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 600-95-22673

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) 600-95-22673 (A-13-98-81032). The objective of our audit was to determine if costs claimed by the State of Illinois for CN 600-95-22673 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) 600-95-22673 (A-13-98-81032). The objective of our audit was to determine if costs claimed by the State of Illinois for CN 600-95-22673 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 600-95-22673

September 1998 A-13-98-81032

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) 600-95-22673 were allowable, allocable, and reasonable in accordance with applicable 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 600-95-22673) 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 September 29, 1995, through February 14, 1997. The costs claimed under CN 600-95-22673 are defined in terms of the contract and *the Office of Management and Budget (OMB) Circular A-87* and *A-122.* These 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 600-95-22673. 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.

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[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 $6,011,588 for CN 600-95-22673. Except for $267,483 in questioned costs, we determined the claimed costs were allowable, allocable, and reasonable in accordance with applicable Federal regulations and the terms of the contract.

- INAPPROPRIATELY CLAIMED STATE OF ILLINOIS COSTS ARE QUESTIONED

Labor and Related Fringe Benefits Costs

Equipment and Related Other Costs

- INAPPROPRIATELY CLAIMED SUBCONTRACTOR COSTS ARE ALSO QUESTIONED

Office Space Costs

Travel Costs

Office Supply Costs

Other Costs

Indirect Rates In Excess of Contract Specified Ceiling Rate

RECOMMENDATION

We recommend that SSA recover the questioned costs of $267,483 from the State of Illinois on CN 600-95-22673.

SSA COMMENTS

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

STATE OF ILLINOIS AND SUBCONTRACTOR COMMENTS

The State of Illinois and subcontractor did not concur with our questioning of 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 and project manager labor categories. While not commenting on the questioned subcontractor indirect, travel and office supply costs, the State of Illinois did not concur with our questioning of TASC's claimed office space interest costs and did not fully concur with

our questioning of TASC's claimed other costs. In addition, TASC did not concur with our questioning of office space, travel, office supply, and indirect costs. The subcontractor acknowledged that a portion of the "other costs" may be questioned, but did not concur with the total amount of other costs questioned. (See Appendix D for the full text of the State of Illinois and subcontractor 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 and subcontractor, we accept the direct labor and related fringe benefits costs for the project coordinator labor category and the costs related to the removal of a telephone system respectively. These 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 the terms of the contract; or in excess of an agreed upon ceiling rate. (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 600-95-22673 were allowable, allocable, and reasonable in accordance with applicable 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' CN 600-95-22673 for RMA services to refer, assess, and monitor DA&As receiving SSI benefits. The contracted service period was from September 29, 1995, through February 14, 1997.

The costs claimed under CN 600-95-22673 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 600-95-22673. 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 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 600-95-22673 were allowable, allocable, and reasonable in accordance with applicable Federal regulations and the terms of the contract.

We questioned whether $267,483 of the costs were allowable, allocable, and reasonable (See Table 1 which summarizes the questioned costs items).

Table 1 - Schedule of Questioned Costs

Questioned Cost Item	Questioned Costs
State of Illinois Costs:	
Labor Costs	$ 14,900
Fringe Benefits	4,068
Equipment & Related Other Costs	5,390
Total State of Illinois Costs	**$ 24,358**
Subcontractor Costs:	
Office Space	$ 110,447
Travel	2,203
Office Supplies	11,773
Other Costs	1,100
Indirect Costs	117,602
Total Subcontractor Costs	**$ 243,125**
TOTAL QUESTIONED COSTS	**$267,483**

INAPPROPRIATELY CLAIMED STATE OF ILLINOIS COSTS ARE QUESTIONED

We question $24,358 of the State of Illinois claimed costs because the costs are not in accordance with the terms of the contract and/or applicable Federal regulations. Details of the questioned costs are discussed below.

Labor Costs and Related Fringe Benefit Costs

We questioned $14,900 of the labor costs claimed by the State of Illinois because there was 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 ($4,068) 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 actual employee time.[3] We analyzed time charges to determine a reasonable number of employee hours that were allocable to CN 600-95-22673. We then applied the actual labor rate to our recommended number of labor hours to determine the recommended labor costs. The difference between the claimed labor costs and the recommended labor costs is the amount we questioned. Likewise, we applied the State of Illinois' fringe benefit rate of 27.30 percent to determine the related recommended fringe benefit costs.

