

memorandum

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DATE: 28 APR 1980
AAG/W, George L. DeMarco

SUBJECT: Memorandum Audit Report No. 80-52, Review of Planned Parenthood Federation of America, Inc. (PPFA) Grant Nos. AID/csd-3289 and AID/Pha-G-1131
TO: CM/COD, Mr. Gerald Gold
CM/SOD, Mr. Donald Dickie

932-0955
(27)

Purpose and Scope

We were requested by AID's Contract Office to make a follow-up review of the overhead methodology used by PPFA to compute their cost proposals for calander years (CY) 1975 and 1976. The overhead rates were previously reviewed and discussed in Audit Report No. 80-21 dated January 22, 1980.

This limited review was directed toward evaluating unilateral changes made by PPFA to an overhead computation methodology not approved by AID, questionable direct costs included in the overhead computation and the recomputation of final audited rates for CY 1975 and CY 1976.

PPFA's Overhead Rate Should Be Adjusted Downward

For CY's 1975 and 1976, PPFA claimed and was reimbursed \$8,488,165 by AID. Our recomputation and analysis of overhead costs resulted in an overhead rate but is lower than the rate proposed by PPFA and lower then the rate previously reported in our report of January 22, 1980. As a result, we believe the AID contracting officer should seek a refund of \$309,541.

The results of our overhead evaluation are detailed in Exhibit E and are summarized as follows:

Year Ended December 31	Grantee's Proposal	Auditor's Computation
1975	33.547%	15.46%
1976	37.279%	15.41%

The above rates have been applied on the basis of total direct costs less commodities, freight, AID/Mission payments, subcontracts and subgrants. The following is an illustration of a questionable application of overhead to direct costs.

Under Grant No. AID/Pha-G-1131, PPFA procured office equipment in the amount of \$16,281 with AID funds and applied the overhead rate. This was done despite the fact that both AID and PPFA agreed during prior cost proposal negotiations that commodities are not subject

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to the overhead rate. In our view, office equipment purchases should be considered as part of the commodity cost category. Accordingly, we reclassified this cost. (See Exhibit C)

Recommendations Nos. 1 through No. 5 in prior Audit Report No. 80-21 remain open pending resolution by the Contracting Officer. However, recommendation Nos. 6 and 7 as originally presented have been considered closed and, as a result of this review, have been restated as follows:

Recommendation No. 1

SER/CM, Office of Contract Management, review the auditors' evaluation of overhead and negotiate final overhead rates for the years 1975 and 1976 pursuant to the requirements of the grants.

Recommendation No. 2

SER/CM, Office of Contract Management, review with Planned Parenthood Federation of America the principles for the future allocation of overhead to the AID grant as a basis for achieving mutual agreement on written guidelines for overhead determination and audit purposes.

Management Comments

We have discussed our recomputation of PPFA's overhead rates with appropriate AID contracting officials, and they have agreed with our methodology for computing overhead.

PLANNED PARENTHOOD FEDERATION OF AMERICA, INC.

Summary of Grant Data

Grant Number	AID/csd-3289	AID/pha-G-1131
Ceiling Price	\$ 13,500,000	\$ 27,720,317
Expiration Date	September 30, 1975 ^{a/}	December 31, 1978
Project Number	932-11-580-955	932-11-580-955
Project Title	Family Planning Programs for CWS and Charitable Organizations	Family Planning International Assistance
Audit Period	1/1/75-12/31/76 ^{a/}	10/1/75-12/31/76
Type of Audit	Interim ^{b/}	Interim

a/ Although the expiration date of the grant is September 30, 1975, Amendment No. 16 (dated 11/19/79) states that while no new sub-grants and commodities may be awarded after September 30, 1975, expenditures for those items may be made through March 31, 1977.

b/ All costs claimed by PPFA from inception through December 30, 1976, under this grant have been audited except for approximately \$152,000 claimed during 1977.

PLANNED PARENTHOOD FEDERATION OF AMERICA, INC.

Grant No. AID/csd-3289

Summary of Costs Claimed and Costs Questioned
For the Period June 30, 1971 through December 31, 1976

<u>Description</u>	<u>Costs Previously Accepted thru 12/31/74</u>	<u>Current Period</u>	
		<u>Costs Claimed 1/1/75-12/31/76</u>	<u>Costs Questioned</u>
Direct Salaries	\$ 1,280,111	\$ 417,877	\$
Fringe Benefits	115,820	45,450	
Consultants	216,344	450	
Travel	231,216	107,798	466 ^{b/}
Other Direct Costs	<u>738,743^{c/}</u>	<u>297,485^{e/}</u>	<u>4,254^{c/}</u>
Subtotal - Subject to Overhead	\$ 2,582,234	\$ 869,060	\$ 4,720
Overhead	720,755	234,473 ^{a/}	100,716 ^{d/}
Subgrants	2,833,476	2,439,032 ^{e/}	(4,254) ^{c/}
Administration Charge on Subgrants		121,952	(226) ^{c/}
Contraceptives		(321)	
Commodities	1,529,056	646,319	
Freight		<u>93,668</u>	
Total	<u>\$ 7,665,521</u>	<u>\$ 4,404,183^{a/}</u>	<u>\$ 100,956</u>

