September 24, 1999

Mr. Victor Capoccia
President
Center for Addictive Behaviors
Health and Recovery Services, Incorporated
111 Middleton Road
Danvers, Massachusetts 01923

Dear Mr. Capoccia:

Enclosed is a copy of our final report presenting the results of our audit of the costs claimed by the Center for Addictive Behaviors, Incorporated (CAB) on the Social Security Administration's Contract Number (CN) 600-95-22671 (A-13-98-51041). The objective of this audit was to determine if costs claimed by CAB for CN 600-95-22671 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 comment, please provide your comments within the next 60 days. If you wish to discuss the final report, please call me or have your staff contact Frederick C. Nordhoff, Director, Financial Management Audits and Performance Monitoring, at (410) 966-6676.

Sincerely,

Daniel R. Devlin
Acting Assistant Inspector General
for Audit

Enclosure

cc:
James M. Fornataro, Associate Commissioner for Acquisition and Grants

OFFICE OF
THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

COSTS CLAIMED BY THE CENTER FOR ADDICTIVE BEHAVIORS, INC. ON THE SOCIAL SECURITY ADMINISTRATION'S CONTRACT NUMBER 600-95-22671

September 1999 **A-13-98-51041**

AUDIT REPORT

EXECUTIVE SUMMARY

OBJECTIVE

The objective of this audit was to determine if costs claimed by the Center for Addictive Behaviors, Incorporated (CAB) for Contract Number (CN) 600-95-22671 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 the final value of the contract and to 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 CAB (CN 600-95-22671) 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 25, 1995, through February 14, 1997. The costs claimed under CN 600-95-22671 are defined in terms of the contract and the Office of Management and Budget (OMB) Circular A-122. The circular provides criteria to establish allowability, allocability, and reasonableness of costs claimed by nonprofit entities for Federal cost reimbursement contracts.[2]

We limited our audit to the review of costs incurred by CAB for CN 600-95-22671. We did not assess, and do not express an opinion of the overall acceptability of CAB's internal controls or accounting systems. We performed our field work at CAB located in Danvers, Massachusetts, and at OAG at SSA Headquarters in Baltimore, Maryland, from October 1998 through June 1999.

RESULTS OF REVIEW

The CAB claimed a total of $1,398,552 for CN 600-95-22671. Except for $63,865 in questioned costs and $14,300 in allowable costs not claimed, for a net questioned cost of $49,565, we determined the claimed costs were allowable, allocable, and reasonable in accordance with applicable Federal regulations and the terms of the contract.

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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 Public Law 104-121. However, prior to the elimination of the DA&A category, each State had a RMA contractor who referred, assessed, and monitored both title II and title XVI DA&A recipients.

[2] OMB Circular A-122, *Cost Principles for Nonprofit Organizations*.

- INAPPROPRIATELY CLAIMED CAB COSTS ARE QUESTIONED

  Close-out Costs

  Indirect Costs - due to audit adjustments

- ALLOWABLE CAB COSTS NOT CLAIMED

  Supply Costs (Maintenance and Repair)

  Office Space Costs

  Indirect Costs – due to classification and indirect rate errors

RECOMMENDATION

We recommend that SSA recover the net questioned costs of $49,565 from CAB on CN 600-95-22671.

CAB's COMMENTS

In its response, CAB concurs with our findings and recommendations, except for our questioning of the $11,833 of closeout lease costs. (See Appendix D for the full text of CAB's comments.)

OFFICE OF THE INSPECTOR GENERAL (OIG) RESPONSE

We considered the comments provided by CAB. However, we do not agree with and have not made adjustments for the closeout lease costs. (See the explanatory notes in Appendix B for detailed OIG responses to CAB's comments.)

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INTRODUCTION

OBJECTIVE

The objective of this audit was to determine if costs claimed by the Center for Addictive Behaviors, Incorporated (CAB) for Contract Number (CN) 600-95-22671 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 the final value of the contract and to 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 CAB under its contract (CN 600-95-22671) for Referral and Monitoring Agency (RMA) services to refer, assess, and monitor drug addicts and alcoholics receiving Supplemental Security Income benefits. The contracted service period was from September 25, 1995, through February 14, 1997.