Equipment and Related Other Costs

The State of Illinois billed SSA $5,390 for computer equipment, software, and delivery charges that were not allocable to this contract. The State of Illinois identified this error but, as of January 15, 1998, had not reimbursed SSA for the erroneous billing. Therefore, we question these costs because the costs have not been reimbursed and do not meet the criteria of allocability as described under *OMB Circular A-87* section C-3.

INAPPROPRIATELY CLAIMED SUBCONTRACTOR COSTS ARE ALSO QUESTIONED

We question $243,125 of the subcontractor's claimed costs because the costs were not in accordance with the terms of the contract and/or applicable Federal regulations. Details of the questioned subcontractor costs are discussed below.

Office Space Costs

The subcontractor inappropriately charged SSA $110,447 in office space costs. TASC claimed $27,992 in unallowable interest which is specifically excluded as an allowable charge under Attachment B item 19 of *OMB Circular A-122.* TASC claimed $29,260 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.

[3] The State of Illinois partially documented SSA-related time charges for RMA services provided in CN 600-95-22673.

We question whether these costs are allowable because they 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* section Attachment B item 50.

In addition, we questioned $53,195 in build-out/alteration costs claimed for alterations to the leased space because they are unallowable as direct costs as described in section B-5(b) of the contract.

Travel Costs

TASC claimed $2,203 of parking costs which were either not directly associated with CN 600-95-22673 or considered personal expenses (incurred as part of the employees' daily commuting costs to their home-office). Travel expenses not associated with SSA-related activities are unallowable per section A-2 and A-4 of *OMB Circular A-122*. As discussed earlier, home-office parking expenses were not considered employee compensation and were not incurred as a part of business related travel. Similarly, we question whether these costs are allowable because the costs do not meet OMB's criteria for compensation or travel.

Office Supply Costs

The subcontractor inappropriately claimed $11,773 in office supply costs. TASC claimed $11,773 for a telephone system that was not allocable to CN 600-95-22673. TASC paid the remaining 48 months of a 60-month lease for a telephone system on December 31, 1996, less than 2 months before the expiration of the RMA contract on February 14, 1997. Furthermore, TASC removed the phone system on January 6, 1997. TASC should have allocated these costs to all projects that the phone system would benefit. Therefore, we question whether these costs are allowable because they do not meet the criteria of allocability as described under *OMB Circular A-122* section A-4.

Other Costs

We question $1,100 of other costs for the re-installation of the telephone system that was questioned above. Likewise, we question whether these costs are allowable because the costs do not meet the criteria of allocability as described under *OMB Circular A-122* section A-4.

Indirect Rates in Excess of Contract Specified Ceiling Rate

The subcontractor inappropriately claimed $117,602 of indirect costs. We question these costs because the subcontractor's claimed indirect rate of 28.40 percent of personnel costs is in excess of the agreed-to ceiling rate of 25 percent of claimed direct labor and fringe benefits costs. TASC agreed to this ceiling rate in the "Best and Final Offer" that was submitted by the State of Illinois and incorporated into the contract.

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

RECOMMENDATION

RECOMMENDATION

We recommend that SSA recover the questioned costs of $267,483 from the State of Illinois on CN 600-95-22673.

SSA COMMENTS

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

STATE OF ILLINOIS AND SUBCONTRACTOR COMMENTS

The State of Illinois and subcontractor did not concur with our questioning of 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 and project manager labor categories. While not commenting on the questioned subcontractor indirect, travel and office supply costs, the State of Illinois did not concur with our questioning of TASC's claimed office space interest costs and did not fully concur with our questioning of TASC's claimed other costs. In addition, TASC did not concur with our questioning of office space, travel, office supply and indirect costs. The subcontractor acknowledged that a portion of the "other costs" may be questioned, but did not concur with the total amount of other costs questioned. (See Appendix D for the full text of the State of Illinois and subcontractor 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 and subcontractor, we accept the direct labor and related fringe benefits costs for the project coordinator labor category and the costs related to the removal of a telephone system respectively. These 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 an agreed upon ceiling rate. (See the explanatory notes in Appendix B for detailed 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 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.

- **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.