EXPLANATORY NOTES

a/ During this audit period the grantee had been reimbursed \$718,303 for overhead. Thereafter, in CY-1978, following negotiations with AID, a refund of \$483,830 was made covering overhead for CYs 1975 and 1976. The referenced amount of \$234,473 reflects the overhead repayment to AID (\$718,303 - \$483,830). Similarly, we have reduced the current period reimbursements of \$4,888,013 by \$483,830 to arrive at the adjusted amount of \$4,404,183.

b/ Represents meals purchased by PPFA's employees, while in travel status, for their guests. Such expenditures are considered as entertainment, and are therefore unallowable. PPFA concurs with this adjustment.

c/ 1. The amount of \$4,254 represents the reclassification costs for performing audits on subgrants that properly should be included in the subgrants cost category rather than part of other direct costs.

2. For information to the reader, we present the following tabulation showing the various cost elements included under the caption "Other Direct Costs" covering the period from inception of the grant through December 31, 1976:

Temporary Help	\$ 40,101
Auditing and Legal	3,878
Liability Insurance	37,240
Other Professional Fees	147,546
Telephone and Telegraph	111,363
Postage and Shipping	63,786
Occupancy Expense	322,904
Outside Art Work	8,139
Supplies	37,327
Xerox Machine Expense	47,134
Subscriptions	4,714
Office Equipment - Purchases	42,705
Office Equipment - Maintenance and Repair	70,860
Miscellaneous	<u>94,277</u>
TOTAL (\$738,743 + \$297,485 - \$4,254)	<u>\$ 1,031,974</u>

d/ The amounts attributable to overhead for the current audit period are shown in Exhibit D.

e/ Auditors deferred acceptance of these costs pending PPFA's compilation of subgrantee audit reports covering grant costs and their verification.

PLANNED PARENTHOOD FEDERATION OF AMERICA, INC.

Grant No. AID/pba-G-1131

Summary of Costs Claimed and Costs Questioned
For the Period October 1, 1975 through December 31, 1976

<u>Description</u>	<u>Costs Claimed by Grantee</u>	<u>Costs Questioned</u>
Direct Salaries	\$ 688,840	\$
Fringe Benefits	79,736	
Travel	118,077	
Other Direct Costs	<u>506,545</u>	<u>19,554</u> ^{a/}
Subtotal - Subject to Overhead	\$ 1,393,198	\$ 19,554
Overhead	420,623	208,825 ^{b/}
Subgrants	1,360,031 ^{c/}	(3,273)
Administrative Charge on Subgrants	68,001	
Commodities	468,899	(16,281)
Freight	<u>373,230</u>	<u> </u>
TOTAL	<u>\$ 4,083,982</u>	<u>\$ 208,825</u>

EXPLANATORY NOTES

a/ 1. The amount of \$3,273 represents the reclassification of costs for performing audits on subgrants that properly should be included in the subgrant cost category rather than part of other direct costs.

2. For information to the reader, we present the following tabulation showing the various cost elements included under the caption "Other Direct Costs" covering the period from inception of the grant (October 1, 1975) through December 31, 1976:

Temporary Help	\$ 14,748
Auditing and Legal	1,780
Liability Insurance	7,233
Other Professional Fees	82,419
Telephone and Telegraph	62,788
Postage and Shipping	35,320
Occupancy Expense	106,057
Outside Art Work	4,330
Supplies	14,069
Xerox Machine Expense	18,730
Subscriptions	2,475
Moving and Relocation	10,024

Miscellaneous (Fringe Benefits for Overseas Personnel, Travel and Per Diem for Non-Grant Personnel Attending Special Conferences, Alan Guttmacher Institute, etc.) 127,018

TOTAL (\$506,545 - \$19,554) \$ 486,991

3. The amount of \$16,231 represents the reclassification of costs for office equipment purchases that should be included in the commodity cost category rather than part of other direct costs.

Allowance of office equipment purchases under Grant AID/csd-3289 as a direct cost subject to overhead was questioned during our audit. However, we did not adjust because of acceptance by the grant officer of this accounting application during the previous audit period. Under Grant AID/Pha-G-1131 all office equipment purchased with AID funds will be treated as commodities not subject to overhead.