The costs claimed under CN 600-95-22671 are defined in terms of the contract. Additionally, the Office of Management and Budget (OMB) Circular A-122 provides criteria that establish allowability, allocability, and reasonableness of costs claimed by nonprofit entities for Federal cost reimbursement contracts. (See Appendix A for a detailed explanation of the circular's criteria.)

SCOPE AND METHODOLOGY

We limited our audit to the review of costs incurred by CAB for CN 600-95-22671. We did not assess, and do not express an opinion of the overall acceptability of CAB's internal controls or accounting systems.

We reviewed, on a limited basis, the contractor's internal controls. In doing so, 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 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 referenced OMB Circular A-122 and the terms and conditions of the contract. Costs that did not meet the requirements of the circular and contract were questioned for SSA's use in determining the final value of the contract

and its close-out. Also, we recommend that SSA allow costs which meet the requirements of the circular and the contract but were not previously billed to SSA.

We performed our field work at CAB located in Danvers, Massachusetts, and at OAG at SSA Headquarters in Baltimore, Maryland, from October 1998 through June 1999. Our audit was conducted in accordance with generally accepted government auditing standards.

RESULTS OF REVIEW

Except for the questioned and unclaimed costs discussed below, we determined the costs claimed by CAB on CN 600-95-22671 were allowable, allocable, and reasonable in accordance with applicable Federal regulations and the terms of the contract.

We question whether $63,865 of the costs claimed by CAB are allowable, allocable, and reasonable. Also, we found that $14,300 in unclaimed costs are allowable. The net questioned costs totaled $49,565. (See Table 1.)[3]

Table 1 – Schedule of Questioned and Unclaimed Costs

Cost Item	Costs
Questioned Costs:	
Close-out Costs	$ 55,730
Indirect Costs	8,135
Total Questioned Costs	**$ 63,865**
Unclaimed Costs:	
Supplies	($1,668)
Office Space	(2,249)
Indirect Costs	(10,383)
Total Unclaimed Costs	**($14,300)**
Net Questioned Costs	**$49,565**

INAPPROPRIATELY CLAIMED CAB COSTS ARE QUESTIONED

We question $63,865 of the CAB 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 follow.

[3] The amounts in Table 1 and throughout this report are rounded to the dollar. Percentages are rounded to the second decimal place. Any differences are due to rounding.

Close-out Costs

We question $55,730 of the claimed close-out costs. These costs are questioned under section A-2 (g) of OMB Circular A-122 which states that costs be adequately documented, and section B-48 (d) which states that all reasonable efforts should be made to terminate, assign, settle, or otherwise reduce the cost of an unexpired lease. Also, *Modification Number 2* of the contract states that the period of performance is extended to February 14, 1997. We question the estimated lease close-out costs based on the fact that the contract ended February 1997 and the contractor billed SSA until June 1998. Also, CAB billed SSA in excess of the actual costs paid for close-out unemployment and vested benefit costs.

- We question $11,833 of the estimated lease close-out costs claimed by CAB for the office space from January 1997 to June 1998. This represents the difference of what was billed on the final voucher and what we determined as allowable. On September 25, 1996, OAG informed CAB that CN 600-95-22671 was being terminated. CAB should have given its landlord a 6-month written notice to vacate the unneeded RMA space as allowed by the lease. However, CAB waited until December 23, 1997 to notify the landlord. Therefore, only the costs of $5,880 for January to March 1997, 6 months after notification of contract termination, are allowable for the lease close-out period.

- We question $34,077 in "unemployment" costs per section A-2 (g) of OMB Circular A-122. This represents the difference of what was billed on the final voucher and what was actually incurred. CAB estimated and billed SSA $56,428 for unemployment costs. Actual costs incurred by CAB were $18,538 for Fiscal Year (FY) 1997 and $3,813 for FY 1998.

- We question $9,821 in vested benefit costs per section A-2 (g) of OMB Circular A-122. This represents the difference of what was billed on the final voucher and what was actually incurred by CAB. The costs of $12,220 billed by CAB were estimates. The actual costs incurred were $2,399.

Indirect Costs Due to Audit Adjustments

We question net indirect costs of $8,135 pertaining to the questioned close-out costs of $55,730 and CAB's unclaimed costs for supplies and office space.

ALLOWABLE CAB COSTS NOT CLAIMED

CAB did not claim $14,300 of allowable costs. These costs are allowable under OMB Circular A-122, section A-2 (a) stating costs "be reasonable for the performance of the award" and section A-4 (a) stating costs are allocable if incurred specifically for the award. Details of the allowable costs follow.