Contract Number 600-95-22673:

- **Section B-5(b) items unallowable unless otherwise approved**
  Special rearrangement or alteration of facilities is unallowable as direct costs.

Schedules and Explanatory Notes for Claimed and Recommended Costs on Contract Number 600-95-22673

We question $267,483 of the costs claimed by the State of Illinois and its subcontractor Treatment Alternatives for Special Clients (TASC) on Contract Number (CN) 600-95-22673. This appendix provides the following details:

- Tables 1 through 4[1] 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 of claimed costs; auditor's evaluation methodology used to determine the questioned and/or recommended costs; State of Illinois, subcontractor, and OIG comments and responses.

Table 1 - Costs Claimed by the State of Illinois on CN 600-95-22673

Cost Element	Claimed	Recommended	Questioned	Reference or Note
Direct Labor	$ 48,336	$ 33,436	$ 14,900	**Note 1**
Fringe Benefits	13,197	9,129	4,068	**Note 2**
Travel	2,092	2,092	0	
Subcontractor TASC	5,914,958	5,671,833	243,125	**Table 2**
Consultant (Iota Inc.)	21,093	21,093	0	
Equipment	8,087	4,550	3,537	**Note 3**
Other Costs	3,825	1,972	1,853	**Note 4**
Total Costs	**$6,011,588**	**$5,744,105**	**$ 267,483**	

[1] The amounts in Tables 1 through 4 are rounded to the dollar. Percentages are rounded to the second decimal place. Any differences are due to rounding.

Table 2- Costs Claimed by Subcontractor (TASC) on CN 600-95-22673

Cost Element	Claimed	Recommended	Questioned	Note
Direct Labor	$ 2,311,392	$ 2,311,392	$ 0	
Fringe Benefits	556,910	556,910	0	
Temp Services	70,686	70,686	0	
Travel	86,691	84,488	2,203	**Note 5**
Telephone	123,308	123,308	0	
Postage	59,042	59,042	0	
Office Supplies	178,546	166,773	11,773	**Note 6**
Office Space	569,019	458,572	110,447	**Note 7**
Equip. Maint.	42,347	42,347	0	
Equipment	472,573	472,573	0	
Consultants	434,117	434,117	0	
Conference	64,640	64,640	0	
Other Costs	111,010	109,910	1,100	**Note 8**
Subtotal:				
Direct Costs	$ 5,080,281	$ 4,954,758	$ 125,523	
Indirect Costs	834,677	717,075	117,602	**Note 9**
Total Costs	**$ 5,914,958**	**$ 5,671,833**	**$ 243,125**	

Explanatory Notes:

1. State of Illinois - Direct Labor

a. Summary of Conclusions:

We question $14,900 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) 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 it to document time charges. As such, it determined direct labor costs on CN 600-95-22673 by applying estimated direct labor time percentages to the actual labor rates for the employees assigned to the contract.

c. Audit Evaluation:

We used the limited actual documented time charges and developed 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* did not require it to keep documentation to support actual time spent by the individuals assigned to the Social Security Administration's (SSA) contract. 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 contract. Attachment B, item 11(h) of *OMB Circular A-87* indicates:

> "Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent document which meets the standards in subsection (5)." Subsection (5) 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 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 associated with the project coordinator and the project manager labor categories. The State of Illinois provided signed certifications indicating the period of time the project coordinator worked full time on our contract as required by the *OMB Circular A-87*. The State of Illinois also provided signed timesheets indicating the level of effort spent on our contract by the project manager.

e. OIG Response:

Based on our review of the additional information provided by the State of Illinois in supporting the claimed project coordinator direct labor costs, we have adjusted the direct labor costs of $36,862 contained in our draft report dated May 12, 1998, by $21,962. The remaining costs of $14,900 are questioned 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 $4,068 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 27.30 percent of direct labor costs.

c. Audit Evaluation:

Direct labor is the allocation base for which fringe benefit rates are applied. To derive questioned fringe benefit costs, we applied the claimed fringe benefit rates of 27.30 percent to our questioned direct labor costs.