- b/ The amounts attributable to overhead for the current audit period are shown in Exhibit D.
- c/ Auditors deferred acceptance of these costs pending PPFA's compilation of subgrantee audit reports covering grant costs and their verification.

PLANNED PARENTHOOD FEDERATION OF AMERICA, INC.

Determination of Allocable Overhead Expense
For Calendar Years 1975 and 1976

		<u>Grant</u>	<u>Numbers</u>
		<u>AID/csd-3289</u>	<u>AID/pba-G-1131</u>
<u>Total Direct Costs Subject to Overhead</u>	(A)		
CY-1975		\$ 803,943	\$ 170,920
CY-1976		<u>60,397</u>	<u>1,202,724</u>
TOTAL		<u>\$ 864,340</u>	<u>\$ 1,373,644</u>
<u>Audited Overhead Rates</u>	(B)		
CY-1975		15.48%	15.48%
CY-1976		15.41%	15.41%
<u>Overhead Accepted by Auditor (A x B)</u>			
CY-1975		\$ 124,450	\$ 26,458
CY-1976		<u>9,307</u>	<u>185,340</u>
TOTAL	(C)	<u>\$ 133,757</u>	<u>\$ 211,798</u>
Grantee's Overhead Reimbursements		\$ 718,303	\$ 420,623
Deduct: Overhead Refund to AID Pursuant with Prior Negotiations		<u>483,830</u>	
Net Overhead Reimbursement	(D)	<u>\$ 234,473</u>	<u>\$ 420,623</u>
Overhead Due from Grantee (D - C)		<u>\$ 100,716</u>	<u>\$ 208,825</u>
		Exhibit B	Exhibit C

PLANNED PARENTHOOD FEDERATION OF AMERICA, INC.

Determination of Overhead Rates
For Calendar Years 1975 and 1976

Description	CY-1975			CY-1976			Note Reference
	Overhead Pool	Overhead Base	Overhead Rate	Overhead Pool	Overhead Base	Overhead Rate	
Grantee's (PFPA) Revised Overhead Proposal	\$ 1,659,509	\$ 4,946,719	33.547%	\$ 1,926,110	\$ 5,166,779	37.279%	
Auditor's Adjustments and/or Reclassifications							
<u>Direct Programs</u>							
Total Costs Allocated to Overhead Pool PFPA	\$ 639,275						
Deduct:							
Information & Education Department - Library	\$ 63,236						
Research Department - Archives	16,597						
Total Direct Program Costs to Remain in Pool	\$ 79,833						
Balance Reclassified from Pool into Overhead Base	\$ 559,442	\$ (559,442)		\$ 699,621	\$ (699,621)		b
Understated FPIA Direct Program Costs		(6,000)			(20,836)		c
<u>Administrative Expenses</u>							
Netted Expenditures	44,576	(44,576)					
Depreciation Applicable to Direct Programs	44,823	(44,823)		57,701	(57,701)		d
FPIA Publication Costs	84,513	(84,513)		41,709	(41,709)		e
Audit Fees on Subgrants	110	2,202		109,957	(109,957)		f
Legal Expenses Related to Abortion Matters		(37,045)			5,325		g
Fund Raising Expenses for the Federal Services Campaign		(90,696)			(89,421)		h
5% Administrative Charge on Subgrant Costs	11,517				(87,185)		i
Consultation Expense (Activity 5011)				6,643			j
Other Professional Fees (Activity 5011)				9,507	(9,507)		k
Conference - Meetings (Activity 5011)				3,750	(3,750)		k
Staff Travel (Activity 5011)	414	(414)		1,602	(1,602)		k
Other Professional Fees (Activity 5012)	2,760	(2,760)		8,095	(8,095)		k
Conference - Meetings (Activity 5012)	1,077	(1,077)		640	(640)		k
Staff Travel (Activity 5012)	7,602	(7,602)		4,093	(4,093)		k
				8,012	(8,012)		k
Total Adjustments and/or Reclassifications	\$ 757,714	\$ (878,426)		\$ 953,090	\$ (1,146,564)		
TOTAL (After Adjustments)	\$ 901,795	\$ 5,025,145	15.40%	\$ 973,020	\$ 6,313,343	15.41%	

() Denotes an Increase

EXPLANATORY NOTES

- a. For overhead rate computation purposes, AID program costs, i.e., Family Planning International Assistance are fully included as part of the overhead base; the Resources (fund raising), field offices, and training functional program costs are treated similarly. However, the individual cost elements in the remaining five direct programs are arbitrarily assigned to either the overhead pool or the direct cost base.

The absence of well-defined costing guidelines for overhead rate computation purposes, coupled with the inconsistent treatment of Family Planning International Association program costs from most other program costs, is the basis for our adjustment. The costing inconsistency referred to above and its inequitable results are presented in the following tabulation for CY-1976, showing the nine direct program areas and Planned Parenthood's disposition of their related costs to the overhead pool and base, notwithstanding the similarity of costs in all nine program areas or whether benefits were received.

