**AUDIT OF THE OFFICE OF JUSTICE PROGRAMS NATIONAL INSTITUTE OF JUSTICE COOPERATIVE AGREEMENTS WITH AKELA, INCORPORATED SANTA BARBARA, CALIFORNIA**

U.S. Department of Justice
Office of the Inspector General
Audit Division

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# AUDIT OF THE
# OFFICE OF JUSTICE PROGRAMS
# NATIONAL INSTITUTE OF JUSTICE
# COOPERATIVE AGREEMENTS WITH
# AKELA, INCORPORATED
# SANTA BARBARA, CALIFORNIA

## EXECUTIVE SUMMARY

The U.S. Department of Justice Office of the Inspector General, Audit Division, has completed an audit of two cooperative agreements (2007-RG-CX-K016 and 2009-SQ-B9-K113) awarded by the Office of Justice Programs (OJP), National Institute of Justice to AKELA, Incorporated (AKELA), located in Santa Barbara, California.[1] The purpose of both agreements was to fund development of a portable radar system, which would provide law enforcement with the capability to detect individuals, behind a wall from 30 meters away. OJP awarded AKELA a total of $1,956,985 under both agreements. As of December 2011, AKELA reported agreement-related expenditures totaling $949,990 (95 percent) of the 2009 award, and $956,995 (100 percent) of the completed 2007 award. For the 2009 agreement our audit covered expenditures totaling $219,730 for the program period beginning September 2009 through our July 19, 2010, entrance conference. For the 2007 agreement, our audit covered the $956,995 in expenditures from September 2007 through the agreement's administrative closeout completed in July 2010.

The purpose of our audit was to determine whether costs claimed under cooperative agreements 2007-RG-CX-K016 and 2009-SQ-B9-K113 were allowable, reasonable, and in accordance with applicable laws, regulations, guidelines, and terms and conditions of the cooperative agreements. The objective of our audit was to review performance in the following areas: (1) internal control environment; (2) drawdowns; (3) program income; (4) expenditures including payroll, fringe benefits, indirect costs, and accountable property; (5) matching; (6) budget management; (7) monitoring of sub-recipients and contractors; (8) reporting; (9) award requirements; (10) program performance and accomplishments; and (11) post end date activity. We determined that program income, matching, and monitoring of sub-recipients were not applicable to the cooperative agreements we audited.

[1] The American Recovery and Reinvestment Act of 2009 (Recovery Act) funded cooperative agreement 2009-SQ-B9-K113.

Based on our audit testing, we determined that AKELA did not comply with all of the cooperative agreement requirements we tested, thereby resulting in net questioned costs of $1,906,985. Specifically, we found the following exceptions:

- We noted that as of our entrance conference, AKELA had not obtained a financial and compliance audit for fiscal year (FY) 2007 or on a bi-annual basis as required by the cooperative agreements' special conditions.[2]

- We identified significant internal controls weaknesses that adversely affected AKELA's ability to safeguard award funds and assets. Specifically, AKELA lacked written policies and procedures for key processes such as disbursements, petty cash, procurement, and receipt of goods. AKELA also lacked adequate segregation of record keeping and cash handling or custodial duties. In particular, it was noted that blank checks may be signed in advance for use by the office manager during the absence of the authorized signer.

- AKELA's accounting records contained discrepancies including inconsistencies in the agreement-related balance sheet and income statements.

- AKELA improperly drew down, more than 10 days in advance, $83,056 in award funds that it spent on expenditures that did not relate to the two cooperative agreements. According to AKELA's President, he directed the drawdown in order to cover payroll expenditures for the entire company and not just the payroll relating to the agreements.

- Direct agreement expenditures charged to the agreement in the amount of $22,142 were found to be unallowable, unapproved, or unsupported. Specifically, we found the following issues:

  - $1,025 in unapproved salary and fringe benefit costs for agreement-related personnel timesheets, which were not authorized by the company's President in accordance with AKELA's policies;

[2] After we began our audit, AKELA hired a firm to perform a financial and compliance audit of its FY 2009 operations. The report, issued in February 2011, expressed an unqualified opinion, and identified two significant deficiencies in internal controls.

- o $19,970 in unsupported expenditures, which in part includes consulting fees, outside services, travel expense, parts, and equipment; and

- o $1,147 in unallowable profits for radar arrays.

- Indirect agreement expenditures charged to the agreement in the amount of $82,476 were found to be unallowable and unapproved.[3] Specifically, we found the following issues:

  - o $56,147 in indirect costs in excess of OJP approved indirect cost rates;

  - o $67,787 in indirect costs for unallowable prior period costs, which included salaries and fringe benefits paid to AKELA's personnel prior to the agreement period;

  - o indirect agreement expenditures for lunches, proposals and bonuses, totaling $72,982, were found to be unallowable; and

  - o without OJP's approval, AKELA increased indirect expenditures by $82,476 for the 2007 award.[4]

- One item of accountable property was not documented in compliance with property management requirements.

- Of the 14 Federal Financial Reports (FFR) filed with OJP, 6 were filed in an untimely manner between 1 and 3 days late and 8 of the 14 FFRs submitted were inaccurate. One FFR materially overstated the period expenditures by $71,248.[5]

- AKELA does not have policies and procedures to monitor its contractors as required.

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[3] Unallowable indirect costs were consolidated as $82,476 to prevent duplication of questioned costs among recommendations. Throughout the report each questioned indirect cost will be discussed at its full amount with an adjustment to remove duplication in the Schedule of Dollar Related Findings in Appendix II.

[4] According to 28 C.F.R Part 70, grantees are required to obtain prior approval for transfers from the direct to indirect cost category.

[5] In October of 2009, the financial reporting requirement for grantees transitioned from quarterly Financial Status Reports (FSRs) to quarterly FFRs. Throughout the report, we refer to both report formats as FFRs.

- AKELA has not completed two key award goals: (1) law enforcement evaluation of the radar and (2) obtain Federal Communications Commission approval of the radar system for use by law enforcement.

Based on the findings related to AKELA, we made 17 recommendations to OJP. These items are discussed in detail in the Findings and Recommendations section of the report. Our audit objective, scope, and methodology are discussed in Appendix I. Our Schedule of Dollar-Related Findings is located in Appendix II.

We discussed the results of our audit with officials from AKELA, and have included their comments in the report, as applicable. In addition, we requested from Anchorage and OJP written responses to a draft copy of our audit report. We received those responses and they are found in Appendices III and IV, respectively. Our analysis of those responses and the status of the recommendations are found in Appendix V.

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# AUDIT OF THE OFFICE OF JUSTICE PROGRAMS NATIONAL INSTITUTE OF JUSTICE COOPERATIVE AGREEMENTS WITH AKELA, INCORPORATED SANTA BARBARA, CALIFORNIA

## INTRODUCTION

The U.S. Department of Justice Office of the Inspector General (OIG), Audit Division, has completed an audit of two cooperative agreements (2007-RG-CX-K016 and 2009-SQ-B9-K113) awarded by the Office of Justice Programs (OJP), National Institute of Justice (NIJ) to AKELA, Incorporated (AKELA), located in Santa Barbara, California.[1] The purpose of both agreements was to fund development of a portable radar system, which would provide law enforcement with the capability to detect individuals, behind a wall from 30 meters away. As shown in Exhibit 1, OJP awarded AKELA a total of $1,956,985 under both agreements. As of December 2011, AKELA reported related expenditures totaling $949,990 (95 percent) of the 2009-SQ-B9-K113 award, and $956,995 (100 percent) of the completed 2007-RG-CX-K016 award. For the 2009 agreement our audit covered expenditures totaling $219,730 for the program period beginning September 2009 through our July 19, 2010, entrance conference. For the 2007 agreement, our audit covered the $956,995 in expenditures from September of 2007 through the agreement's administrative closeout completed in July 2010.

**EXHIBIT 1**
**NIJ COOPERATIVE AGREEMENTS WITH AKELA**

| Awards | | Award Start Date | Award End Date[2] | Award Amount |
|---|---|---|---|---|
| 2007-RG-CX-K016 | Initial | 08/01/07 | 07/31/08 | $ 493,551 |
| 2007-RG-CX-K016 | Supplemental | 08/01/07 | 01/31/10 | 463,444 |
| 2009-SQ-B9-K113 | Recovery Act | 08/01/09 | 04/30/12 | 999,990 |
| **Total** | | | | **$1,956,985** |

Source: OJP

[1] Cooperative agreement 2009-SQ-B9-K113 was funded by the American Recovery and Reinvestment Act of 2009.

[2] The Award End Date includes all time extensions that were approved by OJP.

The purpose of our audit was to determine whether costs claimed under cooperative agreements 2007-RG-CX-K016 and 2009-SQ-B9-K113 were allowable, reasonable, and in accordance with applicable laws, regulations, guidelines, and terms and conditions of the cooperative agreements. The objective of our audit was to review performance in the following areas: (1) internal control environment; (2) drawdowns; (3) program income; (4) expenditures including payroll, fringe benefits, indirect costs, and accountable property; (5) matching; (6) budget management; (7) monitoring of sub-recipients and contractors; (8) reporting; (9) award requirements; (10) program performance and accomplishments; and (11) post end date activity. We determined that program income, matching, and monitoring of sub-recipients were not applicable to the two cooperative agreements we audited.

## Recovery Act

On February 17, 2009, the President signed the *American Recovery and Reinvestment Act of 2009* (Recovery Act) into law. The purposes of the Recovery Act were to: (1) preserve and create jobs and promote economic recovery; (2) assist those most impacted by the recession; (3) provide investments needed to increase economic efficiency by spurring technological advances in science and health; (4) invest in transportation, environmental protection, and other infrastructure that would provide long term economic benefits; and (5) stabilize state and local government budgets in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

The Recovery Act provided $787 billion for tax cuts, education, health care, entitlement programs, contracts, grants, and loans. Of this amount, the Department of Justice received $4 billion in Recovery Act funds. Specifically, OJP received $2.7 billion of the $4 billion to administer through a variety of grant programs. OJP's NIJ was responsible for awarding and administering $10 million in Recovery Act funding, of which amount, AKELA received just under $1 million with its 2009 agreement. Recipients of Recovery Act funds are required to report on a quarterly basis to FederalReporting.gov on how they have spent their Recovery Act funds and the number of jobs created or saved.

## Background

OJP's mission is to increase public safety and improve the fair administration of justice through innovative leadership and programs. OJP's bureaus and offices develop and fund programs to form partnerships among federal, state, and local government officials in an effort to improve criminal justice systems, increase knowledge about crime, assist crime victims, and improve the administration of justice in America. Specifically, NIJ is the research, development, and evaluation agency within OJP and works to provide objective, independent, evidence-based knowledge and tools to meet the challenges of crime and justice, particularly at the state and local levels.

*AKELA, Incorporated*

AKELA is a research and development firm whose business focus is the creation of technological products and services for the military, security agencies, and law enforcement. AKELA was incorporated in California in 1993, and is a small, closely held company with fewer than 20 employees. In addition to NIJ, AKELA's customers are mostly federal agencies. According to AKELA, about 98 percent of its 2010 revenues came from federal agencies, such as:

- Defense Advanced Research Projects Agency;
- U.S. Air Force Rome Laboratory;
- U.S. Army Communications-Electronics Research, Development, and Engineering Center;
- U.S. Navy's Naval Facilities Engineering Service Center; and
- Department of Transportation Federal Aviation Administration Office of Aviation Security.

In addition, AKELA has been a subcontractor on government contracts with the Science Applications International Corporation, Toyon Research Corporation, and Raytheon Company. Besides the two NIJ agreements we audited, AKELA has had three previous awards that were funded directly or indirectly by the NIJ.[3] Four of the five NIJ awards to AKELA have carried the common purpose of developing a through-the-wall imaging system utilizing radar.

[3] Prior NIJ funded awards include one award funded solely by the NIJ and two funded with NIJ assistance through the Air Force Research Laboratory (AFRL). Award details are as follows: (1) NIJ award 1997-IJ-CX-K013 for Demonstration of Concealed Weapons Detection System Using Electromagnetic Resonances (1997 – 2000, $741,096), (2) AFRL award F30602-00-C-0205 for Through-the-Wall Imaging Radar (2000 – 2002), and (3) AFRL award F30602-03-C-0085 for a Random Array Through-the-Wall Imaging Sensor (2004 - 2005).

*Through-the-Wall Standoff Detection and Tracking of Individuals*

The purpose of both NIJ agreements that we audited was to fund the development of a portable radar system, which would provide law enforcement with the capability to deploy the unit more than 30 meters from a wall and detect individuals, on the other side of the wall or within a room. The NIJ agreements stipulated that the device should weigh less than 15 pounds and cost less than $5,000. The imagery this device provides would improve law enforcement situational awareness during tactical situations, as for example, a hostage situation.

The 2007 agreement was authorized by the Omnibus Crime Control and Safe Streets Act of 1968 and funded through the Justice Assistance Grant Program. Before receiving the 2007 agreement, AKELA had been funded by the U.S. Army to develop a similar radar system. With the 2007 agreement, AKELA was expected to capitalize on the U.S. Army's investment in this technology and convert it to law enforcement use. Phase one of the 2007 agreement included the following goals:

- design the through-the-wall detection system for low cost manufacturing and packaging,

- develop a law enforcement friendly graphical user interface, and

- obtain Federal Communications Commission (FCC) authorization of the radar product for use by law enforcement.

Phase two of the 2007 agreement included the following goals:

- reduce the weight of the through-the-wall detection system to no more than 15 pounds,

- refine the law enforcement friendly graphical user interface, and

- incorporate an all-weather case for easy transport.

The 2009 agreement was authorized by the Recovery Act as well as the Omnibus Crime Control and Safe Streets Act of 1968 and funded through the Edward Byrne Memorial Justice Assistance Grant Program.[4] The 2009 agreement tasked AKELA with the same goals that were part of the 2007 agreement, including the development of a low cost, FCC compliant, robust standoff imaging system to detect individuals on the other side of walls. Further, the NIJ notified AKELA that the FCC certification of the product should be AKELA's primary focus under the 2009 agreement.

### Audit Approach

We tested compliance with what we considered to be the most important conditions of the agreements. The criteria we audited against are found in the *OJP Financial Guide*, award documents, Code of Federal Regulations, Office of Management and Budget (OMB) Circulars, the Recovery Act, and Federal Acquisition Regulation. Specifically, we tested:

- **Internal Control Environment** – to determine whether the internal controls in place for the processing and payment of funds were adequate to safeguard the funds awarded to AKELA and ensure compliance with the terms and conditions of the NIJ cooperative agreements.

- **Drawdowns** – to determine whether drawdowns were adequately supported and if AKELA was managing receipts in accordance with federal requirements.

- **Expenditures** – to determine whether costs charged to the NIJ cooperative agreements, including payroll, fringe benefits, and indirect costs, were accurate, adequately supported, allowable, reasonable, and allocable. In addition, we tested expenditures related to the purchase of accountable property and equipment to determine whether AKELA recorded accountable property and equipment in its inventory records, identified it as federally funded, and utilized the accountable property and equipment consistent with the NIJ cooperative agreements.

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[4] Section 506 of Title I, Part E, Subpart 1 of the Omnibus Crime Control and Safe Streets Act of 1968, as amended, provides for the reservation of funds under the Edward Byrne Memorial Justice Assistance Grant Program for, among other things, "use by the National Institute of Justice in assisting units of local government to identify, select, develop, modernize, and purchase new technologies for use by law enforcement ...." 42 U.S.C. 3756.

- **Budget Management and Control** – to determine whether there were deviations between the amounts budgeted and the actual costs for each category.

- **Monitoring of Sub-Recipients and Contractors** – to determine if AKELA provided adequate oversight and monitoring of its sub-recipients and contractors.

- **Reporting** – to determine if the required financial, programmatic, and Recovery Act reports were submitted on time and accurately reflected award activity.

- **Compliance with Additional Award Requirements** – to determine whether AKELA complied with award guidelines, special conditions, and solicitation criteria.

- **Program Performance and Accomplishments** – to determine whether AKELA made a reasonable effort to accomplish stated objectives.

- **Post End Date Activity** – to determine, for the NIJ cooperative agreements that had ended, whether AKELA complied with post end date requirements.

The results of our audit are discussed in detail in the Findings and Recommendations section of this report. We discussed the results of our audit with officials from AKELA, and we have included their comments in the report, as applicable. This report contains 17 recommendations to OJP to address findings that we identified. Our audit objective, scope, and methodology are discussed in Appendix I. Appendix II contains a schedule of dollar-related findings.

# FINDINGS AND RECOMMENDATIONS

We determined that AKELA did not comply with seven of the nine essential agreement requirements that we tested. We found: (1) a lack of sufficient and appropriate internal controls for authorization, recording, and custody of funds; (2) unauthorized changes to the indirect costs budget category; (3) unsupported, late, and inaccurate drawdowns; (4) unsupported and unallowable expenditures including disallowed costs, unapproved increases to indirect cost rates, and accountable property; (5) inaccurate and late Federal Financial Reports, Progress Reports, and Recovery Act Reports; (6) deficiencies in two key areas of program performance and accomplishments; and (7) insufficient monitoring of contractors. As a result of these deficiencies, we questioned $1,906,985 in expenditures which represents roughly 97 percent of the total agreement awards.[5]

## Internal Control Environment

We reviewed AKELA's accounting policies and procedures, and financial management system to assess AKELA's risk of non-compliance with laws, regulations, guidelines, and the terms and conditions of the NIJ cooperative agreements. We also interviewed AKELA's management and staff, observed accounting activities, and performed transaction testing to further assess risk. Prior to our fieldwork in July 2010, we were unable to review the completed financial audit of AKELA, as AKELA had not been previously audited as required. On February 28, 2011, AKELA provided us with a completed financial audit for the year ending December 31, 2009. Our review of the completed audit is discussed below.

While our audit did not assess AKELA's overall system of internal controls, we did review the internal controls of its financial management system that were specifically related to AKELA's management of the NIJ cooperative agreement funds. As a result, we identified internal control

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[5] The Inspector General Act of 1978, as amended, contains our reporting requirements for questioned costs and funds put to better use. However, not all findings are dollar-related. See Appendix II, for a breakdown of our dollar-related findings and for the definition of questioned costs.

weaknesses within AKELA's operations related to recording, authorization, and custodial functions. These internal control deficiencies are discussed in greater detail below and we believe that they warrant corrective action.

*Financial Audit*

The *OJP Financial Guide* states that for-profit organizations are required to have a financial and compliance audit conducted at least every 2 years. In addition, the award conditions for both the 2007 and 2009 awards required that a financial and compliance audit be submitted no later than 9 months after the close of each fiscal year for the term of the award. Such audits are required only when the annual federal award expenditures of the organization exceed the threshold contained in OMB Circular A-133.[6] Based on expenditures reported by AKELA to the Defense Contract Audit Agency (DCAA), AKELA was bound by these requirements as AKELA expended federal funds in excess of the $500,000 threshold for fiscal years (FY) 2007, 2008, and 2009.[7] Lastly, the award document for the 2009 agreement required AKELA to submit to OJP a financial and compliance audit report for FY 2007 before it obligated, expended, or drew down any funds for the 2009 award.

At the outset of the 2009 award AKELA requested that OJP accept an audit performed by DCAA in lieu of a financial and compliance audit performed by a public accountant. OJP determined that an audit from either 2007 or 2006 performed by DCAA could be accepted to satisfy the financial and compliance audit requirement. However, AKELA did not submit to OJP an audit performed by DCAA, but rather, it submitted a review of AKELA's 2006 indirect cost rate performed by DCAA. OJP erroneously accepted the documentation submitted by AKELA and thereby allowed AKELA to drawdown and expend OJP funds.

When we began our audit, we requested that AKELA provide us with its most recent financial audit. AKELA was unable to provide a financial and compliance audit performed between 2007 and 2010. We brought this issue to OJP's attention and OJP agreed with our finding. Given that AKELA did not have an audit completed of its operations before we began our audit, we assessed AKELA's audit risk and increased the extent of our testing.

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[6] Federal award means federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities. It does not include procurement contracts or contracts to operate federal government-owned contractor-operated facilities.

[7] AKELA's fiscal year is from January 1 through December 31.

