

United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General

Office of Audits

Independent Accountants' Report on the
Application of Agreed-Upon Procedures on Costs
Claimed by
Young Men's Christian Association of Greater New York
Under Department of State Grants

Report Number: AUD/CG/08-02, November 2007

L.F. Harris & Associates, CPA, P.A., Certified Public Accountants, performed the agreed-upon procedures under Department of State, Office of Inspector General, Contract No. S-AQM-PD-04-D-0044, and by acceptance the report becomes a product of the Inspector General.



Mark W. Duda
Assistant Inspector General
Office of Audits

11/29/07

Date

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Summary

At the request of the U.S. Department of State (Department), Office of Inspector General (OIG), L.F. Harris & Associates, CPA, P.A., performed certain agreed-upon procedures on the costs claimed by the Young Men's Christian Association (YMCA) of Greater New York (Association) under selected Department grants. The procedures were to determine whether the Association adequately accounted for federal funds related to the grants and complied with the terms of the grants and the cost principles of Office of Management and Budget (OMB) Circulars A-122, at 2 CFR Part 230, *Cost Principles for Non-Profit Organizations*; A-110, at 2 CFR Part 215, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*; and A-133, *Compliance Supplement*.

Our review disclosed four instances where the Association did not comply with the requirements of OMB Circular A-122, including (1) improperly charging \$568 in unallowable food and beverage costs to a Department grant unrelated to the associated allowable travel expenses; (2) not submitting financial reports or submitting them after the due dates specified in the grants, (3) requesting funds from the Department in excess of immediate disbursement requirements; and (4) not requiring that employee timesheets be prepared in accordance with OMB Circular A-122. As a result, we questioned a total of \$82,714, consisting of \$82,146 as unsupported payroll costs and \$568 as unallowable charges for food and beverage expenses.

We found the Association's accounting system to be adequate to identify, segregate, accumulate, and report direct and indirect costs under the provisions of OMB Circular A-122. The grant agreements specify the maximum dollar amount that the Association may claim for indirect costs. For all periods tested, we found that the Association's indirect costs exceeded the amount allowable under the grants; however, the Association only claimed these costs up to the amounts specified in the grant agreements.

Background

The Association's services are primarily directed to all people of New York City, with a special focus and emphasis on New York City's young people. The Association is New York City's largest youth organization and the largest YMCA in the nation. It serves over 165,000 girls and boys plus 190,000 adults in a range of programs and services that build character, and develop leadership and life skills. The Association has 20 branches located throughout the five boroughs of New York City and upstate New York, providing program services without regard to race, religion, age, or ethnicity. The Association's program areas are child development, camping, teen and pre-teen development, residential, health enhancement, and community and international development.

The Association entered into the following grant agreements with the Department for Airport Receptions of U.S. government-sponsored International Visitors at John F. Kennedy International Airport, New York.

Agreement Number	Period of Agreement	Federal Share
S-ECAPV-06-GR-057	04/01/06 – 01/31/07	\$81,502
S-ECAPV-05-GR-046	02/01/05 – 03/31/06	68,250
S-ECAPV-04-GR-052	02/15/04 – 01/31/05	68,250

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Purpose, Scope, and Methodology

The purpose of this agreed-upon procedures engagement was to determine whether the Association adequately accounted for federal funds and complied with applicable federal laws and regulations related to the terms and conditions of the grants. We conducted this review between February 26, 2007, and May 29, 2007.

OMB Circular A-122 establishes principles and standards for determining cost for federal awards carried out through grants, cost-reimbursement contracts, and other agreements with not-for-profit organizations. The principles are for the purpose of cost determination and are designed to provide that federal awards bear their fair share of costs. These principles and standards apply to both direct and indirect costs.

A direct cost is a cost that can be identified specifically with a particular cost objective. Examples of direct costs include employee compensation and benefits, supplies, and travel. An indirect cost is a cost that cannot be identified with a single, final cost objective, but is identified with two or more final cost objectives, one or more of which benefits federal programs. Such costs should be combined into groups or pools and should be distributed to benefiting final cost objectives in a manner that will produce an equitable result based on relative benefits derived.

We designed our approach to determine compliance with OMB Circular A-122, which describes selected cost items, allowable costs, and standard methodologies for calculating a not-for-profit organization's indirect cost rates. The purposes of the circular are to

- ensure that the federal government bears its fair share of costs,
- identify allowable costs for determining the actual cost of federal programs, and
- establish policies and procedures for indirect cost allocation plans.

