AUDIT

OFFICE OF
INSPECTOR GENERAL
U.S.DEPARTMENT OF THE INTERIOR

BUREAU OF LAND MANAGEMENT COOPERATIVE AGREEMENT NO. L12AC20673 WITH UTAH CORRECTIONAL INDUSTRIES

Report No.: 2015-WR-062

November 2015

OFFICE OF INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

NOV 27 2015

Memorandum

To: Maria Gochis
Grants Management Officer, Utah State Office
Bureau of Land Management

From: Michael P. Colombo
Western Regional Manager for Audits, Inspections, and Evaluations

Subject: Final Audit Report – Bureau of Land Management Cooperative Agreement No. L12AC20673 With Utah Correctional Industries
Report No. 2015-WR-062

This memorandum transmits the results of our audit of incurred costs claimed by the Utah Correctional Industries (UCI) under Cooperative Agreement No. L12AC20673 with the Bureau of Land Management (BLM). This agreement was awarded through the Wild Free-Roaming Horses and Burros Act, which funds initiatives to control the wild horse population and increase the number available for public adoption. The period of performance for this agreement was from September 30, 2012, through October 31, 2014.

As of November 15, 2013, the agreement had been modified three times, with a total of $3,264,870 in obligated funds. We audited a total of $3,918,437 in costs claimed by UCI from September 30, 2012, through October 31, 2014.[1] We identified $1,303,455 in unallowable costs and $628,244 in unsupported costs for a total of $1,931,699 in questioned costs. The audit results section of this report provides details on these costs. We also make two recommendations to BLM to resolve the costs.

Background

UCI, a division of Utah's Department of Corrections, offers products and services to State agencies and local governments. As part of its mission, UCI employs inmates and trains them in general work habits and skills to increase their employment prospects when released from prison. These inmates provide the labor for UCI's products and services. UCI offers products such as office furniture and seating, printing, signs, and embroidery, as well as labor-intensive services such as general construction. UCI is completely self-supported and derives its revenues solely from the sales of its products and services.

[1] UCI provided BLM a summary spreadsheet to justify claimed costs under Cooperative Agreement No. L12AC20673. While it provided a convenient means to inform BLM of claims against the Cooperative Agreement, we found that not all data reported in the workbook was traceable to UCI's general ledger (FINET).

On March 19, 2007, BLM entered into an initial cooperative agreement with UCI for a horse-gentling program. According to the agreement, the horse-gentling program would further BLM's Wild Horse and Burro Program by increasing the number of horses available for adoption by the public. In return, the horse-gentling program would provide inmates with work opportunities and rehabilitation through caring for, feeding, training and gentling wild horses. Under the agreement, UCI would establish the program at the Central Utah Correctional Facility in Gunnison, UT, and BLM would house its wild horses there. BLM amended the cooperative agreement a number of times to extend the performance period to September 30, 2012, and increase funding provided to UCI.

On September 27, 2013, the U.S. Department of Interior Office of Inspector General (OIG) issued an audit report titled "Cooperative Agreement No. JSA071001/L08AC13913 between the Utah Correctional Industries and the Bureau of Land Management" (Report No. WR-CA-BLM-0013-2013). Of the $5,338,880 claimed by UCI, we questioned $1,076,464 and classified $928,089 as unsupported. We found that UCI's accounting systems did not fully comply with the standards set forth in Title 43 of the Code of Federal Regulations (C.F.R.) § 12.60 for financial reporting, budget control, and allowable costs. UCI's financial systems were designed for enterprise funds and were not adapted to the C.F.R. standards.

On September 30, 2012, BLM awarded a second agreement—Cooperative Agreement No. L12AC20673—to UCI to continue the horse-gentling program through June 30, 2013. BLM modified the agreement on November 15, 2013, to extend the performance period to September 30, 2017. BLM also substantially modified the scope of the agreement by taking over control of the hay purchasing function from UCI because of continued concerns about UCI's claimed costs. On November 20, 2014, BLM issued a Notification of Closeout and Deliverable Requirements to confirm an agreed upon termination of the cooperative agreement, effective October 31, 2014, and BLM requested that we perform an audit of UCI's claimed costs under the agreement.

Objectives

The objectives of this audit were to determine whether the costs claimed under the cooperative agreement were—

- allowable under applicable Federal laws and regulations;
- allocable to the cooperative agreement and incurred in accordance with its terms and conditions; and
- reasonable and supported.

