

Office of the Inspector General

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Associate Commissioner
for Acquisition and Grants

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Costs Claimed by American Institutes for Research on Social Security Administration's Contract Number 600-97-32018 (A-15-00-20034)

The enclosed final report presents the results of our audit of the costs claimed by the American Institutes for Research on the Social Security Administration's Contract Number (CN) 600-97-32018. The objective of this audit was to determine if costs claimed by American Institutes for Research for CN 600-97-32018 were allowable, allocable, and reasonable in accordance with applicable Federal regulations and the terms of the contract.

Please comment within 60 days from the date of this memorandum on corrective action taken or planned on the recommendation. If you wish to discuss the final report, please call me or have your staff contact Frederick C. Nordhoff, Director, Financial Management and Performance Monitoring Audit Division, at (410) 966-6676.

Steven L. Schaeffer

Attachment

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**COSTS CLAIMED BY AMERICAN
INSTITUTES FOR RESEARCH
ON THE SOCIAL SECURITY
ADMINISTRATION'S CONTRACT
NUMBER 600-97-32018**

August 2000 A-15-00-20034

AUDIT REPORT



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Mission

We improve SSA programs and operations and protect them against fraud, waste, and abuse by conducting independent and objective audits, evaluations, and investigations. We provide timely, useful, and reliable information and advice to Administration officials, the Congress, and the public.

Authority

The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.**
- Promote economy, effectiveness, and efficiency within the agency.**
- Prevent and detect fraud, waste, and abuse in agency programs and operations.**
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.**
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.**

To ensure objectivity, the IG Act empowers the IG with:

- Independence to determine what reviews to perform.**
- Access to all information necessary for the reviews.**
- Authority to publish findings and recommendations based on the reviews.**

Vision

By conducting independent and objective audits, investigations, and evaluations, we are agents of positive change striving for continuous improvement in the Social Security Administration's programs, operations, and management and in our own office.

EXECUTIVE SUMMARY

OBJECTIVE

The objective of this audit was to determine if costs claimed by the American Institutes for Research for Contract Number (CN) 600-97-32018 were allowable, allocable, and reasonable in accordance with applicable Federal regulations and the terms of the contract.

BACKGROUND

The Social Security Administration's (SSA) Office of Acquisition and Grants (OAG) requested an audit of costs incurred by American Institutes for Research (CN 600-97-32018) for Integration of Disability Methodology Research for the Social Security Administration. The contracted service period was from September 29, 1997, through December 31, 1999. The costs claimed under CN 600-97-32018 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.¹

We limited our audit to the review of costs incurred by American Institutes for Research for CN 600-97-32018. We did not assess, and do not express an opinion of the overall acceptability of American Institutes for Research's internal controls or accounting systems. We performed our fieldwork at American Institutes for Research located in Washington, DC and its subcontractors Westat, Inc. in Rockville, Maryland and Washington University, located in St. Louis, Missouri. We also performed work in the OAG at SSA Headquarters in Baltimore, Maryland, from January 2000 through May 2000.

RESULTS OF REVIEW

The American Institutes for Research claimed a total of \$5,999,587 for CN 600-97-32018. Except for \$29,494 in costs questioned related to other direct and indirect costs, we determined the claimed costs were allowable, allocable, and reasonable in accordance with applicable Federal regulations and the terms of the contract.

RECOMMENDATION

We recommend that SSA recover the questioned costs of \$29,494 from American Institutes for Research on CN 600-97-32018.

¹ OMB Circular A-122, *Cost Principles for Nonprofit Organizations*.

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INTRODUCTION

OBJECTIVE

The objective of this audit was to determine if costs claimed by the American Institutes for Research for Contract Number (CN) 600-97-32018 were allowable, allocable, and reasonable in accordance with applicable Federal regulations and the terms of the contract.

BACKGROUND

The Social Security Administration's (SSA) Office of Acquisition and Grants (OAG) requested an audit of costs incurred by the American Institutes for Research under its contract (CN 600-97-32018), for Integration of Disability Methodology Research for the Social Security Administration. The contracted service period was from September 9, 1997, through December 31, 1999.

