the cost of land;*

*d. . . the use allowance for buildings . . . will be computed at an annual rate not exceeding two percent of acquisition cost. . . [Emphasis added.]*

The Center's charging of rent to the JTPA program was not based on either a depreciation or use allowance basis. Therefore, the \$2,994 in rent charges are unallowable.

The Center's chief financial officer stated that rent for the Jefferson Boulevard building is not being charged to the current WIA program.

**Recommendation**

We recommend the Assistant Secretary for Employment and Training disallow the \$2,994 of unsupported rent charges. No further rent charges for the Jefferson Boulevard building should be allowed.

Expenditures Reported in the Annual Status Reports  
July 1, 1997, through June 30, 2000

<u>Category</u>	<u>PY 1997</u>	<u>PY 1998</u>	<u>PY 1999</u>	<u>Totals</u>
Classroom Training	\$64,607	\$52,645	\$54,232	\$171,484
Training Assistance	147,763	184,864	166,861	499,488
Work Experience	38,530	9,055	16,494	64,079
Community Service Employ.	4,949	0	0	4,949
All Supportive Service	6,712	3,607	4,564	14,883
Administration	74,428	65,712	69,603	209,743
Reported Expenditures	<u>\$336,989</u>	<u>\$315,883</u>	<u>\$311,754</u>	<u>\$964,626</u>
Expenditures in Gen. Ledger	<u>391,208</u>	<u>357,730</u>	<u>312,615</u>	
Underreported Expenditures	<u>\$54,219</u>	<u>\$41,847</u>	<u>\$861</u>	



INDIRECT ADMINISTRATIVE SALARIES  
CHARGED TO JTPA WITHOUT JUSTIFICATION

<u>Administrative Title</u>	<u>Percentage</u>	<u>PY 1997</u>	<u>PY 1998</u>	<u>PY 1999</u>	<u>TOTAL</u>
Executive Director	25%	\$15,000	\$15,450	\$15,450	45,900
Administrative Assistant	25%	8,159	8,400	8,913	25,472
Chief Financial Officer	20%	9,306	9,306	11,800	30,412
Accounting Clerk	20%	2,687	2,937	3,781	9,405
Secretary	25%	<u>3,359</u>	<u>4,259</u>	<u>4,789</u>	<u>12,407</u>
Totals		\$38,511	\$40,352	\$44,733	\$123,596

Salary figures are based on projected annualized hourly and biweekly rates charged to JTPA. Fringe benefits are excluded.

The same salary percentages for each administrative title were charged to JTPA for the 3 program years audited.