The Attachment provides our audit scope and methodology.

Results of Audit

We based our determination of questioned costs on our review and evaluation of UCI's costs. We identified costs as unsupported when we were given insufficient documentation related to the costs. We identified costs as unallowable when we determined that they were either unreasonable or not allowable under the terms of the cooperative agreement or applicable provisions of 2 C.F.R. part 225.

Questioned Costs Totals

Of the $3,918,437 in claimed costs, we identified $1,303,455 in unallowable costs and $628,244 in unsupported costs, totaling $1,931,699 in questioned costs. A summary of the claimed, unallowable, and unsupported costs by category is shown in Figure 1, with notes explained below.

Category Description	Claimed Costs	Unallowable Costs	Unsupported Costs	Total Questioned Costs	Notes
Salaries & Wages	$322,216	$85,701	$0	$85,701	1
Fringe Benefits	303,487	88,655	0	88,655	2
Travel, Per Diem & Education/Training	4,904	0	0	0	
Supplies & Materials	2,583,891	1,109,696	27,162	1,136,858	3
Services	77,603	4,054	0	4,054	4
Other Costs	25,254	15,349	0	15,349	5
Subtotal	**$3,317,355**	**$1,303,455**	**$27,162**	**$1,330,617**	
Indirect Costs	601,082	0	601,082	601,082	6
Grand Total	**$3,918,437**	**$1,303,455**	**$628,244**	**$1,931,699**	

Figure 1. Unallowable and unsupported costs under BLM Cooperative Agreement No. L12AC20673.

Notes

1. **Salaries and Wages – Claimed Costs of $322,216; Unallowable Costs of $85,701**

   UCI claimed $322,216 in salaries and wages, as summarized in Figure 2.

Position	Claimed Salaries and Wages	Unallowable Salaries and Wages	Notes
Wrangler Manager	$59,321	$59,321	a
Wrangler Supervisor	89,956	5,762	b
Wrangler	116,096	10,119	c
Wrangler Helper	47,681	1,337	d
Finance Payroll	9,162	9,162	e
Salary and Wages Total	**$322,216**	**$85,701**	

Figure 2. Unallowable salaries and wages under BLM Cooperative Agreement No. L12AC20673.

a. **Wrangler Manager – Claimed Costs of $59,321; Unallowable Costs of $59,321**

   We found that UCI double billed the cooperative agreement for the Director's salary by using both the direct allocation and indirect cost rate. UCI internally recorded all of the Director's salary as indirect, but claimed 30 percent against the cooperative agreement for serving as the Wrangler Manager, which is a direct program function. To support an allocation between program (direct) and administrative (indirect) functions, 2 C.F.R. part 225, Appendix B, § 8.h.(4) states that an employee will prepare a personnel activity report, or equivalent, to substantiate the distribution. A review of the Director's timesheets, however, showed that he did not report time to any direct function. Therefore, we considered the 30 percent direct salaries and wages allocation to be unallowable.

b. **Wrangler Supervisor – Claimed Costs of $89,956; Unallowable Costs of $5,762**

   We classified $5,762 as unallowable because these costs were incurred after the cooperative agreement ended on October 31, 2014.

c. **Wrangler – Claimed Costs of $116,096; Unallowable Costs of $10,119**

d. **We classified $10,119 as unallowable because these costs were incurred after the cooperative agreement ended on October 31, 2014.**

e. **Wrangler Helper – Claimed Costs of $47,681; Unallowable Costs of $1,337**

   We classified $1,337 as unallowable because these costs were incurred after the cooperative agreement ended on October 31, 2014.

f. **Finance Payroll – Claimed Costs of $9,162; Unallowable Costs of $9,162**

   UCI claimed a portion of the financial manager's and financial analyst's time directly to the cooperative agreement and indirect cost rate. As with the Director, 2 C.F.R. part 225, Appendix B, § 8.h.(4) requires supporting documentation to substantiate the time allocation between direct and indirect activities. While UCI's payroll system reported billings against the cooperative agreement, it did not match the amount UCI reported to BLM, nor did the timesheets for these employees provide sufficient details to meet the level of acceptability required by the C.F.R. This resulted in double billing against both the cooperative agreement and indirect cost rate. Therefore, we considered the direct salaries and wages of UCI's finance personnel charged to the agreement as a direct cost to be unallowable.