After we began our audit, AKELA hired a firm to perform a financial and compliance audit of its FY 2009 operations. The report issued in February 2011 expressed an unqualified opinion, and identified two significant deficiencies in internal controls. The deficiencies identified were a lack of segregation of duties, and concerns regarding controls over monthly billing of contract costs. Additionally, we compared the FY 2009 financial statements we received from AKELA in July 2010 to those presented in the FY 2009 fiscal and compliance audit. We noted significant changes to the balance sheet and statement of operations. We requested details on the adjustments made and found that a total of $900,630 in adjustments had been made, some in order to conform with Generally Accepted Accounting Principles. Significant adjustments included, but were not limited to, a $418,617 adjustment to write-off previously capitalized costs for inventory and fixed assets as funded research and development expense, $259,883 in tax adjustments, $34,260 to reclassify revenue booked as expense, and $80,703 to record the effects of 2008 journal entries. While the completed FY 2009 audit satisfied a portion of the bi-annual audit requirement set forth in the special conditions, it did not satisfy the specific requirement for the completion of an FY 2007 audit. We recommend that OJP ensure that AKELA complete its 2007 financial audit and all required bi-annual audits in accordance with the special conditions of the 2007 and 2009 agreements. Additionally, we recommend that OJP remedy $949,990 for the 2009 agreement and $956,995 for the 2007 agreement for a total of $1,906,985 in funds drawn without fulfillment of the awards bi-annual or 2007 audit requirements.

*Financial Management System*

The *OJP Financial Guide* requires that all fund recipients "establish and maintain adequate accounting systems and financial records to accurately account for funds awarded to them." The guide additionally requires that the accounting system provide adequate recording and reporting of financial data to enable planning, control, and measurement. Furthermore, the guide requires that award recipients separately account for each award and not commingle funds with other grants, cooperative agreements, or programs.

We found that AKELA utilized: (1) off-the-shelf accounting software that AKELA considered its official accounting system, and (2) supplemental spreadsheets that AKELA referred to as the "Billing Master". We noted that the spreadsheets were intended to serve as the underlying detailed support for billing transactions recorded in the official accounting system. Additionally, these spreadsheets were used to calculate drawdown amounts. As discussed in the Expenditures section of this report, amounts that AKELA charged to the agreements did not, in all cases, match the expenditures recorded in the accounting system. AKELA officials attempted to explain the differences between the two systems. However, AKELA's explanations were not sufficient to explain all discrepancies. As a result, these unexplained differences presented difficulties in auditing AKELA's administration of OJP's awards and its related transactions. Therefore, although AKELA's official accounting system identified expenditures related to the two NIJ cooperative agreements, AKELA's system did not accurately account for award-related receipts and expenditures.

We found the below accounting errors, which affected our audit because these errors changed the population of award-related expenses, accountable property, and indirect costs.

- AKELA's 2007, 2008, and 2009 Balance Sheets for agreement-related transactions did not balance. Specifically, the differences amounted to $98,878, $182,381, and $333,185, respectively. AKELA officials stated that its company-wide balance sheet does balance. However, as of our exit conference date with AKELA officials, we did not receive an explanation or evidence that reconciled the differences noted on AKELA's agreement-related balance sheets.

- AKELA's 2007, 2008, and 2009 Income Statements for agreement-related transactions showed profits ranging from $103,028 to $245,076 annually, and the total amount of Sales as reported on the Income Statements did not match AKELA's total invoices. AKELA's President stated that AKELA did not charge profit to the agreement program. However, we found one item, a radar unit, charged to the agreements that contained a $1,147 markup or profit.

- Invoice totals by line item created inside AKELA's accounting system did not match the sum of totals charged to the agreements for each period. A list of these errors was provided to AKELA in order to obtain clarification. AKELA presented us with a response which explained adjustments made to 20 invoices created using their Billing Master spreadsheet. However, AKELA did not supply us with journal entries in order to tie the spreadsheet adjustments to the official accounting system. Also, 4 of the 20 explanations did not adequately explain the discrepancies. Therefore, we could not verify these explanations.

As a result of these discrepancies, AKELA's financial management system did not accurately reflect the financial activity related to the NIJ agreements. We recommend that OJP ensure that AKELA establishes appropriate internal controls to include the design and implementation of procedures to assure that the financial management system provides for adequate recording and reporting of award-related activities.

*Policies and Procedures*

Title 28 C.F.R 70, applicable through the special conditions of these agreements, requires that the awardee's financial management system provide for effective control over, and accountability for all funds, property and other assets. Our testing of accounting policies and procedures included a review of revenue, disbursement, and payroll cycles. We also obtained a copy of AKELA's current policies and procedures, and observed procedures related to these cycles. Specifically, we observed the accounting cycles for a petty cash count and reconciliation, purchasing and procurement, billing, and payroll.

During our review, we noted that the policies and procedures in place did not provide for adequate segregation of duties. Segregation of duties is an important control within an organization as it provides checks and balances that may prevent or detect both material errors and fraudulent transactions. To provide effective segregation of duties, it is important for an organization to ensure that authorization of transactions, recording of transactions, and custody of assets are not controlled by the same employee within a single functional area, such as payroll. In addition to inadequate segregation of duties, we identified accounting and reporting inaccuracies, missing transactions, and internal controls that did not function as designed. Specifically, we found the following internal control deficiencies:

- **Payroll** – AKELA's payroll policy required employees to accurately record their time for each period on a semi-monthly timecard that was reviewed by their supervisor and authorized by the company's President. We tested four non-consecutive pay periods involving 23 timecards for 11 employees and found that 5 timecards for 2 employees were not signed by the company's President. Additionally, we found that the President's timecard was not verified by anyone. NIJ performed a site visit in September 2011 and noted that AKELA implemented a new timekeeping system, which requires supervisory approval of all timecards and the establishment of an audit trail for all timecard approvals. AKELA officials stated that it installed a timekeeping system called Unanet in January 2011. We also noted that AKELA's Office Manager recorded payroll expenditures in AKELA's accounting system and generally disbursed payroll-related payments electronically. There was one employee that did not receive payroll payments via direct deposit. For that employee, AKELA's Office Manager manually prepared payroll-related checks for that individual and AKELA's President endorsed those checks. We discuss the controls over AKELA's blank check stock below in our discussion on disbursements.

- **Disbursements** – We found that AKELA did not have a formal written policy for disbursements. AKELA's practice regarding disbursements consists of its Office Manager preparing payments to all vendors and AKELA's President approving those payments.

  The Office Manager not only recorded payments in the accounting system, but she was also the custodian of the company's blank check stock and she reconciled the company's bank statements. The blank check stock was stored in an unlocked desk drawer accessible to all employees.

  Further, AKELA's President stated that for instances when he was going to be away from the office and there was a need to issue manually prepared checks, his practice was to sign blank checks in advance so that the Office Manager could use them for the one employee who still received a payroll check. Likewise, for instances when the Office Manager was going to be away from the office, AKELA's President performed all accounting functions. We also found that the sequence of check numbers was not being verified and AKELA lacked written procedures for how voided checks should be handled.

  We believe that AKELA's unsecured blank check stock, the use of pre-signed checks, the lack of adequate segregation of duties between AKELA's President and Office Manager, and deficiencies in safeguarding checks and handling voided checks indicate internal control weaknesses. Employees responsible for recording payroll expenditures or reconciling bank statements should not also have custody of blank check stock and be able to prepare checks for issuance. Similarly, the use of pre-signed blank checks is an internal control weakness that fails to adequately safeguard AKELA's cash assets.

- **Purchases and Receipt of Goods** – AKELA lacked written procedures regarding procurement and the receipt of goods. We observed that employees were required to submit a purchase requisition to the President for authorization and sign incoming packing lists to verify receipt of goods. In testing transactions, we noted that this procedure was inconsistently applied because we found 67 percent of transactions that we tested were missing either the authorization signature or verification of receipt or both.

- **Petty Cash** – AKELA lacked written procedures regarding the approval and processing of petty cash transactions. We observed that an informal procedure existed which required employees to submit a request for petty cash. Employees were also required to submit a receipt for the authorized purchase and return any remaining funds to the Office Manager who recorded the transaction in the official accounting system. However, during our observations of petty cash reconciliation, we noted that the unwritten policy was inconsistently applied as multiple transactions lacked the required authorization slip.

  Additionally, we noted that the Office Manager maintained the petty cash and she performed the petty cash reconciliation. Specifically, the petty cash was stored in the Office Manager's desk in a locked box, but the key for the box was stored in an unlocked drawer of the same desk. We also noted that AKELA's employees have access to the petty cash fund when the Office Manager is unavailable. Finally, we found that AKELA did not perform surprise counts of its petty cash. These issues illustrate an overlap of the custodial and recording functions as well as weaknesses in safeguarding the petty cash.

- **Missing Transactions** – During our test of AKELA's transactions, we noted 1,750 transactions missing from the general ledger that was provided to us. We asked AKELA officials why these transactions were missing. AKELA officials stated that they contacted the Quickbooks helpline for assistance in this matter. At the time we brought this to the attention of AKELA officials they had not ascertained the cause for the missing transactions.

- **Billing** – AKELA's written procedure states that the Office Manager is required to bill contract customers on a monthly basis and record the receipt of remittances. It also states that financial transactions are reviewed monthly by a financial consultant. However, we found that AKELA does not consistently bill NIJ or review financial transactions consistently, on a monthly basis. This reflects an inconsistent adherence to procedures.

Additionally, we found that the Office Manager, who records the invoices, also has custody of remittances, records the remittances in the official accounting system, and reconciles the bank statement. All these functions incorporated into one position at AKELA constitute an overlap of the recording and custodial functions and therefore indicate inadequate segregation of duties.

AKELA acknowledged that the above issues existed but expressed concerns that efforts to strengthen its internal controls would create an unreasonable burden on manpower, time, and funds. We acknowledge that AKELA is a small company with fewer than 20 employees, which can make adequate segregation of duties a challenging task. However, there are simple inexpensive solutions which can be implemented to mitigate the risks noted above. We recommend that OJP require AKELA to strengthen internal controls, which include the design and implementation of procedures to safeguard its blank check stock and petty cash as well as separate cash handling duties from recording and reconciliation duties.

**Drawdowns**

The *OJP Financial Guide* states that award recipients should request funds based upon immediate disbursement or reimbursement needs. Award recipients should time their drawdown requests to ensure that federal cash on hand is the minimum needed for reimbursement or disbursements that are to be made immediately or within 10 days.

As of June 11, 2010, AKELA drew down a total of $956,995 under the 2007 agreement and $167,403 under the 2009 agreement. AKELA officials stated that drawdowns were requested on a reimbursement basis. We compared the drawdowns to AKELA's accounting records and found that for the 2007 agreement funds were drawn on a reimbursement basis. For the 2009 agreement, there were instances where AKELA drew down advances as shown in Exhibit 2 below.

**EXHIBIT 2**
**COMPARISON OF AKELA'S DRAWDOWNS TO ACTUAL EXPENDITURES FOR AGREEMENT 2009-SQ-B9-K113**

| DATE | DRAWDOWN AMOUNT | ACTUAL EXPENDITURES | DIFFERENCE | CUMULATIVE DIFFERENCE |
|---|---|---|---|---|
| 01/20/10 | $ 49,735 | $ 49,735 | 0 | 0 |
| 02/16/10 | 10,392 | 10,392 | 0 | 0 |
| 03/01/10 | 100,000 | 16,253 | $ 83,747 | <$83,747> |
| 06/11/10 | 7,275 | 91,022 | <$83,747> | 0 |

Source: OIG Analysis of OJP drawdowns and AKELA's financial records

As shown in Exhibit 2, AKELA's March 2010 drawdown resulted in an advance of $83,747. AKELA expended $691 within 10 days of the receipt of the drawdown, leaving $83,056 in advance funds. AKELA did not disburse the remaining $83,056 on expenditures within 10 days of receipt as required by the *OJP Financial Guide*. We asked AKELA's President about the advance and AKELA's President admitted that the company was running out of cash and therefore, he drew down $100,000 in March 2010 to remedy the critical cash-flow situation. He stated that AKELA did not have enough cash to meet its payroll and accounts payable obligations, so he drew down funds from NIJ to maintain a positive cash balance in the corporation's bank account. By drawing a total of $83,056 more than 10 days in advance of expenditure AKELA violated the *OJP Financial Guide's* minimum cash on hand requirement. Additionally, utilizing federal funds for non-agreement related costs is not allowed. We recommend that OJP ensure that AKELA establishes adequate internal controls that would only allow drawdowns as reimbursements for expenditures that have been incurred and that are directly related to an OJP agreement.

## Agreement Expenditures

According to AKELA's records it had expended a total of $1,176,725 as of June 30, 2010, on the two NIJ cooperative agreements that we audited. These expenditures were comprised of both direct and indirect costs. Direct costs included salaries, fringe benefits, travel, and other direct costs. Indirect costs included overhead and general administrative costs allocated based on direct labor. In our testing of salary and fringe benefits costs, we selected a judgmental sample of two non-consecutive payroll periods for each agreement to determine if payroll expenditures charged to the agreements were accurate, adequately supported, and reasonable. In addition to our test of payroll we judgmentally selected a total sample of 53 non-payroll transactions totaling $185,192 (16 percent) in order to determine if costs charged to the agreements were allowable, properly authorized, adequately supported, and in compliance with agreement terms and conditions. Finally, we tested a judgmental sample to include 1 month of indirect cost pool transactions for each agreement to determine whether indirect costs charged to the agreements were allowable, properly authorized, adequately supported, and in compliance with agreement terms and conditions. When conducting our tests of expenditures, we reviewed supporting documentation (payments, vouchers, invoices, and check copies) for each transaction. The results of our tests of expenditures are described below.

*Personnel Expenditures*

According to AKELA's agreement applications, AKELA planned to pay an hourly rate and fringe benefits for a total of five positions under both agreements. One program manager, three engineers, and a technician were budgeted to contribute 12,437 hours to the completion of the two agreements. We compared the positions that were charged to the agreements with the positions that OJP approved and found that all positions charged to the agreements were included in the OJP-approved budgets for each agreement. Additionally, for both agreements, we reviewed the names, positions, and pay rates for all employees paid with agreement funds to determine if that information appears reasonable. We compared the pay rates to industry rates for similar positions and found the hourly pay rates to be reasonable. We also met with all employees whose salaries were paid from the NIJ cooperative agreements and observed them working at AKELA's facility.

We selected a judgmental sample of two non-consecutive payroll periods for each agreement. As part of our test we attempted to determine if payroll expenditures charged to the agreements were properly authorized and supported. We also examined AKELA's timekeeping policy and found that it required that all employee timesheets be approved by a supervisor and signed by the company's President. We reviewed AKELA's accounting system payroll data including related timesheets and determined that five timecards for two employees equaling $1,025 in personnel expenses (salary and related fringe benefits) were not signed by AKELA's President, and therefore were not properly authorized. Therefore, we questioned $1,025 in personnel expenses related to the unauthorized timecards. After we brought this to the attention of AKELA's President, AKELA hired a new manager responsible for reviewing and approving employees' timecards.

*Fringe Benefits*

According to the OJP-approved budget, AKELA expected to charge fringe benefits to the agreements as indirect cost based on direct labor expenditures. The *OJP Financial Guide* states that indirect costs consist of costs which are not readily assignable to the project but are necessary to the operation of the organization and the performance of the project. AKELA includes fringe benefit costs in its overhead and general administrative cost pools as personnel resources are distributed across numerous projects and its accounting system does not make specific assignment of these costs practicable. Since all fringe benefits were handled in an indirect manner, these costs were tested as part of our tests of indirect costs. Our testwork and related findings are discussed in the Indirect Cost section of this report.

*Other Direct Expenditures*

The standards for financial management systems outlined in 28 C.F.R. Part 70 require that recipients maintain financial records, including cost accounting records that are supported by source documentation.[8] According to AKELA's records, it had expended a total of $1,176,725 as of June 30, 2010, on the two NIJ cooperative agreements that we audited. We judgmentally selected a sample of 53 direct cost transactions totaling $185,192 or 16 percent of total expenditures to determine if costs charged to the agreements were allowable, properly authorized, adequately supported, and in compliance with award terms and conditions. The expenditures we selected included payments on contracts, equipment purchases, and program services. Our selection was composed of the 13 highest dollar transactions for each agreement and the remaining transactions were judgmentally selected. The following exhibit provides a summary of our sample selection.

[8] The 2007 and 2009 Agreements required that for the financial and procedural administration of the awards, AKELA must comply with 28 C.F.R. Part 70 (formerly OMB Circular A-110) Uniform Administrative Requirements for Grants and Cooperative Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations excluding Sections 40-48.

**EXHIBIT 3**
**SUMMARY OF NON-PAYROLL EXPENDITURE SAMPLE SELECTION**

| CATEGORY | AGREEMENT 2007 | AGREEMENT 2009 | TOTALS |
|---|---|---|---|
| Total Transactions | 377 | 39 | **416** |
| Transactions Tested | 26 | 27 | **53** |
| Percentage of Transactions Tested | 6% | 69% | **13%** |
| Total Agreement Expenditures | $956,995 | $219,730 | $1,176,725 |
| Total Agreement Expenditures Tested | $118,762 | $ 66,430 | **$ 185,192** |
| Percentage of Agreement Expenditures Tested | 12% | 30% | **16%** |

Source: OIG analysis of AKELA's agreement expenditures

For the 2007 agreement, we selected a judgmental sample of 26 non-payroll transactions totaling $118,762. For the 2009 agreement, we selected a judgmental sample of 27 non-payroll transactions totaling $66,430. Of the transactions we tested, 22 transactions totaling $19,970 from both agreements were found to contain one or more deficiencies.[9] Specifically, we found:

- Nine transactions totaling $15,357 for the 2007 agreement and, three transactions totaling $392 for the 2009 agreement were not properly approved. AKELA's unwritten policy requires that the company's President sign a purchase authorization or contract. For example, the nine transactions questioned for the 2007 agreement included $10,625 in consulting fees for which no signed consulting contract was provided, and $4,732 in parts, equipment, outside services, and travel for which no signed purchase authorizations were provided.

- Eleven transactions totaling $5,055 for the 2007 agreement and four transactions totaling $1,334 for the 2009 agreement were not vouched by AKELA officials as being received in accordance with its unwritten receiving policy as described for us. The vouching procedure, as described by AKELA officials, requires the receiving employee to sign the packing list that accompanies an order and

[9] Some costs were questioned for more than one reason. The net total of $19,970 excludes the duplicate amount.

make notations on the packing list if there are any discrepancies between the items listed on the purchase order and that which has been received. The 15 total transactions in question did not contain any signature confirming receipt of goods.

- Four transactions totaling $11,331 for the 2007 agreement and two transactions totaling $1,975 for the 2009 agreement were lacking one or more supporting third party documents, such as an invoice or receipt.

- One transaction totaling $621 was inaccurately recorded. AKELA posted the $621 contractor expense in an employee's travel expense account.

As a result, we questioned a total of $19,970 in expenditures for lacking proper approval and adequate support.

*Indirect Costs*

The *OJP Financial Guide* defines indirect costs as costs of an organization that are not readily assignable to a particular project, but are necessary to the operation of the organization and the performance of the project. The cost of operating and maintaining facilities, depreciation, and administrative salaries are examples of the types of costs that are usually treated as indirect costs.

Approved Indirect Cost Rate vs. Provisional Rate

According to the *OJP Financial Guide*, the awarding agency may accept indirect costs based on any current and approved indirect cost rate or allocation plan previously approved for a recipient by any federal agency. OJP's Assistant Chief Financial Officer confirmed that AKELA must follow the indirect cost rate as approved in the agreement budget until such time as they receive OJP's approval to change the rate, whether it is to an approved provisional or final indirect cost rate. Furthermore, the *2008 OJP Financial Guide* and 28 C.F.R. 70 both require the recipient to obtain prior approval for any transference of funds in or out of the indirect cost category in the approved budget.[10]

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[10] The special conditions of both the 2007 and 2009 awards require that AKELA comply with 28 C.F.R 70 Uniform Administrative Requirements for Grants and Agreements (Including Sub awards) with Institutions of Higher Education, Hospitals and Other Non–Profit Organizations.

