DATE: FEB 18 1988  
CASE NO. 86-JTP-6  

IN THE MATTER OF  

ORO DEVELOPMENT CORPORATION,  

COMPLAINANT,  

v.  

U.S. DEPARTMENT OF LABOR,  

RESPONDENT.  

BEFORE: THE SECRETARY OF LABOR  

FINAL DECISION AND ORDER  

This case arises under the Comprehensive Employment and Training Act (CETA), 29 U.S.C. §§ 801-999 (Supp. V 1981), and the Job Training Partnership Act (JTPA), 29 U.S.C. §§ 1501-1781 (1982). 1/ On July 13, 1987, Administrative Law Judge (ALJ) Charles P. Rippey issued a decision and order affirming the Grant Officer's disallowances of charges by the Complainant, ORO Development Corporation, Inc. (ORO), a grantee under both CETA and JTPA. 2/ Specifically, the ALJ affirmed disallowances for $1,114 in interest payments incurred by ORO in connection with the purchase of a telephone system, and $32,251 paid by ORO for legal and consultation services for  

1/ CETA was repealed by JTPA on October 13, 1982, but CETA administrative and judicial proceedings pending on that date were not affected. 29 U.S.C. § 1591(e).  

CETA and JTPA are administered through implementing regulations found at 20 C.F.R. Parts 675-680 and 20 C.F.R. Parts 626-636 (1987), respectively.  

2/ In the Matter of ORO Development Corporation v. U.S. Department of Labor, Case No. 86-JTP-6, Decision and Order (D. and O.).
representation in the negotiation and appeal of disallowed costs under prior, expired CETA grants. The ALJ held that interest costs are disallowable under Office of Management and Budget (OMB) Circular A-122. 3/ Further, he held that the charges for "representation services ... clearly did not relate to activities under these grants which were the subject of this audit, but rather to certain expired grants which were not the subject of this audit," and he disallowed those amounts. 4/

BACKGROUND


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3/ OMB Circular A-122, Attachment B, ¶ 19.a. was issued June 27, 1980, and provides:

Costs incurred for interest on borrowed capital or temporary use of endowment funds, however represented, are unallowable.


4/ D. and O. at 1.

5/ Administrative File (A.F.) at 21-82.


7/ A.F. at 11. The Final Determination indicates that the JTPA grant was Number 99-4-0288-56-162-a. The A.F. at 83 shows that grant number to be 99-4-0288-56-162-a. This appears to be a transcription error, and there is no suggestion that two different grants are in question. The error is
incurred in the purchase of telephone equipment, and $32,251 in legal and consulting fees incurred in ORO's appeals of earlier final determinations involving a number of ORO's expired CETA grants. The Grant Officer held that ORO's appeal of those earlier final determinations became a claim against the government, and that costs thus incurred are unallowable. 8/

ORO requested a hearing before the Office of Administrative Law Judges. The hearing was held on March 31, 1987, and both parties submitted post-hearing briefs. The ALJ had indicated that if either party wished to file a reply brief, that party should submit a motion to the ALJ within 5 days from the receipt of the other party's brief. Each party sent its brief to the ALJ and opposing counsel on July 6, 1987. 9/ By letter dated July 13, 1987, counsel for ORO requested the opportunity to file a reply brief in response to the Grant Officer's Post-hearing brief. 10/ However, on that date, the ALJ issued his Decision and Order affirming the Grant Officer's disallowances. ORO timely filed exceptions to the ALJ's decision and on August 24, 1987, the Secretary issued an order asserting jurisdiction. 11/

Both parties filed initial briefs before the Secretary, and pursuant to repeated at various places in both the June 13, 1986, transmittal letter and the Final Determination.

8/ A.F. at 12.

9/ See Certificate of Service, Post-hearing Brief of ORO Development Corporation; Certificate of Service, Post-hearing Brief of the Grant Officer.

10/ The only copy of this request in the record is Attachment A to ORO Development Corporation's Reply Brief to the Secretary, dated December 11, 1987. A computer docket entry reflects that the request was logged in at the Office of Administrative Law Judges on July 20, 1987.

11/ In the Matter of ORO Development Corporation v. U.S. Department of Labor, Case No. 87-JTP-6, Secretary's Order Asserting Jurisdiction.
ORO's Consent Motion and the Secretary's Order Modifying Briefing Schedule, issued on November 5, 1987, ORO filed a Reply Brief with the Secretary.