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 and project manager labor categories. Similarly, the State of Illinois disagreed with our questioning of the related fringe benefits.

e. OIG Response:

Based on our review of the additional information provided by the State of Illinois, we have adjusted the questioned direct labor costs by $21,962. Similarly, we have adjusted the questioned fringe benefits costs by $5,996 by applying the claimed fringe benefit rate of 27.30 percent to the unquestioned direct labor costs of $21,962. The remaining fringe benefits costs of $4,068 are questioned because of insufficient documentation of employee time per section B-10(b) of *OMB Circular A-87*.

3. State of Illinois - Equipment Costs

a. Summary of Conclusions:

We question equipment costs of $3,537 that were not allocable to this contract. The State of Illinois identified this error but had not reimbursed SSA for the erroneous billing as of January 15, 1998.

b. Basis of Claimed Costs:

The claimed equipment costs were for actual expenditures for the purchase of two computers, one workstation, and two printers. However, the State of Illinois indicated that these costs were not allocable to this contract.

c. Audit Evaluation:

Because the State of Illinois acknowledged the erroneous billing and has not reimbursed SSA, we have questioned the $3,537 in equipment charges under *OMB Circular A-87* section C-3 regarding allocability.

d. State of Illinois Comments:

The State of Illinois concurred with our recommendation.

4. <u>State of Illinois - Other Costs</u>

a. Summary of Conclusions:

We question other costs of $1,853 that are not allocable to this contract. The State of Illinois' acknowledgment that it incorrectly billed these costs but has not reimbursed SSA for the erroneous billing.

b. Basis of Claimed Costs:

The other direct costs were for actual expenditures for shipping charges and the purchase of computer software. However, the State of Illinois indicated that these costs were not allocable to this contract.

c. Audit Evaluation:

Because the State of Illinois acknowledged the erroneous billing and has not reimbursed SSA, we question the $1,853 in shipping and software charges under *OMB Circular A-87* section C-3 regarding allocability.

d. State of Illinois Comments:

The State of Illinois concurred with our recommendation.

5. Subcontractor TASC - Travel

a. Summary of Conclusions:

The questioned travel costs of $2,203 represent parking and personal travel costs which were either not associated with this contract and therefore are unallowable per section A-4 of *OMB Circular A-122* regarding allocable costs, or considered personal travel expenses, and are questioned because the costs do not meet the criteria of employee compensation as described in Attachment B item 6 of *OMB Circular A-122*.

b. Basis of Claimed Costs:

Claimed travel costs represent actual expenditures for local travel and parking.

c. Audit Evaluation:

As stated above in "Summary of Conclusions," our questioned travel costs of $2,203 are based on the subcontractor's claiming costs that were not in accordance with *OMB Circular A-122* regarding either allocability or compensation.

d. State of Illinois and TASC Comments:

The State of Illinois did not respond to this recommendation. TASC however, disagreed with our recommendation and contends that these costs were reasonable, ordinary, necessary, allocable and allowable under *OMB Circular A-122* sections A-3, A-4, and A-51 respectively.

e. OIG Response:

We disagree with TASC's assertions. Based on our review, the travel costs were either not directly related to the contract or were personnel expenses which violated Section A-2 and A-4 of *OMB Circular A-122* for non-related activities and Section B item 6 of *OMB Circular A-122* for compensation.

6. Subcontractor TASC – Office Supplies

a. Summary of Conclusions:

The questioned office supply costs of $11,773 represented TASC's purchase of a telephone system that we have determined is not allocable to SSA's contract. We, therefore question these costs in accordance with section A-4 of *OMB Circular A-122* regarding allocable costs.

b. Basis of Claimed Costs:

Claimed costs of $11,773 represent the actual expenditure to purchase the remaining lease costs plus a $1 purchase option for a Rolm 9200 telephone from Siemens Credit Corporation. The lease agreement was signed on January 31, 1996.

c. Audit Evaluation:

Based on our review, the telephone lease was a 60-month lease of which approximately 48 months remained. TASC purchased the telephone system on December 31, 1996, less than 2 months before the contract's expiration date of February 14, 1997. TASC on January 6, 1997, transferred the phone system from an office that benefited SSA's contract to an office that did not. Therefore, we question these costs in accordance with the section A-4 of *OMB CircularA-122* regarding allocable costs. It is our opinion that TASC should have charged these costs to projects that the phone system would benefit in the future.

d. State of Illinois and Subcontractor Comments:

