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

Office of Audits

**Independent Accountants' Report
on the Application of Agreed-Upon Procedures
on Indirect Cost Rates Proposed by
America-Mideast Educational and Training Services, Inc.**

Report Number AUD/CG-08-08, December 2007

Regis & Associates, PC, Certified Public Accountants, performed the agreed-upon procedures under Department of State, Office of Inspector General, Contract No. S-AQM-PD-04-D-0040, and by acceptance the report becomes a product of the Inspector General.



Howard J. Krongard
Inspector General

DEC 18 2007

Date

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Summary

At the request of the Department of State (Department), Office of Inspector General (OIG), Regis & Associates, PC, Certified Public Accountants, performed certain agreed-upon procedures to determine whether the indirect cost rates proposed by America-Mideast Educational and Training Services, Inc. (AMIDEAST), for the fiscal year ended September 30, 2005, complied with applicable regulations. We found AMIDEAST's accounting system to be adequate for accumulating and reporting indirect costs under the provisions of the Office of Management and Budget (OMB) Circulars A-122, Codified at 2 CFR Part 230, *Cost Principles for Non-Profit Organizations*, and A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*. However, we noted that the proposed indirect costs for general and administrative expenses for FY 2005, included \$2,130 of entertainment charges that contravene the provisions of OMB Circular A-122. Accordingly, we questioned these costs as unallowable.

Our review disclosed that for FY 2005, except for the questioned cost, the indirect cost rates proposed by AMIDEAST were properly calculated, and the indirect cost rate structures complied with the provisions OMB Circular A-122. We recommend that the Department accept and finalize the indirect cost rates for FY 2005, as recommended by this report.

Background

In 1951, 24 distinguished American educators, theologians, and writers formed AMIDEAST as a private, not-for-profit organization to improve mutual understanding between Americans and the people of the Middle East and North Africa. AMIDEAST's commitment to this goal is expressed primarily through its education, information, and development programs. Every year, AMIDEAST provides English language and professional skills training, educational advising, and testing services to hundreds of thousands of students and professionals in the Middle East and North Africa; supports numerous institutional development projects in the region; and administers educational exchange programs that enable students and professionals from the region to study in the United States and Americans to study in the region. AMIDEAST, located in Washington, DC, is funded by grants from the Department and donations from associations, companies, and private donors.

OMB Circular A-122 provides for the allocation of indirect cost to grants awarded by federal agencies. Indirect costs are defined as costs that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. The circular authorizes provisional indirect cost rates applicable to specific periods, which are used for funding interim reimbursement, and reporting indirect cost on grants pending the establishment of final rates.

The Department's Grants Policy Directive 22, issued by the Bureau of Administration (A), Office of the Procurement Executive, assigns responsibility for negotiating indirect cost rates with the Department's grantees to A's Office of Logistics Management, Office of Acquisitions Management, International Programs Division.

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Purpose, Scope, and Methodology

Our primary purpose was to determine whether AMIDEAST's indirect cost rate structure for FY 2005 complied with applicable regulations. In agreement with OIG, we performed the procedures identified below. We conducted this review between March 26 and June 15, 2007.

We performed this agreed-upon procedures engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants and guidance from OMB. The procedures performed are summarized as follows:

- Interviewed the finance personnel to determine the extent to which each funded program benefited from common services.
- Reviewed AMIDEAST's overall financial statements for FY 2005.
- Verified the mathematical accuracy of the annual indirect cost rate proposal.
- Traced and compared the amounts reported as grant cost to the financial statements and, selectively, to transaction source documents.
- Selected a sample of transactions and applied procedures to ensure that the costs incurred were properly supported and allowable. Also, sample items were subjected to tests to determine whether they were properly classified as direct or indirect cost; and whether AMIDEAST, where applicable, properly excluded unallowable costs from the cost pools used in computing the indirect cost rates.
- Reviewed AMIDEAST's grants and its negotiated indirect cost rate agreement to ascertain whether its annual rate submissions were prepared in accordance with the grant's terms and provisions of the rate agreement.

Results

We found AMIDEAST's accounting system to be adequate for accumulating and reporting indirect costs allowable under the provisions of OMB Circular A-122. Our review disclosed that for FY 2005, the indirect cost rates reported by AMIDEAST were properly calculated. However, we noted that the proposed indirect cost for general and administrative expenses in FY 2005 included \$2,130 for entertainment charges that contravene the provisions of OMB Circular A-122. Accordingly, we questioned these costs in their entirety as unallowable.

Our review of general and administrative costs claimed by AMIDEAST for FY 2005 disclosed that the organization included \$2,130 of entertainment expenses in the general and administrative cost pool for indirect rate computation. Of this total, \$1,788 was for a membership fee for the AMIDEAST executive director to the University Club of Washington, DC, a social organization; the remaining \$342 was for two separate lunches costing \$247 and \$95 by two AMIDEAST executives for which there were no records that the lunches were business related. OMB Circular A-122, attachment B, paragraph 14, states that "Costs of amusement, diversion,

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social activities, ceremonials, and costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities are unallowable.” Also, these costs do not qualify for allowability exception under OMB Circular A-122, attachment B, paragraphs 13 and 30. AMIDEAST considered these costs as employee morale costs. However, after we showed AMIDEAST officials the OMB guidance under which we questioned these costs, they agreed with our finding.