DISCUSSION

I. ORO's Due Process Claims

ORO contends that the Grant Officer's failure to indicate in the Final Determination the legal basis relied upon by the ALJ when he later affirmed the disallowance for representational charges denies ORO due process. The Grant Officer's Final Determination disallowed ORO's claimed legal and consulting fees, finding that "[o]nce the grantee appeals the Grant Officer's Final Determination, the grantee's appeal becomes a claim against the government," and he determined that "because most of the grantee's documentation indicated that these costs were incurred for a claim against the government ... $32,251 are disallowed." 12/ The Grant Officer referenced OMB Circular A-122, Attachment B, Paragraph 34(d) (June, 1980) and Farmworker Bulletin No. 84-14 in reaching his determination.

Although the ALJ did not base affirmance on the rationale considered by the Final Determination, the ALJ's decision followed relevant regulations and rules of cost principles. See infra pp. 7-11. In considering an appeal, an ALJ is not inextricably bound to the Grant Officer's interpretation of the law in the final determination, in fashioning his decision. Nor is there any regulatory requirement that a final determination provide a total legal review for the bases of the disallowance.

12/ A.F. at 12.
A final determination must indicate that informal resolution efforts have failed; list the matters upon which the parties continue to disagree; list any modifications to the factual findings and conclusions that were in the initial determination; list the sanctions, corrective actions and modifications to the grant or program ordered by the Grant Officer; and inform the parties of their right to appeal. The record shows that the June 13, 1986, letter to Mr. Jose Angel Gomez, Executive Director of ORO, from Charles A. Wood, Jr., Contract/Grant Officer, and the attached copy of the Final Determination meets the regulatory requirements.

ORO also contends that it was denied due process because of its inability to effectively challenge the legal theory that prior grant costs cannot be allocated to subsequent grants while the case was at the ALJ level. ORO’s Initial Brief to the Secretary, dated October 19, 1987, at 9, 12, 13; ORO's Reply Brief to the Secretary, dated December 11, 1987, at 3-9. The transcript of the March 31, 1987, hearing shows that the question of allocating prior grant costs to the grants at issue was raised, Transcript

The pertinent language in the regulations at 20 C.F.R. § 636.8(e)(2) provides:

(2) The final determination shall:
(i) Indicate that efforts to informally resolve matters contained in the initial determination pursuant to paragraph (a) of this section have been unsuccessful;
(ii) List those matters upon which the parties continue to disagree;
(iii) List any modifications to the factual findings and conclusions set in the initial determination;
(iv) List any sanctions, and required corrective actions, including any other alteration or modification of the plan, grant, agreement, or program ordered by the Grant Officer; and
(v) Inform the parties of their opportunity to request a hearing pursuant to these regulations.

A.F. at 5-13.
(T.) at 24-34, and that the ALJ expressed the view that ORO’s position was "a very unusual proposition." T. at 32. ORO, as the party challenging the disallowance had the burden, and the opportunity, to present its position on this issue, as well as all others. ORO did not object to continuing the hearing. Since the post-hearing briefs of the parties were not submitted until after they received the transcript of the hearing, T. at 101, the colloquy among counsel and the ALJ on the allocation point was available to ORO while it was preparing its post-hearing brief. ORO did not reference the point in its brief to the ALJ although the Grant Officer discussed it in his post-hearing brief. After receiving the Grant Officer's brief, ORO submitted a request dated July 13, 1987, asking for an opportunity to submit a reply brief, but the ALJ, who did not receive the request until July 20, had already issued his decision. ORO timely appealed the ALJ’s decision and on August 24, 1987, the Secretary asserted jurisdiction in this case, staying the ALJ’s decision. In its exceptions and its two briefs to the Secretary, ORO has exercised its opportunity to fully present its arguments concerning the issue of allocating prior grant costs to later grants. ORO’s decision not to develop its position on the issue at the hearing and not to address it in its brief to the ALJ cannot be converted into a denial of due process. Moreover, any prejudice to ORO in not replying to the Grant Officer's brief before the ALJ has been cured by its full exposition of the point in its filings before me.

15/ See n.10, supra.
II. Payment of Expenses for Expired CETA Grants with Funds from Subsequent CETA and JTPA Grants

When ORO entered into its agreement with the Department of Labor to carry out the provisions of JTPA Section 402, the Migrant and Seasonal Farmworker Program, 29 U.S.C. § 1672, ORO assured the Grant Officer, that it would comply with, inter alia, the requirements of 41 C.F.R. § 29-70. Likewise, when it entered into agreement with the Labor Department pursuant to CETA grants Nos. 99-3-0288-56-185-02, 99-2-288-31-36, and 99-1-288-48-11, ORO agreed to comply with the applicable CETA rules and regulations. The applicable provisions of the regulations concerning allowable costs for JTPA grants are found at 20 C.F.R. § 633.303(a) and (b). The applicable provisions of the regulations concerning allowable costs for CETA grants are found at 20 C.F.R. §§ 676.40 and 676.40-1(a).