We compared the agreement budgets to the DCAA indirect cost rate plans and found that during the year the agreements were awarded the rates in the OJP-approved budget agreed with the DCAA approved provisional rates. Subsequent to award approval the DCAA approved provisional rate increased while the OJP approved indirect rate did not change. As a result, and as shown in Exhibit 4 below, AKELA charged indirect costs at rates higher than the OJP-approved budgeted rate for all years. We examined the award-related records related to AKELA's request to increase the approved rate. For the 2009 award, we found that AKELA obtained approval from OJP in July 2012 for a rate increase subsequent to our fieldwork. For the 2007 award, we did not find that AKELA received approval or that it had requested approval to utilize an increased rate. AKELA charged indirect costs totaling $558,854 to the 2007 award and $29,741 to the 2009 award. Based on the OJP-approved budget, we calculated that the total allowable indirect cost was $502,706 for the 2007 award and $29,701 for the 2009 award. We found that while the 2009 amount charged did not significantly differ from the allowable amount, the increased rates charged to the 2007 award resulted in a $56,147 increase in indirect costs.[11] We asked AKELA's President about these unapproved charges and he stated that AKELA's practice is to utilize the DCAA provisional rate when charging indirect costs to its programs. OJP requires that only OJP-approved rates can be charged to its awards. Therefore, we questioned $56,147 in indirect costs that exceeded OJP's approved indirect cost rate.

[11] The total increase in indirect costs may be greater or less than the total $56,147 shown due to rounding.

**EXHIBIT 4**
**PROVISIONAL, BUDGETED, AND CHARGED INDIRECT RATES FOR AKELA**

| RATE TYPE | YEAR | DCAA | DCAA | OJP | OJP | AKELA |
|---|---|---|---|---|---|---|
| | | APPROVED PROVISIONAL RATE | APPROVED FINAL RATE[12] | APPROVED BUDGETED RATE 2007-RG-CX-K016 | APPROVED BUDGETED RATE 2009-SQ-B9-K113[13] | RATE CHARGED (POST ADJUSTMENT) |
| **OVERHEAD** | 2007 | 107.24% | 172.63% | 107.24% | - | 172.63% |
| | 2008 | 107.24% | 126.24% | 107.24% | - | 126.24% |
| | 2009 | 126.51% | NONE | 107.24% | 120.48% | 128.27% |
| | 2010 | NONE ISSUED | NONE | - | 120.48% | N/A |
| **GENERAL AND ADMINISTRATIVE (G&A)** | 2007 | 6.77% | 10.45% | 6.77% | - | 10.45% |
| | 2008 | 6.77% | 6.71% | 6.77% | - | 6.74% |
| | 2009 | 12.17% | NONE | 6.77% | 15.6% | 11.38% |
| | 2010 | NONE ISSUED | NONE | - | 15.6% | N/A |

Source: OIG Analysis of DCAA, OJP, AKELA indirect cost data

Testing and Analysis of Indirect Costs

Based on the following factors indicating an increased potential inherent audit risk, we chose to increase both the substantive tests and analytical procedures performed for indirect costs charged to the 2007 and 2009 agreements. The factors, discussed earlier in this report, which contributed to our assessment of a higher audit risk for indirect costs include: (1) the absence of audited financial statements, (2) the numerous accounting discrepancies, (3) the lack of adequate internal controls, and (4) the fact that for the 2007 award AKELA was charging indirect rates substantially higher than the OJP approved indirect cost rates.

Due to the above concerns and as of our entrance meeting in July 2010, we tested a judgmental sample of 1 month of indirect cost rate transactions for each agreement out of the 26 months associated with the 2007 award and the 11 months having elapsed for the 2009 award. This equated to 148 indirect cost transactions for the 2007 agreement and

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[12] DCAA approved the final indirect rates in March 2012.

[13] The OJP-approved budgeted rate for the 2009 award consisted of revised rates that AKELA submitted to OJP for approval in May 2012 and OJP approved the rates in July 2012.

160 indirect cost transactions for the 2009 agreement, totaling $13,236 for both awards. Our testing was designed to determine whether the costs were reasonable, allowable, allocable, and adequately supported. We also tested these transactions to determine if they were applicable to the agreements.

Based on our testing, we identified unallowable costs that were included in AKELA's indirect cost charges that related to lunches, proposals, and officers' bonuses. Specifically, these unallowable charges were allocated to overhead. We found these costs to be either unallowable according to the *OJP Financial Guide* or the charges lacked OJP's prior approval. Upon identifying these unallowable costs, we expanded our review to include all similar charges for both agreements. According to AKELA's general ledger, there were 477 indirect cost transactions, totaling $306,185, charged to both the 2007 and 2009 awards. Based on our testing of these charges, we identified $72,982 in unallowable expenditures, as follows:

- Our testing sample included $50 in unallowable expenditures for three lunches for AKELA's President. A review of AKELA's general ledger showed a total of 170 lunches of this type, which were billed to overhead during the 2007 and 2009 agreements, totaling $2,674. An AKELA employee stated that these lunches were for the President and his wife. However, the President stated these lunches were between him and fellow members of the business community with the purpose of sharing new business ideas. AKELA viewed these as legitimate business expenses that can be charged to the agreements. We disagree. The *OJP Financial Guide* requires that recipients of federal awards obtain OJP's approval before obligating or expending federal award funds on expenditures related to preparing proposals for potential federal awards. As a result we are questioning OJP's share, $678, for all lunch expenditures.

- Our testing sample included $11,584 unallowable labor costs defined as "new business" and "proposals". AKELA personnel confirmed that the primary purpose of labor allocated to this cost center was the creation of proposals for funding and research of new concepts which may lend themselves to future proposals for federal funding. The *OJP Financial Guide* requires that costs related to the preparation of proposals for potential future awards require approval prior to obligation or expenditure of funds. OJP did not approve the allocation of these costs to the agreements. A review of AKELA's general ledger showed a total of 304 charges of this type were billed to overhead for both the 2007 and 2009 agreements totaling $279,911. As a result we are questioning

OJP's share, $67,246, for all "new business" and proposal expenditures.

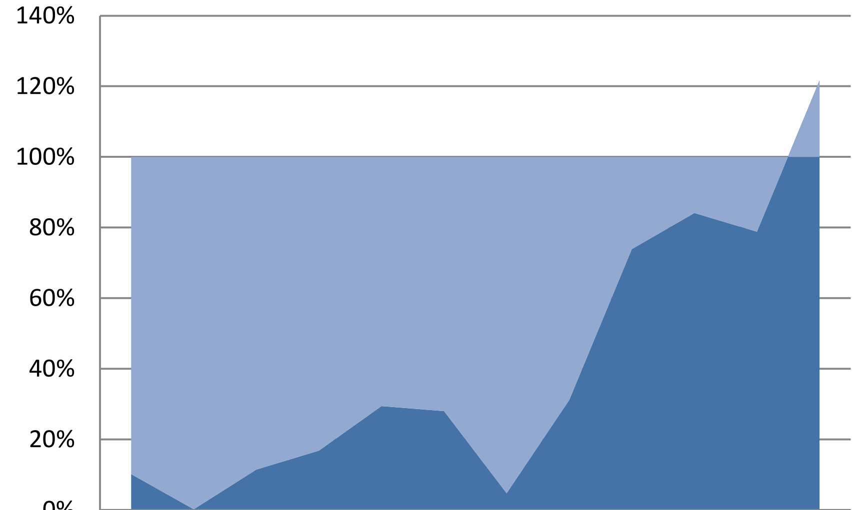
- Our testing sample included $5,000 in bonus accruals. Although bonuses are provided for in AKELA's employee agreements and are allowed under cost principals for Federal Acquisition Regulations, the *OJP Financial Guide* expressly states that bonuses paid to officers of for-profit organizations are "determined to be a profit or fee and are unallowable." A review of AKELA's general ledger showed a total of three bonuses dispersed to officers totaling $23,600 that were charged to overhead during the 2007 and 2009 agreements. Therefore, we question OJP's share, $5,058, for costs allocated to officers' bonuses.

In total, we question $72,982 in unallowable costs which represents OJP's share of the $306,185 in indirect expenditures detailed above. Therefore, we recommend that OJP remedy $72,982 in unallowable or indirect expenditures.

Indirect Cost Rate Analysis

The 2006 *OJP Financial Guide* stated that pre-agreement and proposal costs require OJP's prior approval before the costs could be charged to the project. Pre-agreement costs are defined as those costs which are incurred prior to the start date of the award. Proposal costs are defined as those costs incurred with the purpose of preparing proposals for potential federal awards. We analyzed patterns of indirect and direct cost allocation to identify any abnormal fluctuations. Exhibit 5 is a chart of AKELA's labor allocation throughout FY 2007.

**EXHIBIT 5**
**AKELA FY 2007**
**DIRECT AND INDIRECT LABOR PERCENTAGES**




| | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| NON-ADMIN INDIRECT % | 90% | 100% | 89% | 83% | 71% | 72% | 95% | 69% | 26% | 16% | 21% | -22% |
| DIRECT LABOR % | 10% | 0% | 11% | 17% | 29% | 28% | 5% | 31% | 74% | 84% | 79% | 122% |

Source: AKELA

We noted that the indirect rate charged for 2007 pertaining to both Overhead and General and Administrative expenses was at least 50 percent higher than the final rate proposed by AKELA in the preceding and following years. AKELA's President stated that the company had anticipated receiving Phase 2 of an Army project in 2007, which they did not receive. Therefore, during the first 3 quarters of 2007, the time for AKELA's employees previously slated to work on the Army-funded project was charged to overhead. During the time they were billed to overhead, these employees were tasked with exploring new business opportunities and creating bids and proposals for new contracts. The employees' salaries and fringe benefit costs that were charged to overhead and that occurred prior to the 2007 award start date are considered pre-agreement costs for the 2007 agreement. These costs were allocated to customers on the basis of labor expenditures at the end of the fiscal year. Without specific approval from OJP, pre-agreement costs are not allowed according to the *OJP Financial Guide*. AKELA did not obtain approval from OJP to apply these costs to the NIJ agreement. NIJ's share of these indirect prior period expenditures was $67,787. Therefore, we question $67,787 in pre-agreement and proposal costs allocated to the indirect cost pool and charged to the 2007 agreement.

*Accountable Property*

According to the *OJP Financial Guide*, property acquired with federal award funds should be used for the purposes stated in the award application. Further, award recipients must maintain records on the source of property items that were acquired using federal award funds. AKELA officials stated that their capitalization threshold was $5,000. AKELA also stated that the company had not purchased any accountable property with OJP funds. However, during our tests of transactions we found at least one piece of internally manufactured equipment, charged to the award, which exceeded the capitalization threshold by $3,500. As a result, we again requested that AKELA provide a list of accountable property. AKELA later provided a new accountable property list, which contained the one item charged to the award. AKELA advised the list also contained similar radar equipment that was either owned by, rented, sold, or loaned to other entities. It was unclear in AKELA's records which items were partially or totally funded by the NIJ agreements. Therefore we were unable to confirm that NIJ funded materials were not being rented, sold, or loaned to other entities. Besides, any of these actions with NIJ-funded materials may generate program income.

We selected the single accountable property item identified for testing, determined that it was being utilized for award-related purposes, and physically verified its existence. However, we found this list did not include the cost, acquisition date, funding source, or ultimate disposition of the item. We asked AKELA officials why a complete and verifiable record of accountable property was not maintained. AKELA's President stated that it is AKELA's policy to account for such property only at the end of the project or when an item is incorporated into the final product. We reiterated to AKELA the *OJP Financial Guide* requirement that award recipients maintain accurate property records to include the identification number, description, cost, acquisition date, location, percentage of federal participation in the cost, and the ultimate disposition of property and equipment. The accountable property list provided by AKELA lacked the necessary information to be in compliance with the *OJP Financial Guide* and therefore, we considered the documentation to be incomplete. We recommend that OJP ensure that AKELA maintains a complete listing of accountable property items in compliance with property management requirements.

## Budget Management and Control

The *OJP Financial Guide* states that movement of dollars between approved budget categories is allowed up to 10 percent of the total budget amount provided there is no change in project scope. When cumulative changes exceed 10 percent of the total award amount or change the scope of the project, prior approval is required of OJP.

We discussed with AKELA officials their process and procedures for budget creation and management and found that the budget is prepared annually by AKELA's President. AKELA's President stated that the award-related budget is developed using historical costs and future business estimates as well as managerial judgments. He stated that throughout the year he manages the budget by comparing the budget to actual expenditures and adjusts business activity as necessary to operate within budget constraints.

We compared the total expenditures by budget category between AKELA's financial records and OJP's approved budget for both the completed 2007 agreement and the 2009 agreement in progress. Our analysis did not expose any shifts in direct expenditures greater than 10 percent of total budgeted expenditures. In our comparison of budget to actual costs we did note a significant difference in indirect expenditures for the 2007 agreement. According to 28 C.F.R Part 70, which is applicable to both the 2007 and 2009 awards, AKELA was required to request in writing OJP's approval before it decided to substantially increase its budgeted indirect costs. We found that AKELA increased its indirect expenditures by $82,476 cumulatively in the 2007 agreement without OJP's prior approval. Therefore, we question the $82,476 in unapproved budgetary transfers from direct cost categories to the indirect cost category.[14]

**Reporting**

According to the *OJP Financial Guide*, award recipients are required to submit both quarterly Federal Financial Reports (FFR) and semi-annual Progress Reports.[15] In addition, since the 2009 agreement was funded by the Recovery Act, AKELA was also required to submit quarterly Recovery Act reports. These reports described the status of the funds, compared actual accomplishments to the objectives of the agreements, and reported other pertinent information. We reviewed the FFRs, Progress Reports, and

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[14] Unallowable indirect costs were consolidated as $82,476 to prevent duplication of questioned costs among recommendations. Throughout the report each questioned indirect cost will be discussed at its full amount with an adjustment to remove duplication in the Schedule of Dollar Related Findings in Appendix II.

[15] In October of 2009, the financial reporting requirement for grantees transitioned from quarterly Financial Status Reports (FSRs) to quarterly Federal Financial Reports (FFRs). Throughout the report, we refer to both report formats as FFRs.

Recovery Act reports submitted by AKELA to determine whether each report was accurate and submitted in timely manner.

*Federal Financial Reports*

According to the *OJP Financial Guide*, the quarterly FFRs are due no later than 45 days after the end of the quarter, with the final FFR due within 90 days after the end date of the award. We reviewed the timeliness of the FFRs submitted during the award period for each agreement. We found that AKELA was late in submitting five FFRs for the 2007 agreement and one FFR for the 2009 agreement. As shown in Exhibit 6, AKELA submitted the FFRs between 1 and 3 days late. As a result we recommend OJP ensure that AKELA submits its FFRs in a timely manner.

**EXHIBIT 6**
**FEDERAL FINANCIAL REPORT HISTORY FOR 2007 AND 2009 AGREEMENTS**

| REPORT NO. | REPORTING PERIOD | REPORT DUE DATE | DATE SUBMITTED | DAYS LATE |
|---|---|---|---|---|
| **2007-RG-CX-K016** | | | | |
| 1 | 08/01/07 - 09/30/07 | 11/14/07 | 11/16/07 | 2 |
| 2 | 10/01/07 - 12/31/07 | 02/14/08 | 02/14/08 | 0 |
| 3 | 01/01/08 - 03/31/08 | 05/15/08 | 05/16/08 | 1 |
| 4 | 04/01/08 - 06/30/08 | 08/14/08 | 08/14/08 | 0 |
| 5 | 07/01/08 - 09/30/08 | 11/14/08 | 11/17/08 | 3 |
| 6 | 10/01/08 - 12/31/08 | 02/14/09 | 02/13/09 | 0 |
| 7 | 01/01/09 - 03/31/09 | 05/15/09 | 05/15/09 | 0 |
| 8 | 04/01/09 - 06/30/09 | 08/14/09 | 08/17/09 | 3 |
| 9 | 07/01/09 - 09/30/09 | 11/14/09 | 11/16/09 | 2 |
| 10 | 10/01/09 - 12/31/09 | 01/30/10 | 01/29/10 | 0 |
| 11 | 01/01/10 - 01/31/10 | 05/01/10 | 04/19/10 | 0 |
| **2009-SQ-B9-K113** | | | | |
| 1 | 08/01/09 - 09/30/09 | 11/14/09 | 11/16/09 | 2 |
| 2 | 10/01/09 - 12/31/09 | 01/30/10 | 01/27/09 | 0 |
| 3 | 01/01/10 - 03/31/10 | 04/30/10 | 04/19/10 | 0 |

Source: AKELA and OJP

We also reviewed each FFR to determine whether the report contained accurate information related to actual direct expenditures, un-liquidated obligations incurred during the reporting period, and program income for the award. Our comparison of expenditures reported in the FFR's to expenditures recorded in the AKELA's accounting system revealed a total of 8 out of 14 FFR's did not accurately report expenditures. Specifically, as shown in Exhibit 7, AKELA filed seven inaccurate FFRs for the 2007 agreement and one inaccurate FFR for the 2009 agreement.

**EXHIBIT 7**
**ACCURACY OF FEDERAL FINANCIAL REPORTS FOR 2007 AND 2009 AGREEMENTS**

| REPORT NO. | REPORT PERIOD | EXPENDITURE IN THE FFR | EXPENDITURES IN AKELA'S RECORDS | DIFFERENCE |
|---|---|---|---|---|
| **2007-RG-CX-K016** | | | | |
| 1 | 08/01/07 - 09/30/07 | $0 | $ 58,634 | $ 58,634 |
| 2 | 10/01/07 - 12/31/07 | $ 200,524 | 141,890 | <58,634> |
| 3 | 01/01/08 - 03/31/08 | 62,642 | 62,645 | 3 |
| 4 | 04/01/08 - 06/30/08 | 148,887 | 148,887 | 0 |
| 5 | 07/01/08 - 09/30/08 | 79,356 | 79,603 | 247 |
| 6 | 10/01/08 - 12/31/08 | 124,498 | 124,497 | <1> |
| 7 | 01/01/09 - 03/31/09 | 174,945 | 174,945 | 0 |
| 8 | 04/01/09 - 06/30/09 | 81,132 | 80,849 | <283> |
| 9 | 07/01/09 - 09/30/09 | 65,011 | 65,011 | 0 |
| 10 | 10/01/09 - 12/31/09 | 20,000 | 19,968 | <32> |
| 11 | 01/01/10 - 01/31/10 | 0 | 0 | 0 |
| **2009-SQ-B9-K113** | | | | |
| 1 | 08/01/09 - 09/30/09 | $ 4,323 | $ 4,323 | 0 |
| 2 | 10/01/09 - 12/31/09 | 45,412 | 45,412 | 0 |
| 3 | 01/01/10 - 03/31/10 | 110,392 | 39,144 | <$71,248> |

Source: OJP and AKELA

For the 2009 agreement, the expenditures on one FFR were overstated by $71,248 when compared to AKELA's accounting records. According to

AKELA personnel, the inaccuracy was caused by AKELA reporting in its FFR amounts billed rather than expended.

Based on our review, we concluded that AKELA submitted FFRs that were inaccurate. We recommend that OJP ensure that AKELA submits accurate FFRs.

*Semiannual Progress Reports*

The *OJP Financial Guide* requires award recipients to submit Progress Reports semiannually for discretionary awards and annually for block or formula awards. For both awards, AKELA was required to submit its Progress Reports semiannually. According to the *OJP Financial Guide*, Progress Reports must be submitted within 30 days after the end of the reporting periods of June 30 and December 31, for the life of the award. AKELA was required to submit a total of 10 Progress Reports. For the 2007 agreement, we found that AKELA submitted three Progress Reports to OJP in a timely manner and three that were 1, 5, and 90 days late. AKELA officials explained that the report that was submitted 90 days late was submitted late because of AKELA's confusion as to where it was supposed to submit its final technical report and its period ending December 31, 2009, Progress Report. AKELA resolved this by submitting the reports to the proper location, which were accepted by OJP. For the 2009 agreement, as shown in Exhibit 8, AKELA submitted all Progress Reports on time.