Our procedures included:

1. interviewing the finance personnel to determine the extent to which each funded program benefited from common services;
2. reviewing the Association's Audited Financial Statements for the fiscal years ended December 31, 2005, and 2004;
3. verifying the mathematical accuracy of the annual indirect cost rate proposals;
4. tracing and comparing the amounts reported as grant costs to the financial statements and, selectively, to transaction source documents;
5. selecting a sample of transactions and applying procedures to ensure that the costs incurred were properly supported and allowable;
6. subjecting sample items to tests to determine whether they were properly classified as direct or indirect costs and whether the Association, where applicable, properly excluded unallowable costs from the cost pools used in computing the indirect rates;

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7. reviewing the Association's grants with the Department and its Negotiated Indirect Cost Rate Agreements to ascertain whether the Association's annual rate submissions were prepared in accordance with the terms of Department grants and provisions of the Rate Agreements;
8. reviewing the program and financial reports required under the grant agreements with the Department to determine whether they were prepared and submitted in accordance with the terms specified in the grant agreements;
9. determining whether the Association followed procedures to minimize the time between the transfer of funds from the U.S. Treasury and their disbursement; and
10. determining whether the Association's accounting system was adequate to properly identify and segregate direct and indirect costs as well as allowable and unallowable costs.

The scope of detail testing of individual accounts, internal controls, direct costs, indirect costs, regulation compliance, and other applicable records are a matter of judgment. Auditors cannot assume responsibility for fraud detection or prevention. Auditors are expected to maintain an alertness that will permit adequate inspection of the financial records as well as the internal controls, internal accounting, and administrative controls. As such, the auditors were alert to the possibility of intentional wrongdoing, errors and omissions, inefficiency, waste, ineffectiveness, and conflicts of interest.

Results

Unallowable Expenses

During our testing of expenses under Grant S-ECAPV-04-GR-052, we noted that several food and beverage costs unrelated to the associated allowable travel were charged to the grant. According to OMB Circular A-122, costs of entertainment, including amusement, diversion, and social activities, and any costs directly associated with such costs are unallowable. Further, we were unable to determine what items were purchased as the receipts provided were not itemized. Accordingly, we questioned \$568 of these costs as unallowable costs.

Recommendation 1: We recommend that the Bureau of Educational and Cultural Affairs require the Association to reimburse the Department for the \$568 of unallowable costs.

Timeliness of Reporting

The Association did not file reports in accordance with the grant agreements. Our review of the Quarterly Financial Reports and Final Financial Reports submitted to the Department, showed that of the 13 reports required under the grant agreements, four were not filed and the remaining nine were filed between 26 and 502 days after the due date, as shown in Table 1.

Table 1: Financial Report Due Dates and Submission Dates

Grant Agreement	Financial Reports	Reporting Date Due	Date Submitted	Late by:	
				Days	Months
S-ECAPV-04-GR-052	Quarterly	04/30/04	*		
	Quarterly	07/31/04	*		
	Quarterly	10/31/04	*		
	Quarterly	01/31/05	*		
	Final	04/30/05	9/14/06	502	16.73
S-ECAPV-05-GR-046	Quarterly	04/30/05	09/13/06	501	16.70
	Quarterly	07/31/05	09/13/06	409	13.63
	Quarterly	10/31/05	09/13/06	317	10.57
	Quarterly	01/31/06	09/13/06	225	7.50
	Final	03/31/06	09/15/06	168	5.60
S-ECAPV-06-GR-057	Quarterly	07/31/06	09/13/06	44	1.47
	Quarterly	10/31/06	12/27/06	57	1.90
	Quarterly	01/31/07	02/26/07	26	0.87

* Quarterly reports not submitted.

Recommendation 2: We recommend that the Bureau of Educational and Cultural Affairs (1) require the Association to establish an internal control process that would provide a greater degree of reliability that required reports under the grants are submitted on time; and (2) if future reports are not submitted on time, consider withholding grant funds.

Cash Management

Our review revealed that on two occasions, the Association requested funds from the Department under Grant Agreement S-ECAPV-04-GR-052 in excess of immediate disbursement requirements. The Association's records indicate that as of March 19, 2004, and August 20, 2004, the Association's cumulative federal cash drawn downs exceeded recorded expenditures by \$29,692 and \$9,013, respectively.

Recommendation 3: We recommend that the Bureau of Educational and Cultural Affairs instruct the Association that future fund requests by the Association be made based on its immediate disbursement requirements.

Timesheets

OMB Circular A-122, Attachment B.8, *Compensation for personal services*, outlines the requirements for maintaining employee activity reports. In particular, it states that charges to grants for salaries and wages, whether treated as direct costs or indirect costs, should be based on documented payrolls approved by a responsible official. Reports reflecting the distribution of activities of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to grants.

During our testing, we noted that the Association uses timesheets; however, the activities of the employees were difficult to determine. Specifically, although the timesheets indicated the flight

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number, airline, and date of the flights being met, they did not provide details of the activities being performed by the employees.