16/ A.F. at 83.
17/ Id. at 166.
18/ Id. at 230.
19/ Id. at 831.
20/ Section 633.303 is entitled allowable costs and provides in pertinent part:

(a) General. To be allowable, a cost must be necessary and reasonable for proper and efficient administration of the program, be allocable thereto under these principles, and except as specifically provided herein, not be a general expense required to carry out the overall responsibilities of the recipient.

(b) Unless otherwise indicated below, direct and indirect costs shall be charged in accordance with 41 CFR part 29-70 and OMB Circular A-122.

21/ The relevant portions of section 676.40, allowable costs, provides:

(a) General. To be allowable, a cost must be necessary and reasonable for proper and efficient
regulations for both programs reference the public contracts requirements in title 41 of the Code of Federal Regulations 22/ which incorporate OMB Circular A-122, "Cost principles for nonprofit organizations". 23/

administration of the program, be allocable thereto under these principles, and, except as specifically provided herein, not to be a general expense required to carry out the overall responsibilities of the recipient.

*   *   *   *

(d) Restrictions on use of funds.

*   *   *   *

(2) Funds made available through one grant or Annual Plan subpart may not be used to support costs properly chargeable to another grant or Annual Plan subpart with the exception that funds available for administration shall be pooled under a separate subpart and used to cover all allowable administrative costs incurred under the Annual Plan (section 123(f)).

In section 676.40-1, allowable CETA costs, the regulations provide further:

(a) Except as modified by these regulations, the cost principles to be used in determining allowable CETA costs are referenced in 41 CFR 29-70.103 "Cost Principles."

22/ The regulations in 41 C.F.R. Part 29-70 were last published in C.F.R. in 1984. They have been superseded but remain applicable to all contracts (such as those in issue here) that preceded the April 1, 1984, effective date of the successor provisions. 41 C.F.R., Editorial Note at 4 (1987).

23/ The regulation for cost principles set out in 41 C.F.R. § 29-70.103 (1984) provides in relevant part:

In determining allowable costs under a grant or agreement, the DOL agency shall use Federal cost principles referenced in this section which are applicable to the recipient's organization; shall ensure that each recipient receives a copy of applicable cost principles; and shall allow only those costs permitted under the cost principles which are reasonable, allocable, necessary to achieve approved program goals, and which are in accordance with DOL agency policy and terms of the grant or agreement. The following cost
OMB Circular A-122, issued June 27, 1980, to the heads of Executive Departments by the Executive Office of the President, established government-wide principles to be followed in determining the cost of work performed by nonprofit organizations under grants by federal agencies. Attachment A, Part 4, concerning allowable costs, at (a)(3), allows costs which are necessary to the overall operation of the organization even if a direct relationship to a particular cost objective cannot be shown. However, such costs are restricted to the particular award for which they were incurred and may not be shifted to other federal awards to overcome funding deficiencies or avoid restrictions imposed by law or by terms of the award.

principles apply:

* * * *

(c) Other nonprofit organizations. OMB Circular A-122 entitled, "Cost principles for nonprofit organizations," provides principles for determining costs applicable to grants and agreements with nonprofit organizations.

OMB Circular A-122, Attachment A, ¶ 4, entitled, allocable costs, provides:

a. A cost is allocable to a particular cost objective, such as a grant, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Government award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:

(1) Is incurred specifically for the award.

(2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received.

(3) Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective
In this case, there is no dispute that ORO charged its CETA and JTPA grants which covered program operations from October 1, 1981, through June 30, 1985, for legal and consulting services relating to the audits of CETA grants that ORO administered from January 1, 1977, through June 30, 1979. 25/ The record reveals that ORO’s billings for consulting services with Dau, Walker and Associates started with work on November 15, 1982, and continued sporadically until September 16, 1983. A.F. at 959-966. The billing for legal services performed by Thompson, Hine and Flory, started on January 29, 1982, and concluded on December 10, 1984. A.F. at 967-984. While most of the legal billing appeared to concern Case No. 81-CTA-283, other activity concerned grant closeout 31-27; certain "10th Circuit Appeals"; Case Nos. 83-CTA-251 and 83-CTA-190.