2. **Fringe Benefits – Claimed Costs of $303,487; Unallowable Costs of $88,655**

   We classified $88,655 as unallowable to exclude fringe benefits for the applicable, unallowable salaries and wages stated in Note 1 (a – e).

3. Supplies and Materials – Claimed Costs of $2,583,891; Unallowable Costs of $1,109,696; Unsupported Costs of $27,162

UCI claimed $2,583,891 in supplies and materials, as summarized in Figure 3.

Category Description	Claimed Costs	Unallowable Costs	Unsupported Costs	Notes
Hay	$2,411,275	$1,016,882	$0	a
Electricity	29,335	2,173	27,162	b
Water	39,400	39,400	0	c
HVAC Filters	48,986	48,986	0	d
Depreciation	10,962	840	0	e
Shop Supplies	10,957	826	0	f
Misc. Repairs/Equip.	32,976	589	0	g
Supplies and Materials Total	**$2,583,891**	**$1,109,696**	**$27,162**	

Figure 3. Unallowable supplies and materials under BLM Cooperative Agreement No. L12AC20673.

a. Hay – Claimed Costs of $2,411,275; Unallowable Costs of $1,016,882

UCI claimed hay costs totaling $2,411,275. UCI claimed it incurred $1,098,105 in October 2012: $822,383 for UCI to purchase a starting hay inventory and $275,722 for hay purchased for the remainder of the month. The request for reimbursement that UCI provided to BLM, however, claimed $836,955 in beginning hay inventory, with total October 2012 hay costs of $1,112,677. Upon review of supplemental support, we determined $642,785 of the beginning hay inventory reimbursed to UCI consisted of purchases that took place prior to the start of the cooperative agreement on September 30, 2012. We verified that the remaining $194,170 was invoiced on or after the start of the cooperative agreement. Furthermore, our review of all other hay transactions, incurred from November 1, 2012, through October 31, 2014, revealed support for $1,200,223 in allowable purchases. After factoring all the supported hay costs, we calculated the following:

Total Claimed Hay Costs	$2,411,275
Less: Verified "Inventory Hay Purchase"	(194,170)
Less: Verified Hay Purchases	(1,200,223)
Unallowable Hay Costs	$1,016,882

Therefore, we considered $1,016,882 as unallowable.

b. Electricity – Claimed Costs of $29,335; Unallowable Costs of $2,173; Unsupported Costs of $27,162

UCI claimed electricity costs totaling $29,335. Our review of the supporting documentation UCI provided determined that these amounts were based on the belief that the facility used by horse program staff in Gunnison, UT, would have used a quarter of the amount of electricity used at UCI's administrative trailer in Draper, UT. Although UCI was able to demonstrate that it had incurred a cost for electricity used for the program, the support did not distinguish how much was attributed to the cooperative agreement. In addition, UCI claimed $2,173 for electricity costs incurred after the cooperative agreement ended on October 31, 2014. Therefore, we classified $2,173 as unallowable and the remaining $27,162 as unsupported.

c. Water – Claimed Costs of $39,400; Unallowable Costs of $39,400

UCI claimed water costs totaling $39,400. UCI's former financial manager estimated monthly water charges based on assumptions about the average daily amount of water consumed by horses and the price of water that would be paid if purchased from the City of Gunnison. UCI's Director believed this calculation was a reasonable basis for charging BLM. The Director, however, also confirmed that UCI does not pay for water because it comes from State-owned wells and is made available to State agencies at no cost. According to the current financial manager, while UCI does not incur a cost for water, there is an associated cost of pumping water. We could not accurately determine how much of these costs were directly attributed to the cooperative agreement with the support provided. Therefore, we considered $39,400 as unallowable.

d. HVAC Filters – Claimed Costs of $48,986; Unallowable Costs of $48,986

UCI claimed HVAC filter costs totaling $48,986. UCI's former financial manager estimated monthly filter replacement costs of $2,041. The financial manager's rationale was that the replacement frequency was increased due to the high number of BLM horses at the Gunnison facility. UCI's Director told us that the Utah Department of Air Quality conducted a feasibility study to justify the replacement rate, but this report was never provided, nor were we able to obtain substantial support for the amount claimed to replace HVAC filters. Therefore, we considered $48,986 as unallowable.