We selected 19 timesheets to trace the flight information to the program reports submitted to the Department. The information reported on seven of the timesheets did not agree with the information reported in the Association's program reports. We believe the time charged to the Department for meeting arrivals under the program is excessive. In particular, for the timesheets selected for testing, 17 reported greeting one flight. Moreover, for these 17 flights, the average time reported to greet flights exceeded eight hours. The times reported to greet the 17 flights ranged from 4.5 to 12 hours.

We selected 46 timesheets to review for accuracy and completeness. Of this total, 23 had mathematical errors in the calculation of the hours charged to the Department. Also, 22 timesheets did not provide sufficient details to perform a recalculation for the hours charged. As a result, we questioned as unsupported amounts \$32,438, \$27,392, and \$22,316 in payroll costs charged to the Department under Grant Nos. S-ECAPV-06-GR-057 (LM), S-ECAPV-05-GR-046 (LM), and S-ECAPV-04-GR-052 (MA), respectively.

Recommendation 4: We recommend that the Bureau of Educational and Cultural Affairs require the Association to substantiate the unsupported payroll costs or reimburse the Department for these costs.

Recommendation 5: We recommend that the Bureau of Educational and Cultural Affairs require the Association to develop benchmarks and establish standards against which the time charges reported by Association employees under the Arrivals Program can be measured.

Recommendation 6: We recommend that the Bureau of Educational and Cultural Affairs require the Association to establish control procedures to ensure that all employees complete timesheets in accordance with OMB Circular A-122, including an after-the-fact determination of the actual activity for each employee.

Indirect Cost Rates

We found the Association's accounting system to be adequate to identify, segregate, accumulate, and report direct and indirect costs under the provisions of OMB Circular A-122. The grant agreements specify the maximum dollar amount that the Association may claim for indirect costs. For all periods tested, we found that the Association's indirect costs exceeded the amount allowable under the grants, however, the Association only claimed these costs up to the amounts specified in the grant agreements.



**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING
AGREED-UPON PROCEDURES**

U.S. Department of State
Office of Inspector General
Office of Audits
1700 North Moore Street
Arlington, VA 22209

L. F. Harris & Associates, CPA, P.A. applied certain agreed-upon procedures (Procedures), as summarized in the Purpose, Scope and Methodology section of this report. The Procedures, which were agreed to by the U.S. State Department, Office of Inspector General, were performed solely to assist the U.S. State Department, Office of Inspector General, in evaluating whether the Young Men's Christian Association of Greater New York's (Association) costs claimed were prepared in accordance with Office of Management and Budget Circular A-122 for the specified grant awards.

The Association's management is responsible for compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and guidance from the Office of Management and Budget. The sufficiency of these Procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the Procedures as described in the Purpose, Scope and Methodology section of this report either for the purpose for which this report has been requested or for any other purpose. Our test procedures revealed four findings. The findings and the associated recommendations are presented in the "Results" section of this report.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the total costs claimed. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the U.S. Department of State, Office of Inspector General, and should not be used by those who have not agreed to the procedures, and taken responsibility for the sufficiency of the procedures for their purposes.

A handwritten signature in cursive script that reads "L.F. Harris & Associates". The signature is written in black ink and is positioned to the left of a vertical red line.

L.F. Harris & Associates, CPA, P.A.
May 29, 2007

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Attachment A - Schedules of Costs Claimed

YMCA of Greater New York
Schedule of Claimed and Questioned Costs under
U.S. Department of State Grant No. S-ECAPE-06-GR-057 (LM)
2006 Airport Receptions of USG-Sponsored International Visitors at JFK
Grant Period: April 1, 2006 to January 31, 2007

<u>Budget Category</u>	<u>Approved Budget</u>	<u>Costs Claimed</u>	<u>Questioned Costs</u>	<u>Audited Costs</u>
FEDERAL SHARE				
Administrative Expenses				
Partial Salaries	(b) (4)	(b) (4)	\$25,674 ^{a/}	(b) (4)
Fringe Benefits	(b) (4)	(b) (4)	6,764 ^{a/}	(b) (4)
Staff Expenses, Parking, Development & Training	(b) (4)	(b) (4)	-	(b) (4)
Telephone	(b) (4)	(b) (4)	-	(b) (4)
Administration	(b) (4)	(b) (4)	-	(b) (4)
Indirect Costs	(b) (4)	(b) (4)	-	(b) (4)
Total Federal Share	<u>(b) (4)</u>	<u>(b) (4)</u>	32,438	<u>(b) (4)</u>
COST SHARE	(b) (4)	(b) (4)	-	(b) (4)
Totals	<u>(b) (4)</u>	<u>(b) (4)</u>	<u>\$32,438</u>	<u>(b) (4)</u>
<u>Proposed Costs</u>				
Federal Share			(b) (4)	
YMCA Cost Share			(b) (4)	
Total Project Costs			<u>(b) (4)</u>	
<u>Claimed Costs</u>				
Federal Costs		(b) (4)		
Less: Questioned Costs		(b) (4)		
Total Federal Costs per Audit			(b) (4)	
Cost Share Claimed		(b) (4)		
Less: Questioned Costs		(b) (4)		
Total Cost Share Expenses per audit			(b) (4)	
Total Costs per Audit			<u>(b) (4)</u>	

^{a/} Unsupported payroll costs.