**EXHIBIT 8**
**PROGRESS REPORT HISTORY**
**2007 AND 2009 AGREEMENTS**

| REPORT NO. | REPORTING PERIOD | REPORT DUE DATE | DATE SUBMITTED | DAYS LATE |
|---|---|---|---|---|
| **2007-RG-CX-K016** | | | | |
| 1 | 08/01/07 - 12/31/07 | 01/30/08 | 01/29/08 | 0 |
| 2 | 01/01/08 - 06/30/08 | 07/30/08 | 07/31/08 | 1 |
| 3 | 07/01/08 - 12/31/08 | 01/30/09 | 01/30/09 | 0 |
| 4 | 01/01/09 - 06/30/09 | 07/30/09 | 08/04/09 | 5 |
| 5 | 07/01/09 - 12/31/09 | 01/30/10 | 04/30/10 | 90 |
| 6 | 01/01/10 - 06/30/10 | 07/30/10 | 05/06/10 | 0 |
| **2009-SQ-B9-K113**[16] | | | | |
| 1 | N/A<br>SPECIAL REQUEST BY OJP | 10/19/09 | 10/09/09 | 0 |
| 1a | 08/01/09 - 09/30/09 | 01/31/10 | 12/24/09 | 0 |
| 2 | 10/01/09 - 12/31/09 | 01/31/10 | 01/28/10 | 0 |
| 3 | 01/01/10 - 03/31/10 | 07/30/10 | 05/15/10 | 0 |

Source: OJP

The *OJP Financial Guide* states that:

> . . . the funding recipient agrees to collect data appropriate for facilitating reporting requirements established by Public Law 103-62 for the Government Performance and Results Act. The funding recipient will ensure that valid and auditable source documentation is available to support all data collected for each performance measure specified in the program solicitation.

Due to the technical nature of the work performed by AKELA, we asked the NIJ manager who was responsible for the two agreements to comment

[16] For Exhibit 8 award 2009-SQ-B9-K113 only, the Report Due Date column reflects the correct semi-annual report submission requirement while the Reporting Period column reflects the period of performance covered by the report submitted. For the 2009 Agreement, AKELA submitted the first three reports on a quarterly reporting period basis due to an error in OJP's Grants Management System, which has since been corrected to reflect the semi-annual reporting requirement.

on whether the Progress Reports that AKELA submitted to NIJ contained sufficient information for NIJ to appropriately evaluate AKELA's progress and performance. The NIJ manager stated that the Progress Reports that AKELA submitted contained sufficient information for evaluating AKELA's progress. In addition to reviewing the Progress Reports, the NIJ manager stated that she held monthly update meetings with AKELA, and in her estimation AKELA's progress has been in line with other similar awardees within the NIJ's sensors and surveillance portfolio.

Additionally, we observed a product demonstration, visually inspected the radar units claimed to have been produced for testing, documented their existence, and interviewed a law enforcement officer who had observed a live demonstration of the product. The law enforcement officer stated he saw the radar unit tested on two occasions; however he advised its user interface was not yet optimal for law enforcement use. As a result, we were able to corroborate the NIJ manager's claim that AKELA is making progress in achieving its agreement goals. We recommend that OJP ensure that AKELA submits its Progress Reports in a timely manner.

*Quarterly Recovery Act Reports*

Section 1512 of the Recovery Act requires recipients of Recovery Act funds to submit quarterly reports. According to OMB guidance, Recovery Act Reports are due 10 days after the close of each quarter. We reviewed the Recovery Act Reports submitted for the last 4 quarterly reporting periods ending September 2009, December 2009, March 2010, and June 2010 of the 2009 agreement period for timeliness. We found that AKELA submitted one of the four reports 19 days late. AKELA officials stated that this late report was the first Recovery Act Report their organization had submitted and the delay was caused by its confusion as to where the report should be submitted.

We reviewed the four Recovery Act reports for accuracy. AKELA reported it retained and created 1.5 Full Time Equivalents (FTE) in the first quarter of 2010, and retained and created 1.87 FTEs in the second quarter of 2010. To verify the total number of FTEs reported as retained and created, we requested supporting documentation from AKELA. We used this data to verify the number of FTEs AKELA retained and created.

**EXHIBIT 9**
**RECOVERY ACT REPORT HISTORY**
**2009 AGREEMENT**

| REPORT PERIOD | REPORT PERIOD FROM - TO DATES | NUMBER OF HOURS WORKED AND FUNDED PER QUARTER | FTE'S CALCULATED | FTE'S REPORTED |
|---|---|---|---|---|
| **2009-SQ-B9-K113** | | | | |
| 2009 Q3 | 07/01/09 - 09/30/09 | 35.00 | 0.10 | 0.00 |
| 2009 Q4 | 10/01/09 - 12/31/09 | 317.00 | 0.61 | 0.00 |
| 2010 Q1 | 01/01/10 - 03/31/10 | 269.75 | 0.52 | 1.50 |
| 2010 Q2 | 04/01/10 - 06/30/10 | 970.75 | 1.87 | 1.87 |

Source: Federal Reporting.gov, AKELA

As shown in Exhibit 9, the data provided by AKELA supported more positions than reported for the 2 periods reported in 2009, and did not support the positions reported as retained and created in the 1st quarter of 2010. Therefore, the Recovery Act reports covering the period of September of 2009, through March of 2010, were inaccurate. AKELA officials advised that they were unsure of the exact reason for the discrepancies; however, they believed it to be due to incorrect calculations during the first three reporting periods. We recommend that OJP ensure that AKELA submits accurate data on its Quarterly Recovery Act reports.

## Compliance with Additional Award Requirements

We reviewed AKELA's compliance with additional award requirements, such as the agreements' solicitation material and special conditions included as part of the award documentation that have not been discussed earlier in this report. We found that AKELA generally complied with the additional award requirements we tested, with the exception of a requirement that commercial organizations must agree not to make a profit as a result of an award and not to charge a management fee for the performance of an award. AKELA's President stated that AKELA manufactured radar units through internal development from which the units were "purchased" for NIJ use. These internally developed units included markup, which AKELA passed on to NIJ. Such profits are not only disallowed by the special conditions of the agreements but are specifically disallowed by the *OJP Financial Guide*. We recommend that OJP remedy the $1,147 in disallowed profits.

## Program Performance and Accomplishments

The 2007 and 2009 agreements were funded under two separate solicitations with the shared objective of supporting research and development of technology for use by law enforcement. The 2007 agreement was funded under NIJ's Sensors and Surveillance Technologies program and the 2009 agreement was funded under NIJ's Recovery Act Law Enforcement Technology Research and Development program. The primary goal of both agreements was to research and develop through-the-wall surveillance technology for the purpose of locating and tracking individuals within buildings that could be used in hostage rescue and building search and clearing operations. In addition, the 2009 agreement also supported Recovery Act goals such as preserving and creating jobs, promoting economic recovery, and helping to increase the economic efficiency and effectiveness of law enforcement activities.

Both the 2007 and 2009 solicitations identified the following three main performance measures:

(1) relevance to the needs of the field as measured by whether the awardee's substantive scope did not deviate from the funded proposal or any subsequent agency modifications to the scope;

(2) quality of the research as assessed by peer reviewers; and

(3) quality of management as measured by whether significant interim project milestones were achieved, final deadlines were met, and costs remained within approved limits.

The 2009 solicitation identified the same performance measures with the following additions:

(1) number of jobs retained (by type) due to Recovery Act funding, and

(2) number of jobs created (by type) due to Recovery Act funding.

Additionally the application for both agreements identified the following key performance goals:

- system design modification for low cost manufacturing,
- development of a law enforcement friendly user interface,

- receipt of FCC certification,
- system weight of no more than 15 pounds,
- refinement (based on user feedback) of the law enforcement friendly user interface, and
- an all weather portable case.

Based on our review of the Progress Reports that AKELA submitted to OJP as well as discussions we had with AKELA personnel regarding program performance, we found that AKELA had not deviated from the scope of the agreements. We requested peer review documentation in order to verify the quality of research performed by AKELA, but AKELA advised that no such reviews of AKELA's work had been performed. Additionally, we observed a demonstration of a unit that AKELA stated met the weight, and all weather portability requirements of the award. Unfortunately, the user interface observed was not yet ready for testing by law enforcement, the cost exceeded the goal of $5,000 stated in each application, and AKELA had not yet obtained FCC approval for use of the device by law enforcement.

While AKELA made significant progress during the course of the award, it had not completed the two key requirements of FCC approval and law enforcement evaluation. As of March 2011, AKELA had obtained Special Temporary Authority (STA) for operational evaluation from the FCC, and has requested a waiver for use by law enforcement. The STA from the FCC allows AKELA to proceed with testing and obtaining feedback from law enforcement personnel. The waiver, if granted, will allow use of the finished device by law enforcement personnel. With completion of these two goals in mind, NIJ awarded AKELA a 1-year, $150,000 award to continue this project.[17] OJP should closely monitor AKELA's progress under the new award to ensure the remaining project goals are accomplished.

### Monitoring of Sub-recipients and Contractors

Based on our review of AKELA's accounting records and discussions with AKELA officials, we determined that AKELA had no sub-recipients. However, AKELA entered into contractual agreements with two consultants, which were funded by both the 2007 and 2009 agreements.

[17] NIJ awarded AKELA Cooperative Agreement number 2011-IJ-CX-K005 that we did not include as part of this audit.

The *OJP Financial Guide* states that direct award recipients should ". . . ensure that monitoring of organizations under contract to them is performed in a manner that will ensure compliance with their overall financial management requirements." We reviewed AKELA's policies and procedures and noted that there were no policies or procedures for formal monitoring of contractors which AKELA's President confirmed. Therefore, we interviewed employees to determine whether AKELA was adequately monitoring its contractors and providing sufficient oversight. AKELA's President advised that he was involved in the work that was performed by contractors and therefore, he was aware of whether the contractors were achieving the goals set forth in the contracts. While this level of involvement by management personnel provides oversight, it does not provide assurance as to compliance with OJP financial management requirements.

We also reviewed the contract files and obtained copies of three consulting contracts identified by AKELA as relating to the two contractors who worked on the NIJ funded projects. We found that two contracts lacked signatures by an authorizing official, one lacked the signature of the contractor, and one did not cover the entire period for which the consultant was engaged. We also requested documents supporting work performed by the consultants and were provided with a consultant e-mail that stated the number of hours worked. The e-mail did not describe or otherwise detail the award-related activities that were performed. The e-mail also lacked support, such as timesheets or a breakdown of hours worked by project, that could have enabled AKELA to accurately distribute the contractor's charges to the appropriate customer.

Based on our review of AKELA's contract files, supporting documentation, and discussions with AKELA officials, we determined that AKELA lacked policies and procedures for adequately monitoring its contractors. Therefore, we recommend that OJP ensure that AKELA implement formal written policies and procedures requiring proper oversight and monitoring of its contractors.

**Post End Date Activity**

According to the *OJP Financial Guide*, award recipients are required to submit the following reports at the end of the award period: (1) final FFR, (2) final Progress Report, and (3) an invention report for inventions conceived or sufficiently tested to demonstrate that it will work for its intended purpose during the course of work under the award project. Also, the recipient should request reimbursement to cover expenditures and obligations (incurred prior to the award expiration date and liquidated no more than 90 days after the award expiration date) as part of the award closeout procedures.[18] The final drawdown request should be in conjunction with the final FFR.

The end dates for awards 2007-RG-CX-K016 and 2009-SQ-B9-K113 were January 31, 2010, and April 30, 2012, respectively. We found that for the 2007 award, AKELA submitted its final FFRs, and final Progress Reports by the closeout due date. An invention report was not required to be submitted for this award. We found no exceptions with AKELA's handling of the 2007 award's post end date activity. The 2009 award closeout was found to be pending completion by July 29, 2012. The 2009 award did not reach its closeout due date during our fieldwork. Therefore, as of the exit conference in May 2012, we did not asses AKELA's compliance with respect to post end date activity related to the 2009 award.

**Conclusion**

Based on our audit, we determined that AKELA's financial management system does not provide for adequate record keeping and reporting of agreement-related activities. We found that eight FFRs were inaccurate. Additionally, AKELA's policies and procedures currently in place, specifically related to AKELA's management of the NIJ cooperative agreement funds, do not provide sufficient internal control guidance, as we discovered significant deficiencies in the areas of authorization, recording, and custody.

In addition, we determined that AKELA's expenditures were within the approved budgeted constraints. However, we found $1,906,985 in expenditures for both agreements to be either unallowable, or unsupported.[19] These expenditures pertained to pre-agreement costs, proposal costs, bonuses, profit, and costs for which AKELA could not provide adequate support. We also found transactions which were not properly authorized, one of which was also not accurately recorded. A detail listing of these questioned costs can be found in the Schedule of Dollar Related Findings in Appendix II of this report.

[18] Effective August 2008 the requirement changed from 75 to 90 days in the 2008 *OJP Financial Guide*, applicable to the 2009-SQ-B9-K113 award.

[19] Total of $1,906,985 represents net questioned cost as shown in Appendix II.

We also assessed AKELA's performance in meeting the cooperative agreements' objectives. During our review of the 2009 award, AKELA did not achieve two key objectives: obtaining FCC certification and completion of law enforcement testing. Lastly, we determined that AKELA had not complied with requirements to complete a 2007 financial and compliance audit. Based on all of the above findings, we questioned $1,906,985 and we made 17 recommendations.

**Recommendations**

We recommend that OJP:

1. Ensure that the AKELA completes its 2007 financial audit and all required bi-annual audits in accordance with the special conditions of the 2007 and 2009 agreements.

2. Remedy $1,906,985 in funds drawn without fulfillment of the awards bi-annual or 2007 audit requirements.

3. Ensure that the AKELA establishes appropriate internal controls that include the design and implementation of procedures to assure that the financial management system provides for adequate recording and reporting of award related activities.

4. Ensure that AKELA establishes appropriate internal controls which include the design and implementation of procedures to prevent overlaps in authorization, recording, and custodial duties.

5. Ensure that AKELA establishes adequate internal controls that would only allow drawdowns as reimbursements for expenditures that have been incurred and that are directly related to an OJP agreement.

6. Remedy $1,025 in salary and fringe benefits expenditures related to employee timecards which were not properly authorized.

7. Remedy $19,970 in unapproved, or unsupported agreement-related expenditures.

8. Remedy $56,147 of indirect expenses charged in excess of approved rates.

9. Remedy $72,982 in indirect expenditures for disallowed new business, proposal, bonus, and lunch costs.

10. Remedy $67,787 in disallowed pre-agreement indirect expenditures charged to the 2007 agreement.

11. Ensure that AKELA maintains a complete listing of accountable property items in compliance with property management requirements.

12. Remedy $82,476 in budgeted direct cost transfers to the indirect budget category without OJP approval for the 2007 agreement.

13. Ensure that AKELA submits in a timely manner accurate FFRs.

14. Ensure that AKELA submits its progress reports in a timely manner.

15. Ensure that AKELA provides accurate data on its Quarterly Recovery Act reports.

16. Remedy $1,147 in disallowed profits.

17. Ensure that AKELA implements formal written policies and procedures requiring proper oversight and monitoring of its contractors.

## OBJECTIVE, SCOPE, AND METHODOLOGY

The purpose of our audit was to determine whether costs claimed under cooperative agreements 2007-RG-CX-K016 and 2009-SQ-B9-K113 were allowable, reasonable, and in accordance with applicable laws, regulations, guidelines, and terms and conditions of the cooperative agreements. The objective of our audit was to review performance in the following areas: (1) internal control environment; (2) drawdowns; (3) program income; (4) expenditures including payroll, fringe benefits, indirect costs, and accountable property; (5) matching; (6) budget management; (7) monitoring of sub-recipients and contractors; (8) reporting; (9) award requirements; (10) program performance and accomplishments; and (11) post end date activity. We determined that program income, matching, and monitoring of sub-recipients were not applicable to the two cooperative agreements we audited.

We conducted this performance audit in accordance with generally accepted government auditing standards. These 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.

We audited $1,956,985 in funding awarded to AKELA under the Law Enforcement Technology Research and Development and Sensors and Surveillance Technologies Cooperative Agreements, numbered 2007-RG-CX-K016 and 2009-SQ-B9-K113, respectively. Our audit covered, but was not limited to, the entire award period and $956,995 in associated expenditures for the 2007 agreement from its inception in September 2008 to its administrative closeout in May 2010. For the 2009 agreement, our audit covered, but was not limited to, the program period and associated expenditures beginning in September 2009 through our entrance conference on July 19, 2010.

We tested compliance with what we consider to be the most important conditions of the agreements. Unless otherwise stated in our report, the criteria we audited against are contained in the *OJP Financial Guide*, award documents, Code of Federal Regulations, Office of Management and Budget (OMB) Circulars, the Recovery Act, and Federal Acquisition Regulation.

Our testing was conducted by judgmentally selecting for analysis a sample of payroll expenditures from the awards we audited. Judgmental sampling design was applied to obtain broad exposure to numerous facets of the reimbursements reviewed. This non-statistical sample design does not allow projection of the test results to all payroll expenditures.

In conducting our audit, we tested AKELA's agreement activities in the following areas: budget management and control, drawdowns, agreement expenditures including payroll, fringe benefits, accountable property and indirect costs, progress and financial reporting, compliance with award special conditions, program performance and accomplishments, monitoring contractors, and post award activity. In addition, we reviewed the internal controls of the AKELA's financial management system specific to the management of DOJ agreement funds during the agreement period under review. However, we did not test the reliability of the financial management system as a whole. We also performed limited tests of source documents to assess the accuracy and completeness of reimbursement requests and federal financial reports. These tests were expanded when conditions warranted.

When we began our audit in July 2010, we found that AKELA had not been audited according to the requirements of the NIJ's cooperative agreements.[20] In addition, we found significant deficiencies in AKELA's financial and accounting records. For example, AKELA's agreement specific balance sheet at the time we began our audit did not balance. Also, we found that AKELA was maintaining two sets of accounting records, which were loosely connected; one set was an off-the-shelf accounting program and the other was a spreadsheet. Further, we requested but not provided underlying support for AKELA's transactions. Our review of AKELA's July 26, 2012, response determined that the additional information provided was not sufficient to enable continuance of our audit as all the requested documents were not provided. Therefore, on August 13, 2010, we suspended our fieldwork and issued a letter to AKELA's President, advising him to provide us with financial and accounting records that we could audit. Several days after we issued our letter to AKELA's President, we received a response, which included access to additional supporting documentation. AKELA's President also stated that an independent audit firm had been engaged to perform the required financial audit of AKELA. As a result, we resumed our fieldwork and our testing of transactions, the results of which are discussed in the Findings and Recommendations section of the audit report.

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[20] According to the *OJP Financial Guide*, AKELA was required to have a financial and compliance audit performed according to government auditing standards.

## SCHEDULE OF DOLLAR-RELATED FINDINGS

| **QUESTIONED COSTS:** | **AMOUNT** | **PAGE** |
|---|---|---|
| **Unsupported Costs:** | | |
| Unsupported Payroll Expenditures | $ 1,025 | 16 |
| Unsupported Direct Expenditures | $ 19,970 | 19 |
| **Unallowable Costs:** | | |
| Funds drawn without fulfillment of audit requirements | $ 1,906,985 | 9 |
| Expenditure in excess of indirect rate | $ 56,147 | 20 |
| Disallowed indirect costs | $ 72,982 | 23 |
| Disallowed pre-agreement indirect costs | $ 67,787 | 24 |
| Disallowed indirect cost transfers | $ 82,476 | 26 |
| Disallowed profits | $ 1,147 | 32 |
| **TOTAL QUESTIONED COSTS** | **$2,208,519** | |
| *Less Duplicative Indirect Costs*[21] | <$196,916> | |
| *Less Question Amount in excess of drawdowns* | <$104,618> | |
| **TOTAL DOLLAR RELATED FINDINGS** | **$1,906,985** | |

***Questioned Costs*** are expenditures that allegedly violate legal, regulatory or contractual requirements, or are not supported by adequate documentation at the time of the audit, or are unnecessary or unreasonable.

[21] Some costs were questioned for more than one reason. Net questioned costs exclude the duplicate amount.

# GRANTEE RESPONSE

AKELA

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805/683-6414, FAX 805/683-4076, www.akelainc.com

December 13, 2012

Mr. David J. Gaschke
Regional Audit Manager
San Francisco Regional Audit Office
1200 Bayhill Drive, Suite 201
San Bruno, CA 94066

Dear Mr. Gaschke,

When I established AKELA, Inc. in 1993 I did so with one underlying principle - to maintain the highest level of integrity while providing the best quality products and services at the greatest value possible. I am proud to say that I believe AKELA has done exactly that. The OJP cooperative agreements that initiated this audit are an excellent example of our success at achieving that principle. We are very proud of the product and value that we have been able to deliver to the Justice Department.