Supply Costs (Maintenance and Repair)

An additional $1,668 is allowable for software maintenance per sections A-2 (a) and A-4 (a) of OMB Circular A-122. CAB incurred the supply costs, but never billed them to SSA.

Office Space Costs

An additional $2,249 are allowable for lease costs per sections A-2 (a) and A-4 (a) of OMB Circular A-122. CAB miscalculated the allocation of the monthly lease costs for RMA services.

Indirect Costs Due to a Classification and Indirect Rate Errors

An additional $10,383 are allowable for indirect costs per sections A-2 (a) and A-4 (a) of OMB Circular A-122. Our review of indirect costs disclosed allowable costs of $9,783 due to incorrect equipment allocation that resulted in a lower indirect cost allocation base used. The indirect cost allocation base is total direct costs minus the equipment costs. CAB made a classification error by incorrectly charging the costs for software consultants to the equipment account. In addition, CAB underbilled SSA $600 for the month of September 1995 because the contractor applied the indirect rate of 12.1 percent instead of the indirect rate of 20.8 percent to its cost allocation base for September 1995.

RECOMMENDATION

RECOMMENDATION

We recommend that SSA recover the net questioned costs of $49,565 from CAB on CN 600-95-22671.

CAB's COMMENTS

In its response, CAB concurs with our findings and recommendations, except for our questioning of the $11,833 of closeout lease costs. (See Appendix C for the full text of CAB's comments.)

OFFICE OF THE INSPECTOR GENERAL (OIG) RESPONSE

We considered the comments provided by CAB. However, we do not agree with and have not made adjustments for the lease close-out costs. (See the explanatory notes in Appendix B for detailed OIG responses to CAB's comments.)

APPENDICES

CRITERIA FOR CLAIMED COSTS

The Office of Management and Budget Circular A-122, *Cost Principles for Nonprofit Organizations,* dated August 29, 1997:

- **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, be in accordance with generally accepted accounting principles and be adequately documented.

- **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.

- **Section B-48 (d) Termination costs – Rental costs**
  In order for the unexpired lease costs to be allowable, all reasonable efforts must be made to terminate, assign, settle, or otherwise reduce the cost of such lease.

Contract Number 600-95-22671, Modification Number Two:

- **Section F, Article F-7, Period of Performance**
  The period of performance is extended to February 14, 1997.

Lease Agreement between the Center for Addictive Behaviors, Incorporated (CAB) and the Lessor dated April 20, 1994:

- **Section 3 (b), Right to Consolidate**
  Upon 6-month written notice to the lessor, the lessee has the right to consolidate into a smaller area.

SCHEDULES AND EXPLANATORY NOTES FOR CLAIMED AND RECOMMENDED COSTS ON CONTRACT NUMBER 600-95-22671

We question $63,865 of the costs claimed by the Center for Addictive Behaviors, Incorporated (CAB), while $14,300 of allowable costs were not claimed. The net questioned costs totaled $49,565 on Contract Number (CN) 600-95-22671. (See Table 1 – Schedule of Questioned and Unclaimed Costs on page 3 of the report.) This appendix provides the following details:

- Tables 1 and 2[1] depicting claimed, recommended, and questioned costs by CAB; and

- Explanatory notes detailing the auditor's conclusions; contractor's basis of claimed costs; and auditor's evaluation methodology used to determine the questioned and/or recommended costs.

Table 1 - Costs Claimed by CAB on CN 600-95-22671

Cost Element	Claimed	Recommended	Questioned	Note
Direct Labor	$ 416,124	$416,124	$ 0	
Fringe Benefits	67,952	67,952	0	
Consultants	210,150	210,150	0	
Travel	11,576	11,576	0	
Supplies	108,710	110,378	(1,668)	Note 3
Equipment	224,257	224,257	0	
Telephone	15,806	15,806	0	
Office Space	27,153	29,402	(2,249)	Note 4
Utilities	6,739	6,739	0	
Advertising	5,000	5,000	0	
Close-out Costs	110,576	54,846	55,730	Note 1
Subtotal: Direct Costs	**$1,204,043**	**$1,152,230**	**$51,813**	

[1] The amounts in Tables 1 and 2 are rounded to the dollar. Percentages are rounded to the second decimal place. Any differences are due to rounding.