The costs claimed under CN 600-97-32018 are defined in terms of the contract. Additionally, 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 American Institutes for Research for CN 600-97-32018. We did not assess, and do not express an opinion of the overall acceptability of American Institutes for Research's internal controls or accounting systems.

We reviewed, on a limited basis, the contractor's internal controls. We had no prior experience with the contractor and preliminarily assessed control risk as "high." Therefore, we expanded our substantive tests, which our audit reflects and 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 costs incurred as of November 30, 1999 on the contract.

We performed our fieldwork at American Institutes for Research located in Washington, DC and its subcontractors Westat, Inc. in Rockville, Maryland and Washington University, located in St. Louis, Missouri. We also performed work in the OAG at SSA Headquarters in Baltimore, Maryland, from January 2000 through May 2000. 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 American Institutes for Research on CN 600-97-32018 were allowable, allocable, and reasonable in accordance with applicable Federal regulations and the terms of the contract.

We question whether \$29,494 of the costs claimed by American Institutes for Research are allowable, allocable, and reasonable (See Table 1)²

Table 1 – Schedule of Questioned Costs

Cost Item	Costs
Questioned Costs:	
Other Direct Costs	\$ 26,217
Indirect Costs	3,277
Total Questioned Costs	\$ 29,494

SPECIFIC COSTS ARE QUESTIONABLE

We question \$29,494 of the American Institutes for Research 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.

Other Direct Costs

We question \$26,217 of the claimed other direct costs. These costs are questioned under section B-55 (b) of OMB Circular A-122, “*Cost Principles for Non-Profit Organizations*,” stating that costs may be charged on an actual, per diem basis, or a combination of the two, provided the method used is consistent with those normally allowed by the organization. And section B-14 further states that costs of amusement, diversion, social activities, ceremonials, and costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities are unallowable. The costs are also questioned under section A-3 (a) which states that costs be reasonable and generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.

² 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.

- We question \$5,656 of the travel costs claimed by the American Institutes for Research per section B-53 (b) of OMB Circular A-122. This represents the difference of using the government per diem rate, which the company normally uses and costs that were billed and for personal lunches that were charged to this contract.
- We question \$10,878 in Regis/Memberships/Tech per section B-14 of OMB Circular A-122. These costs are costs for personal lunches.
- We question \$9,683 in Consultant costs per section A-3 (a) of OMB Circular A-122. This represents costs for a consultant that is an employee of one of the subcontractors.

Indirect Costs Due to Audit Adjustments

We question indirect costs of \$3,277 pertaining to the questioned other direct costs of \$26,217.

RECOMMENDATION

RECOMMENDATION

We recommend that SSA recover the net questioned costs of \$29,494 from American Institutes for Research on CN 600-97-32018.

APPENDICES

APPENDIX A

CRITERIA FOR CLAIMED COSTS

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

- **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 B-55(b) Travel Costs**
Costs may be charged on an actual, per diem basis, or a combination of the two, provided the method used is consistent with those normally allowed by the organization.
- **Section B-14 Entertainment Costs**
Costs of amusement, diversion, social activities, ceremonials, and costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities are unallowable.

Schedules and Explanatory Notes for Claimed and Recommended Costs on Contract Number 600-97-32018

We question \$29,494 of the costs claimed by the American Institutes for Research on Contract Number (CN) 600-97-32018. (See Table 1 – Schedule of Questioned Costs on page 3 of the report.) This appendix provides the following details:

- Table depicting claimed, recommended, and questioned costs by American Institutes for Research; 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.