So you can imagine my concern when I read that your office was recommending that 100% of the cooperative agreement costs be questioned. I understand where it might be the job of the auditor to recommend the maximum disallowance, however, I don't believe the current recommendations are either in accordance with the relevant regulations, nor in the best interest of OJP or AKELA. I would hope the common goal would be to determine what is fair and equitable for both sides in accordance with the appropriate regulations and would ask that you give careful consideration to our response recommendations.

In reviewing your recommendations it would seem the majority of the recommended resolutions fall into the following four categories:

1. Review and update internal controls and policies.
2. Complete an independent audit for FY07.
3. Obtain approval from OJP for those costs that required a prior approval.
4. Disallow those costs that are specifically unallowable in accordance with FAR principles and special conditions of the cooperative agreements.

Other than #2 above, you will see that we concur with your recommendations. As stated in our response, we have already made great strides in reviewing and updating our internal controls and policies and will continue to do so. We welcome a follow-up audit to verify our success.

We do hope you will reconsider the need for an independent audit of FY 2007. We believe the audit performed by your office, the audits performed by the Defense Contract Audit Agency, and the independent audit performed on our FY2009 Financials mitigates the need for the FY2007 audit. Since we are predominately a government contractor, the US Government would ultimately pay for the cost of this audit through our indirect rates and we don't believe that would be a prudent use of those funds based on the limited risk.

As indicated in our response, we have recently received approval from OJP for Cooperative Agreement 2009-SQ-B9-K113 which authorizes all costs incurred against that cooperative agreement and represents more than half of the questioned costs of this audit. We are also in the process of requesting and receiving approval from OJP for Cooperative Agreement 2007-RG-CX-K016. Once that is obtained, then all questioned costs in this audit, with the exception of those in point 4 above will be authorized and allowable.

We concur with your findings that those costs that are specifically unallowable, the portion of the President's bonus charged to our indirect rates and OJP's portion of the questioned lunches, should be disallowed. It is important to point out that of all the costs questioned (and possibly the mark-up on the delivered product), these are the only ones that are specifically unallowable costs. All the other questioned costs are costs that are defined as allowable in accordance with FAR but are questioned because of lack of perceived and actual prior approval.

As a small business, we are constantly balancing the need for additional controls to ensure we meet the required regulations against the cost required to implement those controls. However, due in part to the results of this audit, along with a number of significant changes to our current business, I have hired an experienced Chief Financial Officer, with an expected start date of January 2013, to emphasize the seriousness with which AKELA takes these recommendations. AKELA's goal has always been, and will always be, to ensure we are in compliance with all state and federal government regulations.

Please do not hesitate to call if I can be of further assistance or you wish to discuss our recommendations in greater detail.

Best Regards,

Allan R Hunt

Allan Hunt
President, AKELA, Inc.

**AKELA, Inc.**
**Response to U.S. Department of Justice (DOJ)**
**Draft Audit Report dated November15, 2012**
**Cooperative Agreements Numbers: 2001-RG-CX-K016, 2009-SQ-B9-K113**

**Recommendation 1:** Ensure that AKELA completes its 2007 financial audit and all required bi-annual audits in accordance with the special conditions of the 2007 and 2009 agreements.

**Response:** Non-concurrence.

a. AKELA is not required to complete a 2007 financial audit in accordance with the 2008 Office of Justice Programs (OJP) Financial Guide. The audit requirements from Part III Chapter 19, page 140 for Commercial (For-Profit) Organizations, such as AKELA, Inc. are as follows:

   ***COMMERCIAL (FOR-PROFIT) ORGANIZATIONS***
   *These organizations shall have financial and compliance audits conducted by qualified individuals who are organizationally, personally, and externally independent from those who authorize the expenditure of Federal funds. This audit must be performed in accordance with Government Auditing Standards, 2003 Revision. The purpose of this audit is to ascertain the effectiveness of the financial management systems and internal procedures that have been established to meet the terms and conditions of the award. Usually, these audits shall be conducted annually, but not less frequently than every 2 years. The dollar threshold for audit reports established in OMB Circular A-133, as amended, applies.*

   Section 28 of the Special Conditions of Cooperative Agreement 2007-RG-CX-K016, and Section 48 of the Special Conditions of Cooperative Agreement 2009-SQ-B9-K113 state that *"The distribution of audit reports shall be based on requirements in the current edition of the OJP Financial Guide".* In addition, Section 1 of the Special Conditions of both Cooperative Agreements state *"The recipient agrees to comply with the financial and administrative requirements set forth in the current edition of the Office of Justice Programs (OJP) Financial Guide."*

   Based on the above referenced regulations, we believe the OJP Financial Guide supersedes the Special Conditions of the contract as it relates to the audit requirements. Consequently, in accordance with the 2008 OJP Financial Guide AKELA, Inc. is not required to perform a 2007 audit. In addition, as reference on page 9 of the draft audit report, the financial and compliance audit of AKELA, Inc.'s FY 2009 financial statements, performed by qualified individuals who meet the independent auditor requirements, satisfied a portion of the bi-annual audit requirement set forth in the special conditions. We believe the audit of AKELA's 2009 financial statements satisfies all the requirements of section 28 and 48 respectively of the relevant cooperative agreements.

b. AKELA, Inc. has been involved in government contracts since its inception in 1993 and has been audited by the Defense Contract Audit Agency (DCAA), an agency which meets the audit requirements of the Cooperative agreements as previously stated, since that time. DCAA has performed audits and adequacy evaluations through 2010 and has issued no significant findings. DCAA has also performed an accounting systems audit and evaluation and has determined that AKELA's accounting system meets the requirements in accordance with the Federal Acquisition Regulations (FAR).

c. Recommendation 1 makes the assumption that FY07 is the first fiscal year of the cooperative agreement and therefore is the first year an audit is required. However, Table 1 shows that the first year of Cooperative Agreement 2007-RG-CX-K016 encompasses portions of FY07 and FY08 with the majority of the first year coming in FY08. Therefore we would contend that if an audit is required for the first year, it should be in FY08 not FY07. It is also important to point out that FY09, the year in which AKELA had an independent audit performed, covered more months from both cooperative agreements than any other year.

**Table 1**

| Cooperative Agreement | Period of Performance | # of Months | Months per Fiscal Year | | | | |
|---|---|---|---|---|---|---|---|
| | | | FY 07 | FY08 | FY09 | FY10 | FY11 |
| 2007-RG-CX-K016 | 8/1/2007 - 9/30/2009 | 26 | 5 | 12 | 9 | | |
| 2009-SQ-B9-K113 | 8/1/2009 - 7/31/2011 | 24 | | | 5 | 12 | 7 |
| Total | | 50 | 5 | 12 | 14 | 12 | 7 |

Based on the responses above we do not believe a 2007 audit is required and would ask that you remove recommendation 1 from the audit report since it does not apply.

**Recommendation 2:** Remedy $1,906,985 in funds drawn without fulfillment of the awards bi-annual or 2007 audit requirements.

**Response:** Non-concurrence.

a. See response to Recommendation 1 above. Since we believe the 2007 audit is not required, we don't believe the $1,906,985 funds should be questioned or disallowed.

b. If it should be decided that the 2007 audit is required, we still believe this recommendation is not in accordance with the 2008 OJP Financial Guide. In the audit requirements of the 2008 OJP Financial Guide, Part III, Chapter 19, Page 137 the recommended remedy is as follows:

***FAILURE TO COMPLY***
*Failure to have audits performed as required will result in the withholding of new discretionary awards and/or withholding of funds or change in the method of payment on active awards.*

Based on our responses, we do not believe this remedy is justifiable. However, this remedy does make void the recommended remedy to disallow cost if it is determine that an audit should be completed.

c. Section 25 of the Special Conditions of Cooperative Agreement 2007-RG-CX-K016, and Section 45 of the Special Conditions of Cooperative Agreement 2009-SQ-B9-K113 state that *"Recipient agrees to comply with the contract cost principles of subpart 31.2 of the Federal Acquisition Regulations (F.A.R.)."* Other than the costs questioned in recommendations 6, 7, 8, 9, 10, 12 & 13, (which will be addressed in further responses), there is no evidence that the remaining portion of the $1,906,988 being questioned is unallowable in accordance with FAR subpart 31.201-2. In fact AKELA's position is that the above recommendations actually supports the allowability of the remaining portion of the $1,906,988 costs since none of these costs were identified in any of the recommendations as being unallowable. Consequently, allowability of these costs is in accordance with FAR 31.2.

d. Recommendation 2 summarizes the two cooperative agreements in determining questioned costs when, contractually, they should be treated as separate cooperative agreements. Consequently, year 1 is not the same for both cooperative agreements as shown in Table 1 above and clearly an audit required in FY2007 does not apply to a cooperative agreement that had not yet been awarded. As a result, Cooperative Agreement 2007-RG-CX-K016 is the only one that should be questioned.

e. We believe the OJP has already received the benefit of the $1,906,985 as indicated on page 34 of the draft audit report where it states; *"While AKELA made significant progress during the course of the award, it had not completed the two key requirements of FCC approval and law enforcement evaluation."* We would contend that these requirements were not a guaranteed deliverable of the cooperative agreement since a cooperative agreement is not a Fixed Price Contract, but were proposed goals of the agreement. This was further supported by an additional 1-year award of $150,000 to continue this project and complete these goals.

   As a result, we believe the OJP received exactly what was agreed in the referenced cooperative agreements and believe that disallowance of 100% of the award is not in accordance with the OJP Cooperative Agreement regulations stated in Code of Federal Regulations, Title 28 – Judicial Administration, Chapter 1, Part 66 Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, or the Recovery Act of 2009, section 66.3 Definitions – Grants and section 66.22 – Allowable Costs, nor is it in accordance with the Recovery Act of 2009 designed to create new jobs and save existing ones.

f. We believe this recommendation violates the Grant Adjustment Notice from the US Department of Justice; Office of Justice Programs dated July 23, 2012. The referenced Grant Adjustment Notice issued a final approval given by OCFMD – Financial Analyst approving the entire amount of $999,990 for Cooperative Agreement 2009-SQ-B9-K113. See attachment A. We believe this Grant Adjustment Notice makes this recommendation invalid.

Based on the responses above we would ask that you eliminate recommendation 2 from the audit report.

<u>**Recommendation 3:**</u> Ensure that AKELA establishes appropriate internal controls that include the design and implementation of procedures to assure that the financial management system provides for adequate recording and reporting of award related activities.

**Response:** Concurrence.

a. AKELA agrees that internal controls can always be improved upon. As a result of both the DOJ audit and its own independent audit, AKELA has already implemented a significant number of additional internal controls to address the issues raised by the DOJ audit. This includes the installation of an electronic timekeeping system called Unanet in January 2011, as referenced on page 11 of the audit report. In addition, in line with its recent growth, AKELA is in the process of hiring an experienced Chief Financial Officer with over 25 years of government contracting experience to help address these issues. The CFO's expected start date is January 16, 2013. His first order of business will be to review all policies and internal controls to ensure they are in accordance with FAR. It is important to point out that during the completion of the cooperative agreements there were fewer than 10 employees at AKELA with only 1 administrative employee. As a result of so few employees, it was very difficult to implement internal controls that addressed the separation of duties. DCAA recognizes the size of a Company as a significant factor in determining proper internal controls as referenced in its audit manual in chapter 5, section 1 - Obtaining an Understanding of a Contractor's Internal Controls and Assessing Control Risk. Throughout its multiple audits of AKELA performed over 20 years, DCAA has continually assessed AKELA's risk as minimal and determined that its internal controls are adequate given its size.

**Recommendation 4:** Ensure that AKELA establishes appropriate internal controls which include the design and implementation of procedures to prevent overlaps in authorization, recording, and custodial duties.

**Response:** Concurrence.

a. See response to Recommendation 3 above.

**Recommendation 5:** Ensure that AKELA establishes adequate internal controls that would only allow drawdowns as reimbursements for expenditures that have been incurred and that are directly related to an OJP agreement.

**Response:** Concurrence.

b. See response to Recommendation 3 above.

**Recommendation 6:** Remedy $1,025 in salary and fringe benefits expenditures related to employee timecards which were not properly authorized.

**Response:** Non-concurrence.

a. The President has subsequently reviewed all timesheets during the audit period and has approved all timesheets that were not previously approved. We welcome a follow-up audit to verify these timesheets have been approved.

b. There is no evidence that these costs are unallowable in accordance with FAR 31.2 as referenced in the Special Conditions of the referenced Cooperative Agreements. Lack of approval on the timesheet does not make the cost unallowable. The fact that an employee completed and approved their timesheet validates that the labor costs are allowable as charged. In addition, even though the President did not approve the timesheet, he ultimately approved the time by approving and signing all payroll checks. The fact that these employees were paid for these hours constitutes approval by the President.

Since the President has approved all questioned timesheets pursuant to the audit, and since he approved and signed all payroll checks for the questioned hours, we believe these costs are allowable. However, AKELA would concur with the following recommendation: Ensure AKELA follows its policies to properly authorize all time cards in a timely manner.

**Recommendation 7:** Remedy $19,970 in unapproved or unsupported agreement-related expenditures.

**Response:** Non-concurrence.

a. There is no evidence that any of these costs are unallowable in accordance with FAR 31.2 as referenced in the Special Conditions of the referenced Cooperative Agreements. Lack of approval does not make the cost unallowable. There is no evidence that any of these costs or services were not performed as stated. The fact that AKELA has met the contractual requirements as previously stated would suggest that these costs have been incurred as stated.

b. The President is in the process of reviewing all questioned costs and approving as required in order to meet the requirement as stated in the recommendation. We welcome a follow-up audit to verify approvals. In addition, the President constituted approval by being the only person authorized and eligible to sign checks for the company. Due to the limited number of transactions as a result of the small size of the Company, the President is intimately familiar with all expenses and constitutes his approval by the signing of checks in payment of the expenses in question.

As a result of no evidence indicating these costs are unallowable in accordance with FAR 31.2, and that all questioned costs are in the process of being approved along with the fact that the signing of checks in payment of all questioned expenses prior to the audit constitutes approval, we believe these cost are allowable. AKELA would concur with the following recommendation: Ensure AKELA follows its purchasing policies and properly authorize all expenditures in a timely manner.

**Recommendation 8:** Remedy $56,147 of indirect expenses charged in excess of approved rates.

**Response:** Concurrence with fact that AKELA did not receive rate approval from OJP for its 2007 actual indirect rates but non-concurrence with the recommendation to disallow the costs.

a. The lack of approval does not constitute an unallowable cost. There is no evidence that any of these costs are unallowable in accordance with FAR 31.2 as referenced in the Special Conditions of the Cooperative Agreements. In fact FAR 31.2 specifically states that these costs are allowable as referenced by the definition of each individual cost listed in FAR 31.2. In addition, FAR 31.201-4 Determining allocability, requires that all costs be allocated in the same manner to all contracts. Consequently, we are required to charge each cooperative agreement with its related portion of indirect costs based on its direct cost ratio to all other contracts.

b. The DOJ has received the benefit of these costs as referenced by the deliverables to date, and as stated in recommendation 2, section (e.)

c. These costs are within the original agreed upon value of the cooperative agreement.

d. We believe the costs related to the 2009 cooperative agreement from this recommendation violates the Grant Adjustment Notice from the US Department of Justice; Office of Justice Programs dated July 23, 2012. The referenced Grant Adjustment Notice issued a final approval given by OCFMD – Financial Analyst approving the entire amount of $999,990 for Cooperative Agreement 2009-SQ-B9-K113. This includes all indirect costs. See attachment A.

We concur that AKELA did not obtain approval for its 2007 indirect rates. However, for the reasons stated above, we believe the proper treatment would be to recommend that AKELA obtain approval from OJP for the 2007 indirect costs similar to the approval they have recently received for their 2009 indirect costs.

**Recommendation 9:** Remedy $72,982 in indirect expenditures for disallowed new business, proposal, bonus, and lunch costs.

**Response:** We are in concurrence with disallowance of the portion of the President's bonus charged through the indirect rates and with OJP's share of all lunch expenditures but are in non-concurrence for the remainder of the $72,982 related to new business and proposal costs.

a. We concur that the portion of the President's bonus being charged through the indirect rates should be disallowed. However, AKELA is a California Corporation with only one officer that officially works at AKELA, and that is the President. None of the other named officers being paid bonuses meet the officer definition as defined by the by-laws of the AKELA Corporation and therefore their bonuses are allowable in accordance with FAR 31.2.

b. Though AKELA believes the majority of the questioned lunches are allowable in accordance with FAR 31.2, AKELA concurs with the recommendation to disallow OJP's share of $668. As stated in recommendation 3 (a.), AKELA is in the process of updating its internal controls to ensure all travel cost and business expenses adhere to both the IRS travel guidelines and FAR 31.205-46 Travel Costs.

c. Recommendation 9 does not recognize the difference between "new business" and "bid and proposal" costs as defined in FAR 31.2. Though new business is not specifically defined in FAR 31.2, we believe it falls under a number of FAR sections but predominately sections FAR 31.205-25 -- Manufacturing and Production Engineering Costs and section 31.205-38 selling costs, both of which are allowable. In all instances new business costs are allowable and do not require prior approval in accordance with the cooperative agreements' special conditions.

   These sections include not only the cost of meeting with customers but also the time spent on improving AKELA's current products and services to better identify the broad requirements of our potential customer's needs and match them against the capability of AKELA's products and services. Much of the time is spent in review prior to actually talking with a potential customer. There are separate account numbers set up for these costs and they are predominately charged to overhead.

Bid and proposal costs are very specific and are defined in FAR section 31.205-18 Independent research and development and bid and proposal costs, and are also allowable. Bid and proposal costs are defined as costs incurred in preparing, submitting, and supporting bids and proposals on potential Government or non-Government contracts. These costs are not the same as new business which is why a separate account is set up to track bid and proposal costs. Bid and proposal costs are charged to the G&A indirect cost pool and allocated to all contracts.

There is no evidence provided that new business costs were charged as proposal costs. In fact, AKELA's labor policies prevent that from happening by requiring timesheets to be signed by both the employee and the President to ensure that the correct account is charged. The fact is that many new business costs never result in a proposal being submitted, so to suggest that all new business costs are proposal costs is inappropriate and ignores FAR 31.2. We believe all new business costs are allowable in accordance with FAR 31.2 and believe they should be removed from this recommendation.

d. We don't believe this recommendation totally complies with the 2008 OJP Financial Guide, Part III, Chapter 15 Costs Requiring Prior Approval, number 5. Proposal Costs which states:

Costs to projects for preparing proposals for potential Federal awards require PRIOR APPROVAL for:
a. The obligation or expenditure of funds or
b. The performance or modification of an activity under an award/sub award project, where such approval is required.

Based on this clause, proposal costs for non-federal awards do not require prior approval. As a result the proposal costs for non-federal awards need to be identified and removed from this recommendation. That step has not taken place.

e. We believe the majority of the proposal costs have been approved by OJP as a result of OJP approving the provisional rates for the cooperative agreements. As shown in attachments B and C, provisional rates for 2007 and 2009 include estimated proposal costs. By approving the provisional rates as stated in Exhibit 4 of the audit report, all costs that make up the provisional rates as provided by the provisional rate detail were approved as well. Consequently all proposal costs included in the provisional rates have been approved.

As shown above, we believe this recommendation violates FAR 31.2 which designates new business/selling and proposal costs as unique and allowable. In addition, we believe OJP had already provided approval for the referenced proposal costs by approving AKELA's provisional rates. Consequently, we would request that this recommendation be modified to only disallow the portion of the President's bonus that was inadvertently charged to the cooperative agreements through AKELA's indirect rates and OJP's portion of the questioned lunches.

**Recommendation 10:** Remedy $67,787 in disallowed pre-agreement indirect expenditures charged to the 2007 agreement.

**Response:** Non-concurrence.

a. See response (c.) in recommendation 9 above. New business costs are indirect costs and are not directly related to any one contract or cost objective.

b. There is no evidence that any of these costs charged to indirect cost categories were directly related to any contract including the cooperative agreements in question. AKELA's timesheet policies require that all timesheets be signed by the employee and approved by the President to ensure all costs are charged to the proper cost objective.

c. There is a contradiction between recommendation 9 and 10 as it relates to new business costs. In recommendation 9, new business costs were interpreted to be proposal costs and in recommendation 10, new business costs were interpreted to be pre-agreement costs. We believe new business costs are neither, and are specifically identifiable as referenced in response (c.) in recommendation 9 above.

d. AKELA believes this recommendation contradicts the 2008 Office of Justice Programs (OJP) Financial Guide, Part III, Chapter 12: Costs Requiring Prior Approval, Section 4: Pre-agreement Costs, and FAR 31.205-30 Pre-contract costs. Both references refer to direct costs specifically charged for the benefit of one cost objective or contract, or as stated in this audit, specifically for the benefit of the referenced cooperative agreements. The costs identified in recommendation 10 are clearly indirect costs and do not meet the definition of these two references and, therefore, do not require an approval.