Cost Element	Claimed	Recommended	Questioned	Note
Indirect Costs:				
Due to Audit Adjustments			$8,135	Note 2
Due to Classification & Indirect Rate Errors			(10,383)	Note 5
Indirect Costs Total	**$ 194,509**	**$ 196,757**	**$ (2,248)**	
TOTAL COSTS	**$1,398,552**	**$1,348,987**	**$ 49,565**	

Explanatory Notes:

1. Questioned Costs – Close-Out Costs

We question $55,730 of the $110,576 close-out costs claimed by CAB. These costs are questioned under section A-2 (g) of the Office of Management and Budget (OMB) Circular A-122 which states that costs be adequately documented, and section B-48 (d) which states that all reasonable efforts should be made to terminate, assign, settle, or otherwise reduce the cost of an unexpired lease. Also, we referred to Modification Number 2 of the contract which states that the period of performance is extended to February 14, 1997. CAB billed the Social Security Administration (SSA) in excess of the actual costs paid to close-out unemployment and vested benefit costs. Also, we question the estimated lease close-out costs based on the fact that the contract ended February 1997, and the contractor billed SSA for this contract until June 1998.

Table 2 – Close-Out Costs Claimed by CAB on CN 600-95-22671

Cost Element	Claimed	Recommended	Questioned	Note
Management Information System Preparation	$ 3,500	$ 3,500		
Packing & Shipping	5,547	5,547		
Lease Close-Out	17,713	5,880	$11,833	**Note 1.a**
Utilities	3,240	3,240		
Staff Time	11,729	11,729		
Telephone	200	200		
Unemployment	56,428	22,351	34,077	**Note 1.b**
Vested Benefits	12,220	2,399	9,821	**Note 1.c**
TOTAL Close-Out Costs	**$110,576**	**$54,846**	**$55,730**	

a. **Lease Close-Out Costs**

(1) Summary of Conclusions:

We question $11,833 of the estimated lease close-out costs claimed by CAB for the office space from January 1997 to June 1998. On September 25, 1996, the Office of Acquisitions and Grants informed CAB that CN 600-95-22671 was being terminated. CAB should have given its landlord a 6-month written notice to vacate the unneeded Referral and Monitoring Agency (RMA) space. However, CAB waited until December 23, 1997 to notify the landlord. Therefore, only the costs of $5,880 for January to March 1997 are allowed for the lease close-out period.

Our review of the lease close-out costs disclosed unallowable lease costs based on the fact: (1) the contract ended February 1997 per *Modification 2* of the contract, and (2) the costs are unreasonable under section B-48 (d) of OMB Circular A-122 which states that all reasonable efforts should be made to terminate, assign, settle, or otherwise reduce the cost of unexpired lease.

(2) Basis of Claimed Costs:

CAB claimed lease close-out costs for the period after the contract ended in February 1997. CAB estimated and billed SSA $17,713 for leased space from January 1997 to June 1998. CAB indicated that the space was rented for the sole purpose of housing the RMA staff. Also, CAB stated that its landlord would not allow early termination of the lease agreement. Furthermore, CAB indicated that it explored the possibility of subleasing the space, but could not do so because any occupant would need to walk through the rest of CAB's office space; thereby, breaching clients' confidentiality.

(3) Audit Evaluation:

We question the lease close-out costs per *Modification Number 2* of the contract that stated the contract period of performance ended February 1997. We also question the lease costs after March 31, 1997 as being unreasonable for the performance of the contract. Section B-48 (d) of OMB Circular A-122 states that "Rental costs under unexpired leases are generally allowable where clearly shown to have been reasonably necessary for the performance of the terminated award. . . ." It further states, ". . . the organization makes all reasonable efforts to terminate, assign, settle, or otherwise reduce the cost of such lease." The cost of alterations of the lease property necessary for the performance of the award may also be included.

On April 20, 1994, CAB contracted with the landlord to lease 14,207 square feet of space to treat their clients. On September 26, 1995, CAB obtained an additional 2,357 square foot area for the RMA services under CN 600-95-22671.

Section 3 (b), page 3 of the lease allows CAB, upon a 6-month written notice, to consolidate the leased space into an area of not less than 10,457 square feet by vacating an area of approximately 3,750 square feet. On December 23, 1997, CAB provided the landlord with written notice to consolidate by vacating approximately 3,750 square feet. CAB further stated, "The loss of our Social Security Contract in 1997 resulted in more space than the ongoing programs require."