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Attachment A - Schedules of Costs Claimed (Continued)

YMCA of Greater New York
Schedule of Claimed and Questioned Costs under
U.S. Department of State Grant No. S-ECAPV-05-GR-046 (LM)
2006 Airport Receptions of USG-Sponsored International Visitors at JFK
Grant Period: February 1, 2005 to December 31, 2005, Extended to March 31, 2006

<u>Budget Category</u>	<u>Approved Budget</u>	<u>Costs Claimed</u>	<u>Questioned Costs</u>	<u>Audited Costs</u>
FEDERAL SHARE				
Administrative Expenses				
Partial Salaries	(b) (4)	(b) (4)	\$21,320 <u>a/</u>	(b) (4)
Fringe Benefits	(b) (4)	(b) (4)	6,072 <u>a/</u>	(b) (4)
Staff Expenses, Parking, Development & Training	(b) (4)	(b) (4)	-	(b) (4)
Telephone	(b) (4)	(b) (4)	-	(b) (4)
Administration	(b) (4)	(b) (4)	-	(b) (4)
Indirect Costs	(b) (4)	(b) (4)	-	(b) (4)
Total Federal Share	(b) (4)	(b) (4)	27,392	(b) (4)
COST SHARE	(b) (4)	(b) (4)	-	(b) (4)
Totals	(b) (4)	(b) (4)	\$27,392	(b) (4)
<u>Proposed Costs</u>				
Federal Share			(b) (4)	
YMCA Cost Share			(b) (4)	
Total Project Costs			(b) (4)	
<u>Claimed Costs</u>				
Federal Costs		(b) (4)		
Less: Questioned Costs		(b) (4)		
Total Federal Costs per Audit			(b) (4)	
Cost Share Claimed		(b) (4)		
Less: Questioned Costs		(b) (4)		
Total Cost Share Expenses per Audit			(b) (4)	
Total Costs per Audit			(b) (4)	

a/ Unsupported Payroll Costs.

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Attachment A - Schedules of Costs Claimed (Continued)

YMCA of Greater New York
Schedule of Claimed and Questioned Costs under
U.S. Department of State Grant No. S-ECAPV-04-GR-052 (MA)
JFK International Airport Arrivals Program
Grant Period: February 14, 2004 to January 31, 2005

<u>Budget Category</u>	<u>Approved Budget</u>	<u>Costs Claimed</u>	<u>Questioned Costs</u>	<u>Audited Costs</u>
FEDERAL SHARE				
Administrative Expenses				
Partial Salaries	(b) (4)	(b) (4)	\$16,531 <u>a/</u>	(b) (4)
Fringe Benefits	(b) (4)	(b) (4)	5,785 <u>a/</u>	(b) (4)
Staff Expenses, Parking, Development & Training	(b) (4)	(b) (4)	568 <u>b/</u>	(b) (4)
Supplies	(b) (4)	(b) (4)		(b) (4)
Telephone	(b) (4)	(b) (4)	-	(b) (4)
Postage and Shipping	(b) (4)	(b) (4)		(b) (4)
Administration	(b) (4)	(b) (4)	-	(b) (4)
Indirect Costs	(b) (4)	(b) (4)	-	(b) (4)
Total Federal Share	<u>(b) (4)</u>	<u>(b) (4)</u>	<u>22,884</u>	<u>(b) (4)</u>
COST SHARE	(b) (4)	(b) (4)	-	(b) (4)
Totals	<u>(b) (4)</u>	<u>(b) (4)</u>	<u>\$22,884</u>	<u>(b) (4)</u>
<u>Proposed Costs</u>				
Federal Share			(b) (4)	
YMCA Cost Share			(b) (4)	
Total Project Costs			<u>(b) (4)</u>	
<u>Claimed Costs</u>				
Federal Costs		(b) (4)		
Less: Questioned Costs		(b) (4)		
Total Federal Costs per Audit			(b) (4)	
Cost Share Claimed		(b) (4)		
Less: Questioned Costs		-		
Total Cost Share per Audit			(b) (4)	
Total Costs per Audit			<u>(b) (4)</u>	

a/ Unsupported Payroll Costs.

b/ Costs of entertainment, including amusement, diversion, and social activities, and any costs directly associated with such costs are unallowable.

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