As stated above, the referenced costs identified in recommendation 10 are specifically indirect costs as identified in FAR 31.2 and do not meet the definition of pre-agreement or pre-contract costs and do not require prior approval and we request this recommendation be removed from the audit report since it does not apply

**Recommendation 11:** Ensure that AKELA maintains a complete listing of accountable property items in compliance with property management requirements.

**Response:** Concurrence.

a. AKELA is in the process of rewriting its government property policies to ensure that they are in compliance with all FAR regulations with regard to government property management requirements.

**Recommendation 12:** Remedy $82,476 in budgeted direct cost transfers to the indirect budget category without OJP approval for the 2007 agreement.

**Response:** Non-concurrence.

a. This is a duplication of already previously discussed issues as identified in note 14 on page 26 of the audit report and should not be included again.

b. See response to recommendation 8 and incorporate complete answer.

Due to this recommendation being a duplicate of previously questioned and discussed costs we would ask that this recommendation be removed from the audit report.

**Recommendation 13:** Ensure that AKELA submits in a timely manner accurate FFRs.

**Response:** Concurrence.

a. AKELA agrees to put in place procedures to ensure all future FFR's are submitted in a timely manner or request approval prior to delay.

**Recommendation 14:** Ensure that AKELA submits its progress reports in a timely manner.

**Response:** Concurrence.

a. AKELA agrees to put in place procedures to ensure progress reports are submitted in a timely manner or request approval prior to delay.

**Recommendation 15:** Ensure that AKELA provides accurate data on its Quarterly Recovery Act reports.

**Response:** Concurrence.

a. AKELA agrees to put in place procedures to ensure accurate data is provided on its Quarterly Recovery Act reports.

**Recommendation 16:** Remedy $1,147 in disallowed profits.

**Response:** Non-concurrence.

a. The price charged the OJP for the referenced manufactured radar unit in recommendation 16 was the established catalog price in accordance with FAR. It was determined that the total cost to the contract would be less to OJP by charging the catalog price instead of building a separate unit for this contract and charging the actual cost required to build a radar unit. Markup is not the same as profit. Profit is the difference between all costs incurred and the price received for the unit where markup is an estimated profit.

   In this case we did not charge OJP the actual cost to build this unit. We charged OJP an established price. As was pointed out in recommendation 8, AKELA's actual indirect rates were higher than its proposed or provisional rates. The catalog price includes estimated rates and does not include actual cost. The catalog price does not take into account the actual fluctuation in both direct and indirect cost. Catalog prices eliminate that fluctuation and ensure the government gets the best price offered. If we are required to charge actual cost instead of a catalog price we would be allowed to charge the OJP for any increase in direct or indirect cost related to building this unit. We chose not to do that and believe it more than offsets the cost of the mark-up and is in the best interest of the OJP.

g. We believe this recommendation violates the Grant Adjustment Notice from the US Department of Justice; Office of Justice Programs dated July 23, 2012. The referenced Grant Adjustment Notice issued a final approval given by OCFMD – Financial Analyst approving the entire amount of $999,990 for Cooperative Agreement 2009-SQ-B9-K113. Included in that amount is the cost for the referenced radar unit. See attachment A. We believe this Grant Adjustment Notice makes this recommendation invalid.

Based on the responses stated above we would ask that this recommendation be removed from the audit report.

**Recommendation 17:** Ensure that AKELA implements formal written policies and procedures requiring proper oversight and monitoring of its contractors.

**Response:** Concurrence.

a. AKELA is in the process of establishing written policies to ensure proper oversight and monitoring of its contractors.

# APPENDIX A

**2009-SQ-B9-K113**

**Grant Adjustment Notice**

US DEPARTMENT OF JUSTICE
OFFICE OF JUSTICE PROGRAMS

# GRANT ADJUSTMENT NOTICE

## Grantee Information

| | | | | | |
|---|---|---|---|---|---|
| **Grantee Name:** | AKELA, Inc | **Project Period:** | 08/01/2009 - 04/30/2012 | **GAN Number:** | 014 |
| **Grantee Address:** | 5551 Ekwill Street, Suite A Santa Barbara, 93111 | **Program Office:** | NIJ | **Date:** | 07/23/2012 |
| **Grantee DUNS Number:** | 84-897-0240 | **Grant Manager:** | Frances Scott | | |
| **Grantee EIN:** | 77-0331513 | **Application Number(s):** | 2009-91818-CA-TL | | |
| **Vendor #:** | 770331513 | **Award Number:** | 2009-SQ-B9-K113 | | |
| **Project Title:** | Through the Wall Standoff Detection and Tracking of Individuals | **Award Amount:** | $999,990.00 | | |

## Budget Modification

* All editable Budget fields must contain a numeric value.

| Categories | Approved Budget | Requested Changes to Budget | Revised Budget |
|---|---|---|---|
| A. Personnel | $ 345208 | $ 15515 | $ 360723 |
| B. Fringe Benefits | $ 155137 | $ -29633 | $ 125504 |
| C. Travel | $ 26662 | $ -12116 | $ 14546 |
| D. Equipment | $ 0 | $ 14000 | $ 14000 |
| E. Supplies | $ 18900 | $ -14100 | $ 4800 |
| F. Construction | $ 0 | $ 0 | $ 0 |
| G. Contractual | $ 64000 | $ -27683 | $ 36317 |
| H. Other | $ 0 | $ 0 | $ 0 |
| TOTAL DIRECT COST | $ 609907 | $ -54017 | $ 555890 |
| Total Direct Costs = (Sum of lines A-H) | | | |
| INDIRECT COST | $ 390083 | $ 54017 | $ 444100 |
| | | | |
| TOTAL PROJECT COST | $ 999990 | $ 0 | $ 999990 |
| Total Project Costs = Total Direct Costs + Indirect Cost<br>Total Project Costs = Federal Funds Approved + Non-Federal Funds + Program Income | | | |
| FEDERAL FUNDS APPROVED | $ 999990 | | $ 999990 |
| NON-FEDERAL FUNDS APPROVED | $ 0 | $ 0 | $ 0 |
| PROGRAM INCOME | $ 0 | $ 0 | $ 0 |

***Required Justification for Budget Modification**

The budget changes requested reflect actual program expenditures dictated by the attached program scope adjustment notice document and indirect rates negotiated with and approved by the Defense Contract Audit Agency.

***Required Justification for Budget Modification**

```
The budget changes requested reflect actual program
expenditures dictated by the attached program scope
adjustment notice document and indirect rates
negotiated with and approved by the Defense
Contract Audit Agency.
```

**Attachments:**

| Filename: | User: | Timestamp: | Action: |
|---|---|---|---|
| Consultant_rate_approval_request_and_backup_2011-IJ-CX-K005.pdf | scottf | 07/20/2012 9:33 AM | Delete Attachment |
| Program Review and Interaction Meeting List.pdf | AHuntx1 | 05/14/2012 5:53 PM | Delete Attachment |
| Recovery Act travel detail revised.pdf | AHuntx1 | 05/24/2012 7:50 PM | Delete Attachment |
| Budget detail with basis of computation and backup for supply and consultant items and indirect rate agreement.pdf | AHuntx1 | 07/12/2012 6:42 PM | Delete Attachment |
| Budget_Narrative RRA revised.pdf | AHuntx1 | 05/11/2012 8:48 PM | Delete Attachment |
| Program Scope Adjustment Notice.pdf | AHuntx1 | 05/09/2012 7:35 PM | Delete Attachment |

**Actions:**

Close

Printer Friendly Version

**Audit Trail:**

| Description: | Role: | User: | Timestamp: | Note: |
|---|---|---|---|---|
| Approved-Final | OCFMD - Financial Analyst | porterd | 07/23/2012 9:22 AM | View Note |
| Submitted | PO - Grant Manager | AHuntx1 | 07/12/2012 6:49 PM | View Note |
| Change Requested | PO - Grant Manager | scottf | 06/21/2012 12:37 PM | View Note |
| Change Requested | EXTERNAL - External User | scottf | 06/21/2012 12:37 PM | View Note |
| Submitted | PO - Grant Manager | AHuntx1 | 05/24/2012 7:58 PM | View Note |
| Change Requested | EXTERNAL - External User | scottf | 05/24/2012 11:56 AM | View Note |
| Change Requested | PO - Grant Manager | scottf | 05/24/2012 11:56 AM | View Note |
| Submitted | PO - Grant Manager | AHuntx1 | 05/21/2012 5:26 PM | View Note |
| Change Requested | EXTERNAL - External User | scottf | 05/17/2012 12:09 PM | View Note |
| Change Requested | PO - Grant Manager | scottf | 05/17/2012 12:09 PM | View Note |
| Submitted | PO - Grant Manager | AHuntx1 | 05/14/2012 5:54 PM | View Note |
| Change Requested | PO - Grant Manager | scottf | 05/14/2012 2:17 PM | View Note |
| Change Requested | EXTERNAL - External User | scottf | 05/14/2012 2:17 PM | View Note |
| Submitted | PO - Grant Manager | AHuntx1 | 05/11/2012 8:50 PM | View Note |
| Draft | EXTERNAL - External User | AHuntx1 | 05/11/2012 7:59 PM | View Note |
| Change Requested | EXTERNAL - External User | scottf | 05/11/2012 10:25 AM | View Note |
| Change Requested | PO - Grant Manager | scottf | 05/11/2012 10:25 AM | View Note |
| Submitted | PO - Grant Manager | AHuntx1 | 05/10/2012 6:58 PM | View Note |
| Draft | EXTERNAL - External User | AHuntx1 | 05/09/2012 7:36 PM | View Note |
| Draft | EXTERNAL - External User | AHuntx1 | 05/09/2012 7:34 PM | View Note |

# APPENDIX B

**2007 AKELA provisional rates forecast**

## FY2007 Cost Distribution/Rate Calculation

| | Jan Plan | Feb Plan | Mar Plan | Apr Plan | May Plan | Jun Plan | Jul Plan | Aug Plan | Sep Plan | Oct Plan | Nov Plan | Dec Plan | YTD Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Direct Labor | 26,971 | 30,090 | 29,618 | 26,265 | 25,648 | 25,130 | 25,813 | 25,839 | 25,874 | 37,082 | 33,938 | 31,719 | 343,987 |
| Direct Labor Adjustment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Direct Labor | 26,971 | 30,090 | 29,619 | 26,265 | 25,648 | 25,130 | 25,813 | 25,839 | 25,874 | 37,082 | 33,938 | 31,719 | 343,987 |
| Direct Cost Consultant | 23,000 | 23,000 | 23,000 | 23,000 | 23,000 | 23,000 | 23,000 | 23,000 | 23,000 | 23,000 | 23,000 | 23,000 | 276,000 |
| Other Direct Cost | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 | 360,000 |
| Direct Subcontract | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Direct Travel | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 12,000 |
| Direct Cost Adjustment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Direct Cost of Sales | 80,971 | 84,090 | 83,618 | 80,265 | 79,648 | 79,130 | 79,813 | 79,839 | 79,874 | 91,082 | 87,938 | 85,719 | 991,987 |
| Fringe (P/R taxes, Health Ins e | 7,819 | 6,875 | 6,926 | 6,775 | 6,953 | 6,900 | 7,024 | 6,951 | 6,875 | 6,701 | 6,926 | 6,900 | 83,626 |
| Fringe Labor - (Accrued PTO) | 4,226 | 3,716 | 3,744 | 3,662 | 3,759 | 3,730 | 3,797 | 3,758 | 3,716 | 3,622 | 3,744 | 3,730 | 45,203 |
| Total Fringe | 12,045 | 10,591 | 10,670 | 10,437 | 10,712 | 10,630 | 10,822 | 10,709 | 10,591 | 10,323 | 10,669 | 10,630 | 128,830 |
| Overhead Labor | 16,717 | 11,694 | 13,456 | 15,963 | 16,595 | 18,206 | 15,003 | 16,197 | 15,485 | 4,954 | 5,349 | 6,506 | 158,125 |
| Contracts Admin (Labor) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Human Resources (Labor) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reloc & Recruit | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Rent + Utilities + Telephone | 7,750 | 7,750 | 7,750 | 7,750 | 7,750 | 7,750 | 7,750 | 7,750 | 7,750 | 7,750 | 7,750 | 7,750 | 93,000 |
| Travel | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Electronic Parts | 200 | 200 | 200 | 200 | 200 | 200 | 250 | 250 | 250 | 250 | 250 | 250 | 2,700 |
| Outside Services | 525 | 525 | 525 | 525 | 525 | 525 | 525 | 525 | 525 | 525 | 525 | 525 | 6,300 |
| Other Overhead | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 3,000 |
| Credit for G&A fringe & facility | -1,929 | -1,751 | -1,296 | -1,593 | -1,466 | -1,404 | -1,326 | -1,696 | -1,553 | -1,522 | -1,650 | -1,374 | -18,562 |
| Overhead labor Adj. | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Overhead | 25,513 | 18,667 | 20,885 | 23,095 | 23,853 | 25,527 | 22,452 | 23,277 | 22,707 | 12,207 | 12,474 | 13,907 | 244,562 |
| B&P/IR&D Transfer | -580 | -406 | -1,494 | 0 | 0 | -798 | -484 | -1,181 | 0 | 0 | 0 | 0 | -4,500 |
| Total Overhead Exp. | 24,933 | 18,262 | 19,391 | 23,095 | 23,853 | 24,729 | 21,968 | 22,095 | 22,707 | 12,207 | 12,474 | 13,907 | 240,062 |
| G&A Labor | 4,849 | 4,246 | 2,251 | 3,551 | 2,877 | 2,722 | 2,174 | 4,003 | 3,243 | 3,241 | 3,476 | 2,250 | 38,882 |
| Fringe on G&A Labor | 1,146 | 968 | 513 | 810 | 683 | 621 | 543 | 913 | 770 | 739 | 867 | 591 | 9,163 |
| IR&D + B&P Labor | 423 | 423 | 1,472 | 0 | 0 | 567 | 381 | 931 | 0 | 0 | 0 | 0 | 4,196 |
| IR&D + B&P Labor ADJ. | | | | | | | | | | | | | 0 |
| IR&D + B&P Labor | 423 | 423 | 1,472 | 0 | 0 | 567 | 381 | 931 | 0 | 0 | 0 | 0 | 4,196 |
| Consultants | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other G&A | 0 | 0 | 0 | 0 | 0 | 0 | 200 | 0 | 0 | 200 | 0 | 100 | 500 |
| G&A Facility Adj. | 783 | 783 | 783 | 783 | 783 | 783 | 783 | 783 | 783 | 783 | 783 | 783 | 9,400 |
| Total G&A | 7,201 | 6,420 | 5,019 | 5,144 | 4,344 | 4,692 | 4,081 | 6,629 | 4,797 | 4,963 | 5,126 | 3,724 | 62,140 |
| G&A Transfer | 580 | 406 | 1,494 | 0 | 0 | 798 | 484 | 1,181 | 0 | 0 | 0 | 0 | 4,500 |
| Total G&A | 7,781 | 6,826 | 6,513 | 5,144 | 4,344 | 5,490 | 4,565 | 7,811 | 4,797 | 4,963 | 5,126 | 3,724 | 66,640 |
| **Indirect Rates and Basis** | | | | | | | | | | | | | |
| **Fringe Rate** | | | | | | | | | | | | | |
| Fringe Expenses | 12,045 | 10,591 | 10,670 | 10,437 | 10,712 | 10,630 | 10,822 | 10,709 | 10,591 | 10,323 | 10,669 | 10,630 | 128,830 |
| Fringe Base | 50,960 | 46,452 | 46,797 | 45,778 | 45,120 | 46,624 | 43,371 | 46,969 | 44,603 | 45,277 | 42,763 | 40,475 | 545,190 |
| Fringe Rate | 23.6% | 22.8% | 22.8% | 22.8% | 23.7% | 22.8% | 25.0% | 22.8% | 23.7% | 22.8% | 24.9% | 26.3% | 23.63% |
| **Overhead Rate** | | | | | | | | | | | | | |
| OH Exp. | 37,558 | 29,258 | 31,555 | 33,533 | 34,565 | 36,157 | 33,273 | 33,985 | 33,298 | 22,530 | 23,143 | 24,537 | 373,392 |
| OH Base | 27,394 | 30,513 | 31,090 | 26,265 | 25,648 | 25,697 | 26,194 | 26,769 | 25,874 | 37,082 | 33,938 | 31,719 | 348,183 |
| OH Rate | 137.1% | 95.9% | 101.5% | 127.7% | 134.8% | 140.7% | 127.0% | 127.0% | 128.7% | 60.8% | 68.2% | 77.4% | 107.24% |
| OH Rate - Bid | 107.24% | 107.24% | 107.24% | 107.24% | 107.24% | 107.24% | 107.24% | 107.24% | 107.24% | 107.24% | 107.24% | 107.24% | 107.24% |
| **G&A Rate** | | | | | | | | | | | | | |
| G&A Exp. | 9,298 | 8,111 | 7,479 | 6,138 | 5,189 | 6,381 | 5,337 | 9,143 | 5,750 | 5,871 | 6,210 | 4,470 | 78,985 |
| G&A Base | 101,324 | 96,803 | 97,431 | 96,786 | 97,302 | 97,220 | 96,043 | 95,534 | 96,316 | 99,067 | 96,549 | 95,586 | 1,166,164 |
| G&A Rate | 9.2% | 8.4% | 7.7% | 6.3% | 5.3% | 6.6% | 5.6% | 9.6% | 6.0% | 5.9% | 6.4% | 4.7% | 6.77% |
| G&A Rate - Bid | 6.77% | 6.77% | 6.77% | 6.77% | 6.77% | 6.77% | 6.77% | 6.77% | 6.77% | 6.77% | 6.77% | 6.77% | 6.77% |
| Multiplier | 2.59 | 2.12 | 2.17 | 2.42 | 2.47 | 2.57 | 2.40 | 2.49 | 2.42 | 1.70 | 1.79 | 1.86 | 2.21 |