Two contract modifications to terminate CN 600-95-22671 between CAB and SSA were signed to change the completion date of the original contract. The first contract modification was signed on September 25, 1996 to change the date of completion for the work statement to December 31, 1996 from the original date of September 24, 1998 and to reflect a completion date for all close-out activities of January 31, 1997. The second modification signed on February 3, 1997 extended the close-out activities completion date to February 14, 1997.

We applied a 6-month vacancy notice from October 1, 1996 to March 31, 1997. The first three rental payments of $1,960 per month from October 1 to December 31, 1996 are for the completion of the contract work statement; the last three rental payments from January 1 to March 31, 1997 are for the close-out period. CAB waited until December 23, 1997 to provide written notice to the landlord concerning the space consolidation.

We believe CAB could have vacated 2,357 square feet (which is less than the 3,750 square feet requested) according to the lease agreement and with some alteration to the leased area. The lease close-out costs of $5,880 ($1,960 per month times 3 months) are allowable for the close-out period. CAB should have given the landlord a 6- month vacancy notice immediately after the Modification Number 1 was signed to reduce the unneeded space because the RMA services were no longer needed after December 31, 1996. Instead, CAB waited over a year to send the written vacancy notice to the landlord. Therefore, our questioned costs of $11,833 represent the difference of what was billed on the final voucher and what is considered allowable.

(4) CAB's Comments:

CAB did not agree with our questioning of the lease costs. According to CAB, it notified the Landlord upon notice of the contract termination and that the landlord would not allow the early termination of the lease space.

(5) Office of the Inspector General Response:

We disagree with CAB. Cab waited until December 1997 to inform the landlord of the need to terminate the lease. CAB should have notified its landlord on September 25, 1996, when SSA notified them that the contract was terminated.

b. Unemployment Costs

(1) Summary of Conclusions:

We question $34,077 of the unemployment costs claimed by CAB. The costs billed are in excess of the actual costs paid.

(2) Basis of Costs:

The unemployment costs billed SSA were estimates for the final billing. CAB billed SSA for $56,428 when the actual unemployment costs were $18,538 for Fiscal Year (FY) 1997 and $3,813 for FY 1998.

(3) Audit Evaluation:

Actual unemployment costs are allowable. We question the difference of what was billed on the final voucher and what was actually incurred. Section A-2 (g) of OMB Circular A-122 states that costs be adequately documented.

(4) CAB's Comments:

CAB concurred with our recommendation.

c. Vested Benefit Costs

(1) Summary of Conclusions:

We question $9,821 of the vested benefit costs claimed by CAB. The costs billed are in excess of the actual costs paid.

(2) Basis of Costs:

The vested benefit costs billed SSA were estimates for the final billing. CAB billed SSA for $12,220 when the actual vested benefit costs were $2,399.

(3) Audit Evaluation:

Actual vested benefit costs are allowable. We question the difference of what was billed on the final voucher and what was actually incurred. Section A-2 (g) of *OMB Circular A-122* states that costs be adequately documented.

(4) CAB's Comments:

CAB concurred with our recommendation.

2. Questioned Cost – Indirect Costs Due to Audit Adjustments

a. Summary of Conclusions

We question indirect costs of $8,135 pertaining to the questioned close-out costs and CAB's unclaimed costs for supplies and office space.

b. Basis of Claimed Costs

CAB claimed indirect costs using indirect rates of 12.1 percent for September 1995, 20.8 percent for October 1, 1995 through June 30, 1996, and 21.7 percent for July 1, 1996 through December 31, 1997. These rates are applied to the indirect costs allocation base. The allocation base is total direct costs minus equipment costs.

c. Audit Evaluation

We applied the applicable indirect rates to the adjusted indirect costs allocation base to our questioned close-out costs and CAB's unclaimed costs for supplies and office space.

d. CAB's Comments:

CAB concurred with our recommendation.