<u>Direct Programs</u>	<u>Total Costs</u>	<u>PPFA's Assignment to Overhead</u>	
		<u>Pool</u>	<u>Base</u>
FPIA (AID work)	\$ 1,256,015	\$	\$ 1,256,015
Resources (Fund Raising)	736,441		736,441
Field Offices	685,421		685,421
Training	96,728		96,728
Information and Education	698,782	176,921	521,861
Community Affairs	190,045	80,828	109,217
Alan Guttmacher Institute	1,638,782	352,785	1,285,997
Medical	336,162	165,773	170,389
Research	45,804	17,455	28,349
Total	<u>\$ 5,684,180</u>	<u>\$ 793,762</u>	<u>\$ 4,890,418</u>

- b. Represents reclassification into the total direct cost base of those direct program costs except Library (less PPFA indirect expense which generated incomes) and Archives treated by Planned Parenthood as General and Administrative (overhead) expense.

- c. Proposal submitted by PPFA for CYs 1975 and 1976 understated both the actual claims reimbursed by AID for direct FPIA program costs and FPIA project ledgers.
- d. PPFA related indirect expense, which generated income should be included in the direct cost base for absorption of its proportionate share of General and Administrative expense. The proposal included the indirect expense in the overhead pool.
- e. Planned Parenthood Federation of America included an adjustment for Equipment Depreciation in the overhead pool. Since all other costs are on a direct-program basis, the category of depreciation should be treated similarly. The adjustment represents a reclassification of that portion of the depreciation allocable to direct programs from the overhead pool to the total direct cost base as shown in the following tabulation:

	Year	
	1975	1976
<u>Depreciation allocated to:</u>		
Direct Programs	\$ 41,015	\$ 37,471
Fund Raising (Included in Support Services by PPFA. We consider this area a direct function and hence should be included with other direct programs):	3,808	4,238
Subtotal - Amount reclassified from overhead pool to overhead base by auditor	\$ 44,823	\$ 41,709
Support Services (Administrative Expenses)	17,605	18,826
Total Depreciation	\$ 62,428	\$ 60,535

- f. PPFA transferred to financial management expense \$84,513 in 1975 and \$109,957 in 1976 from FPIA (grant funds). We found these costs were reimbursed by AID as direct costs with the applicable overhead. These transfers represent the cost of publications prepared by PPFA for FPIA. The effect is dilutions of the base and an increase in the indirect expense.
- g. Represents audit fees on subgrants (and related 5 percent Administrative Expense, applicable only in 1975) incorrectly included in the category of Other Direct Costs. By this treatment, these audit fees are subject to overhead at the full rate. These costs are part of the subgrant costs, subject to overhead at the reduced 5 percent negotiated rate; this is accomplished by the indicated audit adjustment.
- h. The referenced amounts represent the reinstatement by the auditor of legal fees related to abortion matters erroneously excluded from the base overhead expense by Planned Parenthood. We believe these items should not have been excluded since they too generate overhead:

<u>Department/Function</u>	<u>1975</u>	<u>1976</u>
Legal Department	\$ 11,468	\$ 20,372
Alan Guttmacher Institute	<u>25,577</u>	<u>69,049</u>
Total	<u>\$ 37,045</u>	<u>\$ 89,421</u>

- i. The referenced amounts represent PPFA's fund raising expenses in connection with their participation in the Federal Service Campaign. These amounts were eliminated by the company from the overhead rate computation. These amounts are part of a direct program (i.e., Fund Raising) and should properly be included in the overhead base in order to absorb its share of allocable overhead expense. The audit adjustment reinstates the referenced amounts with the total direct cost base for computing overhead rates.

- j Represents 5% administrative charge applicable to affiliates and subgrants classified as unallowable in the proposal by PPFA and not included in the overhead pool as follows:

<u>Activity</u>	<u>CY 1975</u>	<u>CY 1976</u>
Administration	\$ 25,600	\$ 51,641
Board Affairs	100	250
Information and Education	4,743	53,260
Community Affairs	475	-
Alan Guttmacher	190	231
Field	1,540	-
Medical	4,950	1,500
FPIA	<u>192,749</u>	<u>25,972</u>
Total Costs	<u>\$230,347</u>	<u>\$132,854</u>
Administrative Charge @5%	<u>\$ 11,517</u>	<u>\$ 6,643</u>

- k. These costs, generally incurred for specific purposes, should properly be included (as direct costs, and not as overhead items) in the total direct cost base for overhead rate computations. Accordingly, we have reclassified the referenced amounts from the overhead pool into the total direct cost base.

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