To the extent that these costs were not related to the operation of the grants in this case, these costs are disallowed. The contractual and regulatory foundation establishing the cost principles in OMB Circular A-122 is clear. The language of the circular at Attachment A, paragraph 4(b) is unambiguous: the shifting of costs allocable to one award to other federal awards is prohibited. There is nothing in the record that would indicate that the above enumerated disallowed costs were anything but the costs cannot be shown.

b. Any cost allocable to a particular award or other cost objective under these principles may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by the terms of the award.

25/ In the Matter of ORO Development Corporation, Oklahoma, Case No. 81-CTA-283, Decision and Order, issued August 6, 1984, at 1, appeal docketed, No. 84-2370 (10th Cir. Oct. 10, 1984).
allocable to one set of expired CETA grants being shifted to a subsequent set of CETA and JTPA grants, which happened to be operational during the time that the costs for the prior grants were incurred.

ORO contends that the legal and consulting fees were necessary expenditures in the then current program operations, because ORO's successful pursuit of those disallowed claims was essential for ORO to maintain its current and future eligibility as a JTPA grantee. This contention ignores the requirement in 41 C.F.R. § 29-70.103, that for costs to be allowable, they must be "necessary to achieve approved program goals". (emphasis supplied). While continuity among program providers may have advantages in administering these programs, there is no programmatic imperative that every incumbent grantee must succeed itself in each new grant funding. A grantee's effort to successfully challenge disallowed costs, under prior, expired grants in order to remain eligible or to enhance its eligibility for a future grant, while understandable, is not, nevertheless, an approved program goal under current grants. Rather, the dispute and eventual resolution of disallowed grant costs appears to be "a general expense required to carry out the overall responsibilities of the recipient." 20 C.F.R. §§ 663.303(a) and 676.40(a). As an overall concern and responsibility of the grantee, such costs are disallowable under both the JTPA and CETA allowable cost principles. See notes 17 and 18, supra.

ORO also contends that the reference in the Final Determination to Farmworker Bulletin 84-14 (dated October 19, 1984), which specifically states that "costs incurred in furtherance of an appeal ... after the Grant Officer's Final Determination are not recoverable," is misapplied because it was promulgated after the periods of the CETA and JTPA grants at
issue here. That reference relates to the question of whether such an appeal is a claim against the government, and thus, it is claimed by the Grant Officer, disallowable under another provision of OMB Circular A-122 Attachment B, paragraph 34(d). However, I find that it is not necessary to reach this question at this time since it is clear that the costs are for legal and consultation representation services related to contesting disallowances of the audits of prior, expired CETA grants rather than the CETA and JTPA grants involved in this case. As such, the costs are disallowed on that basis and it is not necessary to decide whether such services were for a "claim against the government." 26/

III. The Disallowance of Interest Costs

The Grant Officer disallowed, and the ALJ affirmed, $1,114 in interest costs incurred by ORO in connection with the purchase of telephone equipment. The controlling cost principles for the allowability of interest costs under CETA and JTPA grants are set forth in two provisions of OMB Circular A-122, Attachment B. Paragraph 19 provides:

*Interest. fund raising and investment management costs.*

a. Costs incurred for interest on borrowed capital or temporary use of endowment funds, however represented, are unallowable.

(emphasis supplied). And, Paragraph 42 status:

*Rental costs.*

* * * *

d. Rental costs under leases which create a material equity in the leased property are allowable only up to

26/ Since only those disallowances excepted to are before me, I will not address ORO's argument that certain costs which the Grant Officer did allow were allowed on a basis inconsistent with the Grant Officer's present position.
the amount that would be allowed had the organization purchased the property on the date the lease agreement was executed; e.g., depreciation or use allowances, maintenance, taxes, insurance but excluding interest expense and other unallowable costs.

(emphasis supplied).

ORO does not contend that OMB Circular 122-A permits the interest expenditure. Rather it seeks to have these costs allowed on the application of equitable principles. Because, as explained infra, I decline to decide this case based on ORO's proffered rationale, the determination to disallow interest charges is affirmed. Application of the OMB Circular A-122 cost principles dictates this outcome.