3. Allowable Costs Not Claimed – Supplies

a. Summary of Conclusions

An additional $1,668 is allowed for software maintenance for which CAB did not bill SSA.

b. Basis of Claimed Costs

The CAB June 1996 supplies account of the general ledger shows payments totaling $5,815 for software maintenance and repair. CAB mistakenly billed SSA $4,148 or $1,668 less.

c. Audit Evaluation

We determined that the additional software maintenance costs of $1,668 are allowable and allocable per sections A-2 (a) and A-4 (a) of OMB Circular A-122. Since the total of $5,815 incurred in June 1996 for software maintenance and repairs is allowable and allocable per sections A-2 (a) and A-4 (a) of OMB Circular A-122, the difference of $1,668 is also allowable and allocable.

d. CAB's Comments:

CAB concurred with our recommendation.

4. Allowable Costs Not Claimed – Office Space (Lease Cost)

a. Summary of Conclusion

An additional $2,249 is allowable for lease costs. CAB incorrectly computed the monthly lease costs for the RMA services.

b. Basis of Claimed Costs

CAB did not allocate all of the leased spaces to CN 600-95-22671. CAB allocated these costs based on percent of space used. CAB billed SSA $163 for September 1995, $650 for October 1995, and $1,881 per month for November 1995 through December 1996 for lease cost. We computed $280 for September 1995, $1,681 for October 1995 and $1,960 per month for November 1995 through December 1996 for lease costs.

c. Audit Evaluation

We determined that the additional lease costs of $2,249 are allowable and allocable per sections A-2 (a) and A-4 (a) of OMB Circular A-122. Our computation of the lease costs is prorated based on CAB occupying 2,357 square feet or 14.2 percent for the SSA RMA contract out of the total leased space of 16,564 square feet.

d. CAB's Comments:

CAB concurred with our recommendation.

5. Allowable Costs Not Claimed – Indirect Costs Due to a Classification and Indirect Rate Errors

a. Summary of Conclusions

A total of $10,383 of unclaimed indirect costs is allowable. Our review of indirect costs disclosed allowable costs of $9,783 due to incorrect equipment allocation that resulted in a lower indirect cost allocation base. The indirect costs allocation base for which indirect rates are applied is calculated by subtracting the equipment costs from the total direct costs. CAB made a classification error by incorrectly charging the costs for software consultants to the equipment account. In addition, CAB did not bill SSA $600 of allowable indirect costs for the month of September 1995 because the contractor applied the indirect rate of 12.1 percent instead of the appropriate indirect rate of 20.8 percent to its direct cost base.

b. Basis of Claimed Costs

CAB did not bill SSA $9,783 for indirect costs because it incorrectly deducted $271,291, instead of $224,257, of equipment costs from the direct costs to arrive at its indirect cost allocation base. The difference of $47,035 was for software consultants. Expenditures for software consultants were originally classified incorrectly and charged to the equipment account. This classification error was later corrected, and the consultant costs were later transferred to the maintenance and repair (software) sub-account of Supplies. However, CAB did not correct the indirect costs and apply the indirect rate of 20.8 percent to the corrected indirect cost allocation base.

In addition, CAB underbilled SSA $600 for the month of September 1995 because the contractor did not use the correct indirect rate. CAB billed SSA $834 instead of $1,434 for the indirect costs because it used the indirect rate of 12.1 percent. The indirect rate for the period of July 1, 1995 through June 30, 1996 was 20.8 percent.

c. Audit Evaluation

To compute the allowable indirect costs of $9,783, we deducted the equipment costs of $224,257, instead of $271,291, from the total direct costs to arrive at the corrected indirect cost allocation base. We then applied the appropriate indirect rate of 20.8 percent to the corrected indirect costs allocation base.

We also calculated the additional indirect costs of $600 for the billing month of September 1995. The additional indirect costs represent the difference between the contractor's claimed indirect costs of $834 and our recommended indirect costs of $1,434. The contractor had used the indirect rate of 12.1 percent,

instead of the indirect rate of 20.8 percent. The indirect cost amount of $1,434 was calculated by applying the appropriate indirect rate of 20.8 percent to the September 1995 indirect cost allocation base of $6,894.

d. CAB's Comments:

CAB concurred with our recommendation.

CENTER FOR ADDICTIVE BEHAVIORS' COMMENTS

MAJOR CONTRIBUTORS TO THIS REPORT

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For additional copies of this report, please contact the Office of the Inspector General's Public Affairs Specialist at (410) 966-5998. Refer to Common Identification Number A-13-98-51041.

APPENDIX E

SSA ORGANIZATIONAL CHART