The State of Illinois did not comment on this recommendation. TASC however, disagreed with our recommendation and contends the: 1) equipment is reasonable and necessary for the operation of the program and would seem to meet the requirements of *OMB Circular A-122* sections A-2 and A-3; 2) these costs were disclosed in the phase-down plan which TASC contends constitutes "an advance understanding;" and 3) *OMB Circular A-122* section C-48 indicates that rental costs on unexpired leases are generally allowable when an award is terminated.

e. OIG Response:

We disagree with TASC's assertions. We question these costs because the costs do not meet the criteria for allowability as described under *OMB Circular A-122* section A-4. Furthermore, we believe these costs meet the criteria under *OMB Circular A-122* section C-47(a) which indicates that cost of items reasonably useable on the organization's other work shall not be allowable unless the organization submits evidence that it would not retain such items at cost without sustaining a loss.

7. Subcontractor TASC - Office Space Costs

a. Summary of Conclusions:

We question a total of $110,447 of claimed office space costs. Our review of office space costs disclosed: 1) unallowable interest costs in the amount of $27,992, which have been questioned under *OMB Circular A-122*, Attachment B-19, Interest, which states ". . . costs incurred for interest on borrowed capital or temporary use of endowment funds, however represented, are unallowable;" 2) unallowable parking costs of $29,260 which are considered personal travel expenses because the expenses did not meet OMB's criteria for employee compensation or business related travel; and 3) build-out costs of $53,195 on the leased space at the Jackson Boulevard Office, which we have determined to be unallowable per section B.5(b) of the contract. Also, the Contracting Officer (CO) indicated that he did not approve these costs.

b. Basis of Claimed Costs:

Office space costs are comprised of such accounts 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 corporate office 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 costs of $110,447 is detailed below:

Office Space:	**Questioned Amount**
Occupancy Pool	$ 27,992
Parking	29,260
Build-out (Alterations)	53,195
Total	**$110,447**

We question the interest costs of $27,992 included in the subcontractor's occupancy pool that was allocated to SSA's contract. Interest costs are specifically excluded as an allowable charge under *OMB Circular A-122* Attachment B item 19.

TASC claimed $29,260 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 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, parking costs were not incurred as part of business-related travel while the employee was in travel status.

Questioned costs of $53,195 represent build-out/alteration charges at the leased space at 547 West Jackson Boulevard, Chicago, Illinois. We have questioned these costs as unallowable per section B.5(b) of the contract, which states that special rearrangement or alteration of facilities are unallowable as direct costs. Additionally, we have questioned these costs as unallowable based on our discussions with the CO on November 25, 1997, in which he indicated that he did not approve these build-out/alteration charges.

d. State of Illinois and Subcontractor Comments:

Office Space – Interest Costs

The State of Illinois and TASC did not concur with our questioning of office space interest costs. The State of Illinois and TASC contend that these costs were included as part of 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.

Office Space – Build-out/Alteration Costs

The State of Illinois did not comment on this recommendation. TASC however, disagreed with our questioning of the build-out/alteration costs. TASC contends that the renovation of the office space was anticipated and factored into the lease rate. TASC also contends that these costs were reasonable, ordinary, necessary, allocable, and allowable under *OMB Circular A-122* sections A-3, A-4, and A-39 respectively.

Office Space – Parking Costs

The State of Illinois did not comment on this recommendation. TASC however, disagreed with our questioning of office space parking costs. TASC's contends that these costs should be accepted 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. Furthermore, TASC contends that these costs were bona fide business expenses which were reasonable, ordinary, and necessary as therefore allowable under *OMB Circular A-122* section A-3.

e. OIG Response:

Office Space – Interest Costs

We disagree with the State of Illinois and TASC's assertion that inclusion of these costs in the original proposal and Best and Final Offer constitutes "an advance understanding" between SSA and the State of Illinois. It was correct of TASC to include the cost components of office space costs in its proposals. However, TASC should not have billed these costs to SSA since such costs are specifically excluded as an allowable charge under *OMB Circular A-122*, Attachment B item 19.

Office Space – Build-out/Alteration

We disagree with TASC's assertions. We question these costs because the costs are specially identified as unallowable per Section B.5(b) of the contract unless approved by the CO. As indicated above, the CO did not approve these costs. Furthermore, based on our review of the lease agreement, these costs were not included as part of the base lease agreement.