IV. Recovery of Disallowed CETA Funds Following Enactment of JTPA

ORO's contention that the Grant Officer lost his authority to disallow CETA costs after September 30, 1984, ORO's Initial Brief at 44, misreads the import of the underlying JTPA statute. 29 U.S.C. § 1591 (d) and (e). 27/ The CETA grants were awarded prior to the repeal of CETA, and the administrative process concerning the grants includes the activities

27/ Section 181 of JTPA provides:

(d) All orders, determinations, rules, regulations, permits, grants, contracts, certificates, licenses, and privileges, which have been issued under the Comprehensive Employment and Training Act (as in effect on the date before the date of enactment of this Act), or which are issued under that Act on or before September 30, 1983, shall continue in effect until modified or revoked by the Secretary, by a court of competent jurisdiction, or by operation of law other than this Act.
(e) The provisions of this Act shall not affect administrative or judicial proceedings pending on the date of enactment of this Act, or begun between the date of enactment of this Act and September 30, 1984, under the Comprehensive Employment and Training Act.

incidental to their final closeout as well as the audit and resolution of audit disallowances. 28/

V. Disallowance Incidental to Final Closeout and Final Audit

ORO contends that I should consider the equities of this case and allow ORO to avoid repayment of all the charges at issue. As primary authority for its argument ORO cites the decision in Quechan Indian Tribe v. U.S. Department of Labor, 723 F.2d 733 (9th Cir. 1984), where the appeals court remanded that case to the Department for review of several specific questions and equitable considerations. However, as I stated in my recent final decision and order in Quechan: 29/

I would note that there has been a significant change in the legal framework applicable to cases of this kind since the case was remanded. In Bennett v. New Jersey, 470 U.S. 632 (1985), the United States Department of Education sought repayment of over $1 million from the State of New Jersey for improperly spent funds in the Newark School District under Title I of the Elementary and Secondary Education Act of 1965, as amended, 20 U.S.C. § 241a et seq. (1976 ed.). Although the Newark School District had received the proper total amount of funds, and the money had been spent on authorized educational programs, the funds had not been allocated properly to individual schools within the school district under statutorily mandated criteria. The Supreme Court reversed a court of appeals decision which the state urged should be upheld as having reached an equitable result. The Court said:

28/ The fact that one basis referenced in the Final Determination, Farmworker Bulletin 84-14, may have been issued after September 30, 1984, is not controlling. OMB Circular A-122, the other basis of the Grant Officer's disallowance, and of greater importance, the underlying basis of the ALJ’s decision, and the clear basis for my holding above, predated September 30, 1984, and is in no way undercut by the later issuance of the Farmworker Bulletin.

29/ In the Matter of Quechan Indian Tribe (Quechan Tribal Council) v. United States Department of Labor, 80-BCA/CETA-97, Secretary’s decision issued February 4, 1988.
We find no inequity in requiring repayment of funds that were spent contrary to the assurances provided by the State in obtaining the grants. . . . The role of a court in reviewing a determination by the Secretary that funds have been misused is to judge whether the findings are supported by substantial evidence and reflect application of the proper legal standards. Bell v. New Jersey, 461 U.S. at 792. Where the Secretary has properly concluded that funds were misused under the legal standards in effect when the grants were made, a reviewing court has no independent authority to excuse payment based on its view of what would be the most equitable outcome.

470 U.S. at 645-646 (citation omitted).

The Ninth Circuit itself recently has recognized the limitations the Supreme Court has placed on reviewing courts in cases where the government seeks repayment of misspent grant funds. In State of California Department of Education v. Bennett, 829 F.2d 795 (9th Cir. 1987), the California Department of Education argued that it should not be required to repay any Migrant Education Program funds because 90 percent of the children in state migrant education programs were eligible to participate. The court of appeals rejected this argument, recognizing that the Court had made it clear in Bennett v. New Jersey that "substantial compliance" by a recipient does not affect the government's right to recover the funds which were misspent on ineligible participants. The court acknowledged it was "constrained by the Supreme Court's admonition" in Bennett v. New Jersey, quoted above. State of California Department of Education v. Bennett, 829 F.2d at 799.

slip op. at 4-6. Accordingly, I decline to apply a balancing of equities to the charges which I find were properly disallowed under the applicable criteria.

CONCLUSION

Accordingly, upon review of the record, the submissions of the parties, and the applicable law, the charges contested in this appeal are disallowed.
ORO Development Corporation is ordered to reimburse the U.S. Department of Labor from non-CETA funds the sum of $33,365.

SO ORDERED.

Washington, D.C.

[Signature]
Secretary of Labor
CERTIFICATE OF SERVICE

Case Name: ORO Development Corporation v. U.S. Department of Labor

Case No.: 86-JTP-6

Document: Secretary's Final Decision and Order

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