# APPENDIX C

**2009 AKELA provisional rates forecast**

## FY2009 Cost Distribution/Rate Calculation Plan

| | Jan Plan | Feb Plan | Mar Plan | Apr Plan | May Plan | Jun Plan | Jul Plan | Aug Plan | Sep Plan | Oct Plan | Nov Plan | Dec Plan | YTD Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 155,789 | 161,037 | 161,037 | 161,037 | 194,775 | 212,929 | 196,078 | 211,504 | 208,437 | 205,933 | 195,029 | 189,632 | 2,253,219 |
| Direct Labor | 39,841 | 41,757 | 41,757 | 41,757 | 54,070 | 60,695 | 54,546 | 60,175 | 59,056 | 58,142 | 54,163 | 52,193 | 618,152 |
| Direct Labor Adjustment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Direct Labor | 39,841 | 41,757 | 41,757 | 41,757 | 54,070 | 60,695 | 54,546 | 60,175 | 59,056 | 58,142 | 54,163 | 52,193 | 618,152 |
| Direct Cost Consultant | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 240,000 |
| Other Direct Cost | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | 180,000 |
| Direct Subcontract | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Direct Travel | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 | 42,000 |
| Direct Cost Adjustment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Direct Cost of Sales** | **78,341** | **80,257** | **80,257** | **80,257** | **92,570** | **99,195** | **93,046** | **98,675** | **97,556** | **96,642** | **92,663** | **90,693** | **1,080,152** |
| Fringe | 12,216 | 12,212 | 12,093 | 12,212 | 12,215 | 12,829 | 12,830 | 12,829 | 12,829 | 12,672 | 12,828 | 12,531 | 150,297 |
| Fringe Labor - (Accrued PTO) | 5,778 | 5,776 | 5,720 | 5,776 | 5,777 | 6,068 | 6,069 | 6,068 | 6,069 | 5,994 | 6,067 | 5,927 | 71,086 |
| Bonus | 5,500 | 5,500 | 5,500 | 5,500 | 5,500 | 5,500 | 5,500 | 5,500 | 5,500 | 5,500 | 5,500 | 5,500 | 66,000 |
| Pension Contribution | 0 | 0 | 37,000 | 0 | 0 | 37,000 | 0 | 0 | 37,000 | 0 | 0 | 37,000 | 148,000 |
| Fringe Adj. | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Fringe** | **23,493** | **23,488** | **60,313** | **23,488** | **23,492** | **61,397** | **24,399** | **24,397** | **61,397** | **24,166** | **24,396** | **60,958** | **435,383** |
| Overhead Labor | 31,270 | 25,916 | 25,916 | 25,916 | 15,357 | 18,835 | 17,828 | 18,887 | 18,352 | 19,239 | 17,957 | 17,172 | 252,645 |
| Contracts Admin (Labor) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Human Resources (Labor) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reloc & Recruit | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Rent + Utilities + Telephone | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 | 96,000 |
| Travel | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 | 14,400 |
| Electronic Parts | 2,500 | 2,500 | 2,500 | 2,500 | 2,500 | 2,500 | 2,500 | 2,500 | 2,500 | 2,500 | 2,500 | 2,500 | 30,000 |
| Outside Services | 800 | 800 | 800 | 800 | 800 | 800 | 800 | 800 | 800 | 800 | 800 | 800 | 9,600 |
| Other Overhead | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 | 42,000 |
| Credit for G&A fringe & facility | -2,912 | -2,439 | -4,827 | -2,587 | -2,912 | -3,724 | -2,030 | -1,982 | -3,735 | -2,278 | -2,197 | -3,629 | -35,152 |
| Overhead labor Adj. | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Overhead | 44,358 | 39,477 | 37,088 | 39,329 | 28,446 | 31,111 | 31,798 | 32,905 | 30,617 | 32,961 | 31,760 | 29,643 | 409,493 |
| B&P/IR&D Transfer | -1,726 | -11,282 | -16,627 | -10,723 | -2,491 | -4,407 | -2,963 | -3,109 | -3,008 | -2,835 | -2,981 | -3,337 | -62,826 |
| **Total Overhead Exp.** | **42,632** | **28,194** | **20,461** | **28,605** | **25,954** | **26,704** | **28,835** | **29,796** | **27,608** | **30,126** | **28,779** | **26,306** | **346,667** |
| G&A Labor | 7,095 | 5,727 | 5,445 | 6,247 | 7,095 | 4,115 | 3,975 | 4,167 | 3,975 | 5,207 | 4,536 | 3,333 | 60,919 |
| Fringe on G&A Labor | 2,103 | 1,630 | 4,019 | 1,778 | 2,103 | 2,915 | 1,222 | 1,173 | 2,927 | 1,470 | 1,389 | 2,720 | 25,449 |
| IR&D + B&P Labor | 1,040 | 9,115 | 8,595 | 8,595 | 2,724 | 3,036 | 3,036 | 3,452 | 1,996 | 3,036 | 3,036 | 1,996 | 49,659 |
| IR&D + B&P Labor ADJ. | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| IR&D + B&P Labor | 1,040 | 9,115 | 8,595 | 8,595 | 2,724 | 3,036 | 3,036 | 3,452 | 1,996 | 3,036 | 3,036 | 1,996 | 49,659 |
| Consultants | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 12,000 |
| Other G&A | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 6,000 |
| G&A Facility Adj. | 809 | 809 | 809 | 809 | 809 | 809 | 809 | 809 | 809 | 809 | 809 | 809 | 9,703 |
| Total G&A | 12,547 | 18,782 | 20,367 | 18,930 | 14,231 | 12,375 | 10,541 | 11,101 | 11,206 | 12,022 | 11,270 | 10,358 | 163,730 |
| G&A Transfer | 1,726 | 11,282 | 16,627 | 10,723 | 2,491 | 4,407 | 2,963 | 3,109 | 3,008 | 2,835 | 2,981 | 3,337 | 62,826 |
| **Total G&A** | **14,273** | **30,064** | **36,994** | **29,653** | **16,722** | **16,782** | **13,504** | **14,210** | **14,215** | **14,857** | **14,251** | **13,696** | **226,556** |
| Unallowable | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Indirect & Unallow Exp. | 60,398 | 81,747 | 117,769 | 81,747 | 66,168 | 104,883 | 66,738 | 68,403 | 103,220 | 69,149 | 67,425 | 100,959 | 1,008,606 |
| Total Cost | 158,740 | 162,004 | 198,026 | 162,004 | 158,738 | 204,079 | 159,784 | 167,079 | 200,776 | 165,791 | 160,088 | 191,652 | 2,088,758 |
| Income | -2,951 | -966 | -36,988 | -966 | 36,037 | 8,850 | 36,295 | 44,426 | 7,661 | 40,141 | 34,941 | -2,020 | 164,460 |
| **Indirect Rates and Basis** | | | | | | | | | | | | | |
| **Fringe Rate** | | | | | | | | | | | | | |
| Fringe Expenses | 23,493 | 23,488 | 60,313 | 23,488 | 23,492 | 61,397 | 24,399 | 24,397 | 61,397 | 24,166 | 24,396 | 60,958 | 435,383 |
| Fringe Base | 79,246 | 82,515 | 81,712 | 82,515 | 79,246 | 86,682 | 79,385 | 86,682 | 83,379 | 85,625 | 79,692 | 74,694 | 981,375 |
| Fringe Rate | **29.6%** | **28.5%** | **73.8%** | **28.5%** | **29.6%** | **70.8%** | **30.7%** | **28.1%** | **73.6%** | **28.2%** | **30.6%** | **81.6%** | **44.36%** |
| **Overhead Rate** | | | | | | | | | | | | | |
| OH Exp | 67,852 | 62,965 | 97,402 | 62,817 | 51,937 | 92,508 | 56,197 | 57,302 | 92,013 | 57,127 | 56,155 | 90,601 | 844,876 |
| OH Base | 40,881 | 50,872 | 50,352 | 50,352 | 56,794 | 63,732 | 57,582 | 63,628 | 61,052 | 61,178 | 57,189 | 54,189 | 667,811 |
| OH Rate | **166.0%** | **123.8%** | **193.4%** | **124.8%** | **91.4%** | **145.2%** | **97.6%** | **90.1%** | **150.7%** | **93.4%** | **98.2%** | **167.2%** | **126.51%** |
| OH Rate - Bid | **126.51%** | **126.51%** | **126.51%** | **126.51%** | **126.51%** | **126.51%** | **126.51%** | **126.51%** | **126.51%** | **126.51%** | **126.51%** | **126.51%** | **126.51%** |
| **G&A Rate** | | | | | | | | | | | | | |
| G&A Exp. | 14,273 | 30,064 | 36,994 | 29,653 | 16,722 | 16,782 | 13,504 | 14,210 | 14,215 | 14,857 | 14,251 | 13,696 | 226,556 |
| G&A Base | 144,467 | 131,940 | 161,032 | 132,351 | 142,016 | 187,296 | 146,279 | 152,868 | 186,561 | 150,934 | 145,837 | 177,957 | 1,862,202 |
| G&A Rate | **9.9%** | **22.8%** | **23.0%** | **22.4%** | **11.8%** | **9.0%** | **9.2%** | **9.3%** | **7.6%** | **9.8%** | **9.8%** | **7.7%** | **12.17%** |
| G&A Rate - Bid | **12.17%** | **12.17%** | **12.17%** | **12.17%** | **12.17%** | **12.17%** | **12.17%** | **12.17%** | **12.17%** | **12.17%** | **12.17%** | **12.17%** | **12.17%** |
| Multiplier | **2.92** | **2.75** | **3.61** | **2.75** | **2.14** | **2.67** | **2.16** | **2.08** | **2.70** | **2.12** | **2.18** | **2.88** | **2.54** |

# DEPARTMENT OF JUSTICE RESPONSE

**U.S. Department of Justice**

*Office of Justice Programs*

*Office of Audit, Assessment, and Management*

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*Washington, D.C. 20531*

DEC 21 2012

MEMORANDUM TO: David J. Gaschke
Regional Audit Manager
San Francisco Regional Audit Office
Office of the Inspector General

FROM: Maureen A. Henneberg
Director M A Henneberg

SUBJECT: Response to the Draft Audit Report, *Audit of the Office of Justice Programs, National Institute of Justice, Cooperative Agreements with AKELA, Inc., Santa Barbara, California*

This memorandum is in response to your correspondence, dated November 15, 2012, transmitting the subject draft audit report for AKELA, Inc. (AKELA). We consider the subject report resolved and request written acceptance of this action from your office.

The draft audit report contains **17** recommendations and **$1,906,985** in questioned costs. The following is the Office of Justice Programs' (OJP) analysis of the draft audit report recommendations. For ease of review, the recommendations are restated in bold and are followed by our response.

1. **We recommend that OJP coordinate with AKELA to ensure that its 2007 financial audit and all required bi-annual audits are completed in accordance with the special conditions of the 2007 and 2009 agreements.**

   We agree with the recommendation. We will coordinate with AKELA to ensure that its 2007 financial audit and all required bi-annual audits are completed in accordance with the special conditions of the 2007 and 2009 agreements.

2. **We recommend that OJP coordinate with AKELA to remedy the $1,906,985 in funds drawn without fulfillment of the awards bi-annual or 2007 audit requirements.**

   We agree with the recommendation. These funds were erroneously released, when AKELA submitted their DCAA indirect cost rate agreement, instead of their 2007 financial audit report. We will coordinate with AKELA to remedy the $1,906,985 in funds drawdown, prior to the organization fulfilling the awards' bi-annual or 2007 audit requirements.

3. **We recommend that OJP coordinate with AKELA to ensure that appropriate internal controls are established that include the design and implementation of procedures to assure that the financial management system provides for adequate recording and reporting of award related activities.**

   We agree with the recommendation. We will coordinate with AKELA to obtain a copy of procedures implemented to ensure that their financial management system provides adequate recording and reporting of award related activities.

4. **We recommend that OJP coordinate with AKELA to ensure that appropriate internal controls are established which include the design and implementation of procedures to prevent overlaps in authorization, recording, and custodial duties.**

   We agree with the recommendation. We will coordinate with AKELA to obtain a copy of procedures implemented to ensure that overlaps in authorization, recording, and custodial duties are prevented.

5. **We recommend that OJP coordinate with AKELA to ensure that adequate internal controls are established that would only allow drawdowns as reimbursements for expenditures that have been incurred and that are directly related to an OJP agreement.**

   We agree with the recommendation. We will coordinate with AKELA to obtain a copy of procedures implemented to limit drawdowns to reimbursements for expenditures that have been incurred, and that are directly related to an OJP agreement.

6. **We recommend that OJP coordinate with AKELA to remedy the $1,025 in salary and fringe benefits expenditures related to employee timecards which were not properly authorized.**

   We agree with the recommendation. We will coordinate with AKELA to remedy the $1,025 in salary and fringe benefits expenditures related to employee timecards which were not properly authorized.

7. **We recommend that OJP coordinate with AKELA to remedy the $19,970 in unapproved or unsupported agreement-related expenditures.**

   We agree with the recommendation. We will coordinate with AKELA to remedy the $19,970 in unapproved or unsupported agreement-related expenditures.

8. **We recommend that OJP coordinate with AKELA to remedy the $56,147 of indirect expenses charged in excess of approved rates.**

   We agree with the recommendation. We will coordinate with AKELA to remedy the $56,147 of indirect expenses charged in excess of the approved rates.

9. **We recommend that OJP coordinate with AKELA to remedy the $72,982 in indirect expenditures for disallowed new business, proposal, bonus, and lunch costs.**

   We agree with the recommendation. We will coordinate with AKELA to remedy the $72,982 in indirect expenditures for disallowed new business, proposal, bonus, and lunch costs.

10. **We recommend that OJP coordinate with AKELA to remedy the $67,787 in disallowed pre-agreement indirect expenditures charged to the 2007 agreement.**

    We agree with the recommendation. We will coordinate with AKELA to remedy the $67,787 in disallowed pre-agreement indirect expenditures charged to the 2007 agreement.

11. **We recommend that OJP coordinate with AKELA to ensure that a complete listing of accountable property items is maintained in compliance with property management requirements.**

    We agree with the recommendation. We will coordinate with AKELA to obtain a copy of procedures implemented to ensure that a complete listing of accountable property items is maintained in compliance with property management requirements.

12. **We recommend that OJP coordinate with AKELA to remedy the $82,476 in budgeted direct cost transfers to the indirect budget category without OJP approval for the 2007 agreement.**

    We agree with the recommendation. We will coordinate with AKELA to remedy the $82,476 in budgeted direct cost transfers to the indirect budget category without OJP approval for the 2007 agreement.

13. **We recommend that OJP coordinate with AKELA to ensure that accurate Federal Financial Reports (FFRs) are submitted in a timely manner.**

    We agree with the recommendation. We will coordinate with AKELA to obtain a copy of procedures implemented to ensure that accurate FFRs are submitted in a timely manner.

14. **We recommend that OJP coordinate with AKELA to ensure that its progress reports are submitted in a timely manner.**

We agree with the recommendation. We will coordinate with AKELA to obtain a copy of procedures implemented to ensure that its progress reports are submitted in a timely manner.

15. **We recommend that OJP coordinate with AKELA to ensure that accurate data on its Quarterly Recovery Act reports is provided.**

We agree with the recommendation. We will coordinate with AKELA to obtain a copy of procedures implemented to ensure that accurate data on its Quarterly Recovery Act reports is provided.

16. **We recommend that OJP coordinate with AKELA to remedy the $1,147 in disallowed profits.**

We agree with the recommendation. We will coordinate with AKELA to remedy the $1,147 in disallowed profits.

17. **We recommend that OJP coordinate with AKELA to ensure that formal written policies and procedures are implemented, requiring proper oversight and monitoring of its contractors.**

We agree with the recommendation. We will coordinate with AKELA to obtain a copy of procedures implemented to ensure that formal written policies and procedures are implemented, requiring proper oversight and monitoring of its contractors.

We appreciate the opportunity to review and comment on the draft audit report. If you have any questions or require additional information, please contact Jeffery A. Haley, Deputy Director, Audit and Review Division, on (202) 616-2936.

cc: Jeffery A. Haley
Deputy Director, Audit and Review Division
Office of Audit, Assessment, and Management

Portia Graham
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Acting Assistant Director, Audit Liaison Group
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Justice Management Division

OJP Executive Secretariat
Control Number 20121776

# OFFICE OF THE INSPECTOR GENERAL ANALYSIS AND SUMMARY OF ACTIONS NECESSARY TO CLOSE THE REPORT

The OIG provided a draft of this audit report to AKELA and OJP. AKELA's and OJP's responses are incorporated in appendices III and IV of this report, respectively. The following provides the OIG analysis of the responses and summary of actions necessary to close the report.

**Analysis of AKELA's Response:**

OJP agreed with all of our recommendations. AKELA's response transmittal letter stated that it concurred with all recommendations except the requirement to complete a financial and compliance audit for FY 2007. However, in its detailed response to our recommendations, AKELA concurred with only 8 of the 17 recommendations and expressed non-concurrence with the remaining recommendations.

Specifically, AKELA stated that it understands where it might be the job of the auditor to recommend the maximum disallowance, but it does not believe the OIG's recommendations are either in accordance with the relevant regulations, or in the best interest of OJP or AKELA. We disagree. The OIG neither targets any specific level of disallowance, nor does the OIG attempt to identify the maximum disallowance. This OIG audit report identifies significant deficiencies within the context of the audit objectives and presents the cost implications of those findings in accordance with applicable rules and regulations. The findings and questioned costs that we discussed in this report are based on audit evidence regarding AKELA's adherence to terms and regulations of the award, which Akela agreed to when it accepted the grant. Further, it is in the best interest of all grantees, OJP, and the taxpayers for award recipients to adhere to grant terms, conditions, and regulations. This will help ensure that grant funds are effectively and efficiently applied to the purpose for which they were intended and authorized while minimizing the risk for waste, fraud, and abuse.

In its response, AKELA also advised that: (1) it believes OJP's approval of budget modifications for the 2009 agreement retroactively authorized all costs that AKELA incurred under the agreement, and (2) it is working with OJP to obtain similar approval for the 2007 agreement. AKELA stated that it believes the approvals by OJP will resolve all questioned costs associated with this audit, with the exception of those specifically unallowable under Federal Acquisition Regulations (FAR) or the special conditions of the agreement. We reviewed the 2009 budget modification and found that while it does include adjustments to the indirect cost category, it does not resolve the questioned costs enumerated in our report. We address the implications of the GAN in more detail below within our response for each recommendation containing questioned costs. Additionally, as of the date of the OJP's response to our report, we have not received any OJP approval of retroactive adjustments associated with the 2007 agreement.

Finally, AKELA expressed that it believes that only the costs of the bonus and lunches are specifically unallowable and that all remaining costs questioned due to lack of approval are allowable under FAR. During our audit we discussed the costs requiring prior approval with OJP's Office of Chief Financial Officer (OCFO). It was the opinion of OJP's OCFO that the *OJP Financial Guide* and special conditions take precedence over the FAR with regard to the 2007 and 2009 agreements.

**Recommendation Number:**

1. **Resolved.** OJP concurred with our recommendation to ensure that AKELA completes its 2007 financial audit and all required bi-annual audits in accordance with the special conditions of the 2007 and 2009 cooperative agreements. OJP stated in its response that it will coordinate with AKELA to ensure that its 2007 financial audit and all required bi-annual audits are completed in accordance with the special conditions of the both cooperative agreements.

   AKELA stated in its response that it does not concur with our recommendation. Specifically, AKELA stated that it believes that an FY 2007 audit is not required based on language concerning audit requirements for commercial (for-profit) organizations in the 2008 *OJP Financial Guide*. AKELA believes that this guidance supersedes special conditions 28 and 48, of the 2007 and 2009 agreements, respectively, which require AKELA to complete and submit financial and compliance audits during the term of the agreement. Furthermore, AKELA stated that it believes the FY 2009 audit of AKELA satisfies all requirements of special conditions 28 and 48. AKELA also stated that evaluations and audits of AKELA performed by the Defense Contract Audit Agency (DCAA) resulted in finding that AKELA's accounting system meets requirements described in the Federal Acquisition Regulations (FAR). Finally, AKELA stated that an audit should have been required in FY 2008 rather than FY 2007 as the majority of work performed for the

2007 agreement occurred in 2008. Based on the preceding statements, AKELA stated that it does not believe a FY 2007 audit is required, and requested that the OIG remove this recommendation for AKELA to complete its 2007 financial audit and all required bi-annual audits in accordance with the special conditions of the 2007 and 2009 agreements.

We disagree with Akela's conclusion that an FY 2007 audit is not required and we do not interpret the language cited by Akela as basis for excluding Akela from the requirement. Specifically, the language that Akela cites in its response makes it clear that commercial (for-profit) organizations are required to have a financial and compliance audit conducted at least every 2 years. Further, special conditions 28 and 48 of the 2007 and 2009 agreements, respectively, underscore the bi-annual audit requirement for commercial organizations stated in the *OJP Financial Guide.* Special condition 49 of the 2009 agreement explicitly requires that AKELA submit to OJP a FY 2007 financial and compliance audit report before it obligated, expended, or drew down any funds for the 2009 agreement. In addition, OJP officials stated that in order to comply with requirements of the 2007 and 2009 agreements, AKELA must complete financial and compliance audits as set forth in the *OJP Financial Guide* and special conditions 28, 48, and 49. While the FY 2009 audit submitted by AKELA satisfies a portion of the bi-annual audit requirement set forth in the special conditions, it does not satisfy the specific requirement for the completion of a FY 2007 audit.

As stated in our report, OJP determined that an audit from either 2007 or 2006 performed by DCAA could be accepted to satisfy the financial and compliance audit requirement. However, AKELA did not submit to OJP an audit performed by DCAA, but rather, it submitted a review of AKELA's 2006 indirect cost rate performed by DCAA. While the DCAA report may have addressed compliance with the FAR, it was a limited scope review and did not satisfy the requirement for a financial and compliance audit. In addition, AKELA has not provided to the OIG an audit performed by DCAA which satisfies the financial and compliance audit requirement. Moreover, OJP's OCFO advised that it considers the *OJP Financial Guide* and special conditions of the agreement to be a more restrictive requirement and thus take precedence over the FAR with respect to these agreements. Finally, the timing and volume of work performed in a given period are not a consideration within the audit requirements set forth in the *OJP Financial Guide* and special conditions.