Costs Claimed by American Institutes for Research on CN 600-97-32018

Cost Element	Claimed	Recommended	Questioned	Note
Direct Labor	\$1,238,132	\$1,238,132	\$0	
Supplies/Eqpt/Repair	5,435	5,435	0	
Other Direct Costs	17,671	17,671	0	
Communications	6,045	6,045	0	
Travel & Per Diem	38,487	32,831	5,656	Note 1
Regis/Memberships/Tech	13,061	2,183	10,878	Note 2
Consultant/Outside	95,182	85,499	9,683	Note 3
Subcontracts	2,044,796	2,044,796	0	
Total Other Direct Costs	\$2,220,676	\$2,194,460	\$26,217	
Fringe – Group 2	518	518	0	
Fringe – Group 1	536,710	536,710	0	
Overhead – WRC	956,576	956,576	0	
Overhead – JCFRC	11,647	11,6467	0	
Overhead – PRC	12,808	12,808	0	
G&A	\$622,133	\$618,856	\$3,277	Note 4
Total Indirect Costs	\$2,140,392	\$2,137,115	\$3,277	
Total Costs	\$5,599,200	\$5,569,707	\$29,494	
Fee	447,936	447,936	0	
Total plus fee	\$6,047,137	\$6,017,643	29,494	
Less Cost Over Ceiling	44,028	44,028	0	
Less Fee Over Ceiling	3,522	3,522	0	
Total Costs	<u>\$5,999,587</u>	<u>\$5,970,093</u>	<u>\$29,494</u>	

The amounts are rounded to the dollar. Percentages are rounded to the second decimal place. Any differences are due to rounding.

Explanatory Notes:

1) Travel Costs

a) Summary of Conclusions:

The questioned travel costs of \$5,656 represent costs that are over the government per diem rate and unallowable personal lunches. The contractor uses the government per diem rate to determine travel charges. The costs questioned are unallowable per section B-55 (b) and B-14 of OMB Circular A-122. The questioned amount represents the difference between using the government per diem rate, which the company normally uses and costs that were billed.

b) Basis of Claimed Costs:

Claimed travel costs of \$38,487 represent actual expenditures for travel and technical conferences.

c) Audit Evaluation:

As stated above in “Summary of Conclusions,” our questioned travel costs of \$5,656 are based on the contractor claiming costs that were not in accordance with *OMB Circular A-122*.

2) Regis/Membership/Technical Conference Costs

a) Summary of Conclusions:

We question \$10,878 of the Regis/Membership/Technical Conference costs claimed by American Institutes for Research. The costs billed are unallowable per section B-14 of *OMB Circular A-122*.

b) Basis of Claimed Cost:

Claimed costs of \$13,061 represent actual expenditures for technical conferences.

c) Audit Evaluation:

Based on our review, the technical conference costs are costs for lunches and dinners. Therefore, we question \$10,878 of these costs in accordance with *OMB Circular A-122*, section B-14.

3) Consultant/Outside

a) Summary of Conclusions:

We question \$9,683 of the Consultant /Outside cost claimed. The questioned costs is for three vouchers from a direct employee of one of the subcontractors that is also working on this contract. This cost is unallowable per section A-3, of *OMB Circular A-122*.

b) Basis of Claimed Costs:

Claimed costs of \$95,182 represent costs for Consultants.

c) Audit Evaluation:

As stated above in “Summary of Conclusions”, our questioned Consultant costs of \$9,683 are based on the contractor claiming costs that are not in accordance with *OMB Circular A-122*, A-3

4) Indirect Costs

a) Summary of Conclusions:

Because we have questioned direct charges, we also question \$3,277 of the related General & Administrative (G & A) costs claimed.

b) Basis of Claimed Costs:

The contractor claimed G & A costs that are equivalent to 12.5 percent of direct, fringe and overhead costs.

c) Audit Evaluation:

Total costs input is the allocation base to which the G & A rate is applied. To derive questioned G & A cost, we applied the claimed rate of 12.5 percent to our questioned costs.

APPENDIX C

OIG CONTACTS AND STAFF ACKNOWLEDGMENTS

OIG Contacts

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Acknowledgments

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For additional copies of this report, please contact the Office of the Inspector General's Public Affairs Specialist at (410) 966-9558. Refer to Common Identification Number A-15-00-20034

APPENDIX D

SSA ORGANIZATIONAL CHART