Office Space – Parking Costs

We disagree with TASC's assertions. Based on our review, the questioned parking costs were for daily commuting parking costs that TASC did not consider as compensation to 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.

8. <u>Subcontractor TASC - Other Costs</u>

a. Summary of Conclusions:

The questioned other costs of $1,100 represents TASC's reinstallation of a telephone system that we questioned in Note 6. We determined these associated costs are not allocable to this contract. We, therefore, question these costs in accordance with section A-4 of *OMB Circular A-122* regarding allocable costs.

b. Basis of Claimed Costs:

Claimed costs of $1,100 represent costs to reinstall a Rolm 9200 telephone system removed from TASC's 5 East Van Buren Office to the 16 West Van Buren location. The services were performed on January 6, 1997.

c. Audit Evaluation:

As stated in Note 6, we determined that the Rolm 9200 telephone system was not allocable to this contract. Therefore, we question the reinstallation charges associated with the phone system in accordance with section A-4 of *OMB Circular A-122* regarding allocable costs. It is our opinion that TASC should have charged these costs to projects that the phone system would benefit in the future.

d. State of Illinois and Subcontractor Comments:

The State of Illinois disagreed, in part, with our recommendation. The State of Illinois and TASC contends that at least one-half of the questioned costs should be accepted because the costs relate to the removal of the telephone system which occurred due to the termination of the contract.

e. OIG Response:

We agree with the State of Illinois and TASC's comments and have reduced our original questioned other costs of $2,200 by $1,100. The remaining questioned other costs are questioned in accordance with section A-4 of *OMB Circular A-122* regarding allocable costs.

9. <u>Subcontractor TASC - Indirect Costs</u>

a. Summary of Conclusions:

The questioned costs of $117,602 represent the difference between the subcontractor's claimed indirect costs of $834,677 and our recommended indirect costs of $717,075.

b. Basis of Claimed Costs:

The subcontractor's claimed indirect costs were derived by the application of an estimated indirect rate equivalent to 28.40 percent of direct labor, fringe benefits, and temporary services. TASC's claimed indirect costs are detailed below:

Table 3 - Indirect Costs Claimed by TASC

Cost Element	Claimed Costs
Direct Labor	$2,311,392
Fringe Benefits	556,910
Temp. Services	70,686
Subtotal (A)	$2,938,988
Indirect Rate (B)	28.40%
Indirect Costs (A) * (B)	$834,673
Rounding Difference	4
Indirect Costs Claimed	**$834,677**

c. Audit Evaluation:

Our recommended indirect costs were determined by applying the ceiling indirect rate of 25 percent to claimed personnel costs (direct labor+fringe benefits). Based on our review of the "Best and Final Offer" submitted by the State of Illinois on July 25, 1995, which was incorporated into the final contract, TASC's claimed indirect costs are "limited to 25 percent of personnel costs (salaries and fringe benefits)." Unlike TASC, we excluded Temporary Service costs of $70,686 from personnel costs because such personnel are not employees of TASC and do not receive fringe benefits. Our recommended indirect costs is detailed in the following chart:

Table 4 - Recommended Indirect Costs for TASC

Cost Element	Recommended Costs
Direct Labor	$2,311,392
Fringe Benefits	556,910
Subtotal (A)	$2,868,302
Ceiling Indirect Rate (B)	25%
Recommended Indirect Costs (A) * (B)	**$717,075**

d. State of Illinois and Subcontractor Comments:

The State of Illinois did not provide comments to this recommendation. TASC however, disagreed with our recommendation and contends that these costs should be allowable because it billed less than the budgeted indirect costs negotiated with the State of Illinois. Additionally, TASC contends that the claimed indirect costs do not exceed the final federally approved indirect rates for Fiscal Year 1995 and 1996.

e. OIG Response:

We disagree with TASC's assertions. These costs are questioned because TASC billed indirect costs in excess of the agreed ceiling rate of 25 percent of direct labor and fringe benefits costs. Table 4 above details our recommended indirect costs.

APPENDIX C

SSA COMMENTS

APPENDIX D

STATE OF ILLINOIS AND SUBCONTRACTOR COMMENTS

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APPENDIX F

SSA ORGANIZATIONAL CHART