e. Depreciation – Claimed Costs of $10,962; Unallowable Cost of $840

We classified $840 as unallowable because these costs were incurred after the cooperative agreement ended on October 31, 2014.

f. Shop Supplies – Claimed Costs of $10,957; Unallowable Costs of $826

We classified $826 as unallowable because these costs were incurred after the cooperative agreement ended on October 31, 2014.

g. Misc. Repairs/Equip. – Claimed Costs of $32,976; Unallowable Costs of $589

We classified $589 as unallowable because these costs were incurred after the cooperative agreement ended on October 31, 2014.

4. **Services – Claimed Costs of $77,603; Unallowable Costs of $4,054**

   We classified $4,054 as unallowable because these costs were incurred after the cooperative agreement ended on October 31, 2014.

5. **Other Costs – Claimed Costs of $25,254; Unallowable Costs of $15,349**

   UCI claimed other costs totaling $25,254. Included in other costs was a $15,349 line item for a Kubota RTV1100 utility vehicle. Our review of supporting documentation determined that the vehicle was obtained prior to the start of this cooperative agreement, but was reimbursed for after the agreement was in place. Therefore, the cost of the vehicle is unallowable. In addition, BLM took possession of the vehicle after the agreement ceased on October 31, 2014.

6. **Indirect Costs – Claimed Costs of $601,082; Unsupported Costs of $601,082**

   On July 15, 2013, UCI established a provisional indirect cost rate of 67.51 percent for Fiscal Years (FYs) ending June 30, 2013 and 2014. We determined that UCI personnel did not finalize the rates for these periods with the Interior Business Center, the U.S. Department of the Interior's agency responsible for negotiating indirect cost rates as required. As part of our audit, we determined that UCI's actual incurred costs adequately supported the provisional rate. UCI, however, is still required to submit an indirect cost rate proposal and related supporting documentation and obtain final rates for FYs 2013 through 2015 under 2 C.F.R. part 225, Appendix E, § D.1.(d). Therefore, we considered all indirect costs, totaling $601,082, unsupported.

Recommendations

We recommend that BLM:

1. Resolve unallowable costs of $1,303,455 for Cooperative Agreement No. L12AC20673; and

2. Resolve unsupported costs of $628,244 for Cooperative Agreement No. L12AC20673.

Response to Report

We will be referring these recommendations to the Assistant Secretary for Policy, Management and Budget for resolution and tracking of implementation. If you have any questions regarding this report, please contact me at 916-978-5653.

The legislation creating the Office of Inspector General requires that we report to Congress semiannually on all audit, inspection, and evaluation reports issued; actions taken to implement our recommendations; and recommendations that have not been implemented.

Attachment

Scope and Methodology

Scope

Our audit work included reviewing costs claimed by Utah Correctional Industries (UCI) under Cooperative Agreement No. L12AC20673. These costs totaled $3,918,437 for the period of September 30, 2012, through October 31, 2014. We performed our audit at UCI's administrative office in Draper, UT, and at our office in Sacramento, CA.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Methodology

To meet these objectives, we—

- interviewed the grants management officer, the UCI Division Director, and other appropriate individuals;
- reviewed the cooperative agreement and associated requests for reimbursement and financial status reports;
- reviewed Title 2 of the Code of Federal Regulations, part 225, "Cost Principles for State, Local, and Indian Tribal Governments" for regulations pertaining to claimed costs;
- reviewed UCI policies on staff payroll and inmate stipends;
- reviewed support for claimed costs provided by UCI;
- reviewed the provisional Negotiated Indirect Cost Rate agreements for FY 2013 and 2014; and
- reviewed indirect cost rates for FY 2013 and 2014.

We were unable to rely on computer-generated data to review claimed program costs or the indirect cost rate without substantiating this data with copies of actual invoices and timesheets. Based on our test results, we either accepted the data or performed additional testing. For other direct costs, we took samples of costs and verified them against source documents, such as purchase orders, invoices, bills of lading, and payment documentation. For personnel costs, we selected UCI employees who charged time to one or more program activity and verified their hours against timesheets and other supporting data. In addition, a 2011 report from the Utah State Auditors found issues with the separation of duties and the inventory valuation and reconciliation.

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