This recommendation can be closed when we receive a copy of AKELA's 2007 financial audit and all required bi-annual audits in accordance with the special conditions of the 2007 and 2009 agreements.

2. **Resolved.** OJP concurred with our recommendation to remedy the $1,906,985 in questioned costs related to funds drawn down without fulfillment of the agreements' bi-annual or 2007 audit requirements. OJP stated in its response that the funds were erroneously released and it will coordinate with AKELA to remedy the $1,906,985 in funds drawn down prior to the organization fulfilling the agreements' bi-annual or 2007 audit requirements.

   AKELA stated in its response that it does not concur with our recommendation and it believes: (1) it should not be required to remedy the $1,906,985 in questioned costs because a FY 2007 audit was not required under 2008 *OJP Financial Guide* audit requirements for commercial organizations; (2) the proper remedy would be to follow *OJP Financial Guide* requirements stating that, "failure to have audits performed as required will result in the withholding of new discretionary awards and/or withholding of funds or change in the method of payment on active awards. . ."; (3) the $1,906,985 in questioned costs are allowable under FAR; (4) the 2007 and 2009 agreements should be treated separately when determining questioned costs and believes only the 2007 agreement should be questioned; (5) OJP has received the benefit of the $1,906,985 in questioned costs, therefore, these funds cannot be questioned; and (6) the recent approval of budget modifications for the 2009 agreement makes the OIG recommendation invalid.

   As discussed in the Financial Audit section of our report, AKELA expended a total of $1,906,985 without fulfilling the special conditions associated with the 2007 and 2009 agreements. Specifically, special conditions 28 and 48, of both agreements, require that AKELA complete bi-annual financial and compliance audits, and special condition 49 of the 2009 agreement explicitly requires that AKELA submit to OJP an FY 2007 financial and compliance audit report before it obligated, expended, or drew down any funds for the 2009 agreement. Furthermore, the *OJP Financial Guide* states that commercial (for-profit) organizations are required to have a financial and compliance audit conducted at least every 2 years. As stated in the Schedule of Dollar Related Findings section of our report, these questioned costs may be remedied by offset, waiver, recovery of funds, or the provision of supporting documentation. This recommendation does not address whether costs incurred under the award are allowable under FAR, rather it addresses AKELA's lack of compliance with special conditions of the award. Moreover, OJP's OCFO advised that it considers the *OJP Financial Guide* and special conditions of the agreements to be the more restrictive requirement and thus takes precedence over the FAR with respect to these agreements. Although the recommendation covers both agreements it treats the agreements separately when determining the questioned amount which is comprised of: (1) $949,990 in funds expended under the 2009 agreement without fulfillment of special conditions 48 and 49, which required AKELA to complete and submit a FY 2007 audit as well as bi-annual audits during the term of the agreement, and (2) $956,995 in funds expended under the 2007 agreement without fulfillment of special condition 28 which required AKELA to complete and submit bi-annual audits during the term of the agreement. OJP's approval of budget modifications associated with the 2009 agreement does not affect applicability of the aforementioned special conditions, therefore the requirement for the 2007 audit remains intact.

This recommendation can be closed when OJP provides us: (1) its plan for how it will remedy the questioned costs, and (2) evidence that AKELA has remedied the $1,906,985 of questioned costs.

3. **Resolved.** Both OJP and AKELA concurred with our recommendation to ensure that appropriate internal controls are established that include the design and implementation of procedures to assure that the financial management system provides for adequate recording and reporting of award related activities. OJP stated in its response that it will coordinate with AKELA to obtain a copy of procedures implemented to ensure that their financial management system provides adequate recording and reporting of award related activities. AKELA stated that it has already implemented additional internal controls to address issues raised by the DOJ audit. Additionally, AKELA stated that it installed a new timekeeping system in January 2011, and plans to add an experienced Chief Financial Officer to its staff.

   This recommendation can be closed when we receive AKELA's new procedures that will ensure that its financial management system provides adequate recording and reporting of award related activities.

4. **Resolved.** Both OJP and AKELA concurred with our recommendation to ensure that appropriate internal controls are established which include the design and implementation of procedures to prevent overlaps in authorization, recording, and custodial duties. OJP stated

in its response that it will coordinate with AKELA to obtain a copy of procedures implemented to ensure that overlaps in authorization, recording, and custodial duties are prevented. In response to the recommendation AKELA stated that it has already implemented additional internal controls to address issues raised by the DOJ audit. Additionally, AKELA stated that it installed a new timekeeping system in January 2011, and plans to add an experienced Chief Financial Officer to its staff.

This recommendation can be closed when we receive AKELA's new procedures to ensure that overlaps in authorization, recording, and custodial duties are prevented.

5. **Resolved.** Both OJP and AKELA concurred with our recommendation to ensure that adequate internal controls are established that would only allow drawdowns as reimbursements for expenditures that have been incurred and that are directly related to an OJP agreement. OJP stated in its response that it will coordinate with AKELA to obtain a copy of procedures implemented to limit drawdowns to reimbursements for expenditures that have been incurred, and that are directly related to an OJP agreement.

   This recommendation can be closed when we receive AKELA's new procedures to ensure adequate internal controls are established that would only allow drawdowns as reimbursements for expenditures that have been incurred and that are directly related to an OJP agreement.

6. **Resolved.** OJP concurred with our recommendation that AKELA remedy $1,025 in questioned costs related to employee timecards which were not properly authorized. OJP stated in its response that it will coordinate with AKELA to remedy the $1,025 in questioned costs. AKELA stated that it believes the expenditures are allowable according to the FAR. AKELA further stated that it has now approved all timesheets during the audit period which were not previously approved. However, AKELA did not provide documentation of this; therefore we could neither assess the adequacy of such documentation, nor determine its implications on the questioned costs.

   In some cases, corporations may develop internal controls which are more restrictive than those stated in regulations applicable to the grant. As stated in the Agreement Expenditures section of our report, we examined AKELA's timekeeping policy and found that it required that all employee timesheets be approved by a supervisor and signed by the company's President. We believe this is an important internal control established by AKELA to ensure time charged to the agreements includes only approved hours worked. Therefore, we reviewed AKELA's accounting system payroll data, including related timesheets, and determined that five timecards for two employees equaling $1,025 in personnel expenses (salary and related fringe benefits) were not signed by AKELA's President, and therefore were not properly authorized.

This recommendation can be closed when OJP provides us: (1) its plan for how it will remedy the questioned costs, and (2) evidence that AKELA has remedied the $1,025 of questioned costs.

7. **Resolved.** OJP concurred with our recommendation to remedy $19,970 in questioned costs related to unapproved or unsupported agreement-related expenditures. OJP stated in its response that it will coordinate with AKELA to remedy the $19,970 in questioned costs. AKELA stated that it believes the expenditures are allowable under the FAR at 48 C.F.R. Part 31. AKELA further stated that the signing of remittance checks by the company president constitutes approval of the charges. Lastly, AKELA stated that it is in the process of reviewing all costs during the audit period and approving them as necessary to meet this requirement.

   As stated in the Agreement Expenditures section of our report, 28 C.F.R. Part 70 requires that recipients maintain financial records, including cost accounting records that are supported by source documentation. AKELA's internal controls contained requirements which were more restrictive that the regulation, including requirements that packing lists and purchase authorizations be signed. We believe these internal controls provide an important tool to mitigate risk of inaccurate payments, errors, and potential fraud. Further, we consider those procedures to be part of Akela's financial management system as a whole and therefore must be followed to help ensure the integrity of costs charged to the federal award. We therefore integrate internal grantee policies in our testing of transactions to ensure these internal controls are being followed. Our testing found transactions which lacked one or more of the following supporting documents: (1) a signed purchase authorization; (2) signed confirmation of receipt; or (3) a third party document, such as an invoice or receipt. We also noted one inaccurately recorded transaction. As a result, we questioned a total of $19,970 in expenditures for lacking proper approval and adequate support in accordance with Akela's policies.

If AKELA cannot provide adequate documentation, OJP will request that AKELA return the funds to the Department of Justice, adjust its accounting records to remove the costs, and submit a revised FFR.

This recommendation can be closed when OJP provides us: (1) its plan for how it will remedy the questioned costs, and (2) evidence that AKELA has remedied the $19,970 of questioned costs.

8. **Resolved.** OJP concurred with our recommendation that AKELA remedy the $56,147 in questioned costs related to indirect expenses charged in excess of approved rates. OJP stated in its response that it will coordinate with AKELA to remedy the $56,147 in questioned costs. AKELA stated that it concurs with the recommendation to the extent that it did not obtain OJP's approval for the increase in its indirect rate. However, AKELA also stated that it believes that: (1) the expenditures questioned are allowable under the FAR at 48 C.F.R. Part 31.2 and 31.204; (2) OJP has received the benefit of the questioned amount, (3) the costs are within the agreed upon value of the cooperative agreement; and (4) OJP's approval of a budget modification to indirect costs for the 2009 agreement, subsequent to completion of the agreement, makes the OIG recommendation invalid.

   As stated in the Agreement Expenditures section of our report, AKELA charged indirect costs at rates higher than the OJP-approved budgeted rate for all years. Title 28 C.F.R. 70, applicable through the special conditions of these agreements, requires the recipient to obtain prior approval for any transference of funds in or out of the indirect cost category in the approved budget. The recommendation to remedy the amount in excess of approved rates does not address: (1) whether the costs are in accordance with the FAR, (2) whether OJP received any benefit associated with the $56,147 questioned, or (3) whether the $56,147 charged to the agreement was within the agreed upon value of the cooperative agreement. The recommendation instead addresses whether AKELA obtained prior approval from OJP for the increase to the indirect rates as required under 28 C.F.R. 70. We found AKELA did not obtain approval.

   Subsequent to completion of the 2009 agreement, AKELA requested a budget modification for the increased indirect rate applied to the 2009 agreement. OJP approved a budget modification for the 2009 agreement. However, we did not find a request from AKELA nor OJP approval for the $56,147 increase in indirect costs associated with the 2007 agreement. OJP's approval of the budget modification associated with the 2009 agreement does not address the lack of approval for the increase in indirect costs associated with the 2007 agreement.

This recommendation can be closed when OJP provides us: (1) its plan for how it will remedy the questioned costs, and (2) evidence that AKELA has remedied the $56,147 of questioned costs.

9. **Resolved.** OJP concurred with our recommendation to remedy the $72,982 in questioned costs related to indirect expenditures for disallowed new business, proposal, bonus, and lunch costs. OJP stated in its response that it will coordinate with AKELA to remedy the $72,982 in questioned costs. AKELA stated in its response that it concurs with the recommendation with regards to the disallowed bonus and lunch costs. However, AKELA stated that it believes that only the bonus amount allocated to AKELA's sole officer should be questioned, and that the majority of the questioned costs associated with lunches are allowable under FAR 48 C.F.R. 31.2. Additionally, AKELA stated in its response that costs it defines as new business costs are not costs related to preparation of proposals. Specifically, AKELA stated that new business costs are manufacturing and selling type costs as defined under FAR 31.205-25 and FAR 31.205-38, respectively. AKELA stated that these costs are tracked separately from proposal costs and thus should be removed from our recommendation. Finally, AKELA stated that it believes: (1) approval should only be required for proposal costs related to federal awards as required under *OJP Financial Guide,* Part III, Chapter 15, Costs Requiring Prior Approval; and (2) OJP's approval of a budget modification to indirect costs for the 2009 agreement includes approval of the proposal costs. Based on the preceding, AKELA requested that the recommendation be modified to address only the bonus paid to officers and OJP's portion of the questioned lunches.

Although bonuses are provided for in AKELA's employee agreements and are allowed under cost principals for FAR, the *OJP Financial Guide* expressly states that bonuses paid to officers of for-profit organizations are "determined to be a profit or fee and are unallowable." The $5,058 of questioned cost relating to officer bonuses represents OJP's share of costs allocated to AKELA's sole officer. As discussed in the Testing and Analysis of Indirect Costs section of our report, Part III, Chapter 15 of the 2008 *OJP Financial Guide* specifically requires that costs related to the preparation of proposals for potential future awards require approval prior to obligation or expenditure of funds. AKELA personnel confirmed that the primary purpose of labor costs defined as "new business" and "proposals" was the creation of proposals for funding and research of new concepts which may lend themselves to future proposals for federal funding; therefore, we treated both as costs related to research and development, and bid and proposal costs. Furthermore, AKELA's accounting records did not identify new business and proposal costs as federal or non-federal. Therefore we relied on the statements of multiple AKELA personnel who identified new business costs as related to future proposals for federal funding. AKELA's president also stated that lunches charged to the agreement were related to new business development. We reviewed documents submitted by AKELA to OJP, including the budget detail and narrative, and found that "new business" and "proposals" were not specifically described as part of the composition of budgeted indirect costs. Additionally, to the best of our knowledge, the provisional rate forecast in which AKELA details the makeup of indirect costs was not included in documents provided to OJP to support the budget modification. Therefore, we believe OJP did not specifically approve allocation of proposal or new business costs to the agreements.

This recommendation can be closed when OJP provides us: (1) its plan for how it will remedy the questioned costs, and (2) evidence that AKELA has remedied the $72,982 of questioned costs.

**10.** **Resolved.** OJP concurred with our recommendation to remedy the $67,787 in questioned costs related to disallowed pre-agreement indirect expenditures charged to the 2007 agreement. OJP stated in its response that it will coordinate with AKELA to remedy the $67,787 in questioned costs. AKELA stated in its response that the costs it defined as new business costs are not costs related to preparation of proposals. Specifically, AKELA stated that new business costs are manufacturing and selling type costs as defined under FAR 31.205-25 and FAR 31.205-38, respectively. AKELA stated that these costs are tracked separately from proposal costs and thus should be removed from our recommendation. AKELA stated that there is no evidence that the costs were directly related to the cooperative agreements and voiced concerns that this recommendation duplicates questioned new business and proposal costs addressed in recommendation nine of our report. Finally, AKELA stated in its response that it believes that the recommendation contradicts *OJP Financial Guide,* Part III, Chapter 15, Costs Requiring Prior Approval as well as FAR 31.205-30 Pre-contract Costs.

This recommendation does not address costs related to the preparation of proposals, but instead, it addresses costs incurred prior to the start date of the 2007 agreement. Throughout the report each questioned indirect cost was discussed at its full amount. However, unallowable indirect costs were consolidated in the Schedule of Dollar Related Findings with an adjustment to prevent duplication of questioned costs among all recommendations. As discussed in the Agreement Expenditures portion of our report, the 2006 *OJP Financial Guide* states that costs, which are incurred prior to the start date of the agreement, require OJP's prior approval before the costs may be charged to the project. The language in the 2006 *OJP Financial Guide* does not exclude indirect costs from this requirement. During our audit, AKELA stated that the increase in indirect costs during the first three quarters of 2007, proceeding the agreement period, related to labor associated with exploring new business opportunities and creating bids and proposals for new contracts. The salaries and fringe benefit costs charged to overhead occurring prior to the initiation of the 2007 agreement are considered pre-agreement costs for the 2007 agreement. AKELA did not obtain approval from OJP to apply these costs to the 2007 agreement.

This recommendation can be closed when OJP provides us: (1) its plan for how it will remedy the questioned costs, and (2) evidence that AKELA has remedied the $67,787 of questioned costs.

**11.** **Resolved.** Both OJP and AKELA concurred with our recommendation to ensure that a complete listing of accountable property items is maintained in compliance with property management requirements. OJP stated in its response that it will coordinate with AKELA to obtain a copy of procedures implemented to ensure that a complete listing of accountable property items is maintained in compliance with property management requirements. AKELA stated that it is rewriting its policies to ensure compliance with property management requirements.

This recommendation can be closed when we receive a copy of: (1) AKELA's procedures implemented to ensure that a complete listing of accountable property items is maintained in compliance with property management requirements, and (2) an updated listing of AKELA's accountable property.

**12.** **Resolved.** OJP concurred with our recommendation to remedy the $82,476 in questioned costs related to transfers of budgeted direct costs to the indirect budget category without OJP approval for the 2007 agreement. OJP stated in its response that it will coordinate with AKELA to remedy the $82,476 in questioned costs. AKELA stated that it believes the total questioned costs of $82,476 is a duplication of amounts previously discussed under recommendation eight. AKELA also stated that it believes that: (1) the expenditures questioned are allowable under the FAR at 48 C.F.R. Part 31, (2) OJP has received the benefit of the questioned amount, (3) the costs are within the agreed upon value of the cooperative agreement, and (4) the recent approval of budget modifications for the 2009 agreement makes the OIG recommendation invalid.

According to 28 C.F.R. Part 70, which is applicable based on the special conditions of both agreements, AKELA is required to request OJP's approval in writing, before it substantially increases its budgeted indirect costs. We discussed applicability of the FAR with OJP and its officials advised that OJP considers the special conditions of the agreement to be a more restrictive requirement and thus take precedence over the FAR with respect to these agreements. Subsequent to completion of the 2009 award, AKELA obtained approval from OJP for increases to the indirect rate which AKELA applied to the 2009 award. However, AKELA did not obtain approval from OJP for the $82,476 increase in indirect costs related to the 2007 agreement. OJP's approval of budget modifications associated with the 2009 agreement does not address the lack of approval for increases to indirect costs for the 2007 agreement.

Throughout our report each questioned indirect cost was discussed at its full amount, however unallowable indirect costs were consolidated in the Schedule of Dollar Related Findings in Appendix II with an adjustment to prevent duplication of questioned costs among recommendations.

This recommendation can be closed when OJP provides us: (1) its plan for how it will remedy the questioned costs, and (2) evidence that AKELA has remedied the $82,476 of questioned costs.

**13.** **Resolved.** Both OJP and AKELA concurred with our recommendation to ensure that AKELA submits in a timely manner, accurate Federal Financial Reports (FFRs). OJP stated in its response that it will coordinate with AKELA to obtain a copy of procedures implemented to ensure that accurate FFRs are submitted in a timely manner.

This recommendation can be closed when we receive a copy of procedures implemented to ensure that accurate FFRs are submitted in a timely manner.

14. **Resolved.** Both OJP and AKELA concurred with our recommendation to ensure that AKELA submits its Progress Reports in a timely manner. OJP stated in its response that it will coordinate with AKELA to obtain a copy of procedures implemented to ensure that its Progress Reports are submitted in a timely manner.

    This recommendation can be closed when we receive a copy of procedures implemented to ensure that AKELA's Progress Reports are submitted in a timely manner.

15. **Resolved.** Both OJP and AKELA concurred with our recommendation to ensure that AKELA provides accurate data on its Quarterly Recovery Act reports. OJP stated in its response that it will coordinate with AKELA to obtain a copy of procedures implemented to ensure that accurate data on its Quarterly Recovery Act reports is provided.

    This recommendation can be closed when we receive a copy of procedures implemented to ensure that accurate data on its Quarterly Recovery Act reports is provided.

16. **Resolved.** OJP concurred with our recommendation to remedy $1,147 in disallowed profits. OJP stated in its response that it will coordinate with AKELA to remedy the $1,147 in disallowed profits. AKELA stated in its response that: (1) AKELA charged an established catalog price in accordance with FAR rather than the actual cost, (2) markup is not the same as profit, and (3) OJP's recent approval of budget modifications for the 2009 agreement makes the OIG recommendation invalid.

    As discussed in the Compliance with Additional Award Requirements section of our report we found that the internally developed items, charged to the agreement, included markup. The *OJP Financial Guide*, as well as the special conditions of the agreement specifically prohibits such profits. OJP's approval of budget modifications associated with the 2009 agreement does not address profits charged to the agreement.

    This recommendation can be closed when OJP provides us: (1) its plan for how it will remedy the questioned costs, and (2) evidence that AKELA has remedied the $1,147 of questioned costs.

17. **Resolved.** Both OJP and AKELA concurred with our recommendation to ensure that AKELA implements formal written policies and procedures requiring proper oversight and monitoring of its

contractors. OJP stated in its response that it will coordinate with AKELA to obtain a copy of procedures implemented to ensure that AKELA implements formal written policies and procedures requiring proper oversight and monitoring of its contractors.

This recommendation can be closed when we receive a copy of procedures implemented to ensure that AKELA implements formal written policies and procedures requiring proper oversight and monitoring of its contractors.