The inclusion of the unallowable costs identified above in the general and administrative cost pool, and thus in the indirect cost rate computation, increases the general and administrative cost rate, as shown in Table 1. The higher general and administrative expense rate results in increased charges to federal grants.

Table 1: AMIDEAST’s Proposed FY 2005 Indirect Cost Rates and Our Recommended Rates

Description	AMIDEAST’s Proposed Rates	Recommended Rates
Fringe Benefit	(b) (4)	(b) (4)
Absence	(b) (4)	(b) (4)
Overhead	(b) (4)	(b) (4)
General and Administrative	(b) (4)	(b) (4)

Attachments A through D of this report present the supporting calculations for the indirect cost rates identified in Table 1.

Recommendation 1: We recommend that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, International Programs Division accept and finalize the FY 2005 indirect cost rates for America-Mideast Educational and Training Services, Inc., as recommended by this report.

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

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

Regis & Associates, PC has applied certain agreed-upon procedures (the Procedures), as summarized in the Purpose, Scope, and Methodology section of this report, relative to the America-Mideast Educational and Training Services, Inc.'s (AMIDEAST's) proposed indirect cost rates for the fiscal year ended September 30, 2005, at the request of the U.S. Department of State, Office of Inspector General.

The Procedures, which were agreed to by the Office of Inspector General, were performed to determine whether the indirect cost rate structure of the AMIDEAST complied with OMB Circular A-122.

This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants and guidance from the Office of Management and Budget. The sufficiency of the Procedures is solely the responsibility of the specified users of the report. Consequently, we make no representations regarding the sufficiency of the Procedures, either for the purpose for which this report has been requested, or for any other purpose.

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

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

Regis & Associates, PC
June 15, 2007

America-Mideast Educational and Training Services, Inc.

**Schedule of Indirect Costs and Indirect Cost Rates
for the Year Ended September 30, 2005**

Indirect Costs	Allowable Indirect Cost Amounts		Indirect Cost Base	Indirect Cost Rates	
	Proposed	Recommended		Proposed	Recommended
Fringe Benefits	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Absences	(b) (4)	(b) (4)	(b) (4)	(b) ''	(b) ''
Overhead	(b) (4)	(b) (4)	(b) (4)	(b) ''	(b) ''
General and Administrative	(b) (4)	(b) (4)	(b) (4)	(b) ''	(b) ''

America-Mideast Educational and Training Services, Inc.**Schedule of Allowable Fringe Benefits and Absence Costs and Rates
for the Year Ended September 30, 2005****Indirect Costs (Fringe Benefits)**

Health Insurance	(b) (4)
Life Insurance	(b) (4)
Short Term/Long Term Disability Insurance	(b) (4)
Retirement Plan	(b) (4)
Severance	(b) (4)
Other Benefits	(b) (4)
Employee Morale	(b) (4)
FICA	(b) (4)
Social Security Local	(b) (4)
DC Unemployment	(b) (4)
Other Mandatory Fringes/Field	(b)
Workers' Compensation	(b) (4)
Total Fringe Benefit Costs (Numerator)	<u>(b) (4)</u>

Total Salaries (Denominator) (b) (4)

Fringe Benefits Rate (b) (4)

Indirect Costs (Absence)

Administrative Leave	(b) (4)
Holiday Leave	(b) (4)
Personal Day	(b) (4)
Short Term Disability	(b)
Sick Leave	(b) (4)
Vacation Leave	(b) (4)
Total Absence Costs (Numerator)	<u>(b) (4)</u>

Total Chargeable Salaries (Denominator) (b) (4)

Absence Rate (b) (4)

America-Mideast Educational and Training Services, Inc.

**Schedule of Allowable Overhead Costs and Rate
for the Year Ended September 30, 2005**

<u>Indirect Costs</u>	<u>Total</u>
Supplies and Material	(b) (4)
Computer Supplies	(b) (4)
Offsite Storage	(b) (4)
Equipment Rental	(b)
Depreciation	(b) (4)
Amortization	(b) (4)
Rent and Occupancy	(b) (4)
Service Agreement	(b) (4)
Equipment < 500	(b) (4)
Furniture < 500	(b) (4)
Software	(b)
Total Overhead Costs (Numerator)	<u>(b) (4)</u>
Total Onsite Direct Labor Costs (Denominator)	<u>(b) (4)</u>
Organizational Overhead Rate	<u>(b) (4)</u>

America-Mideast Educational and Training Services, Inc.

**Schedule of Allowable General and Administrative Costs and Rate
for the Year Ended September 30, 2005**

<u>Indirect Costs</u>	<u>Claimed</u>	<u>Unallowable</u>	<u>Allowable</u>
G & A Allocation	(b) (4)	0	(b) (4)
Advertisement	(b) (4)	0	(b) (4)
Asset Loss on Disposition	(b)	0	(b)
Business License and Fees	(b)	0	(b)
Conference and Meetings	(b) (4)	0	(b) (4)
Courier	(b) (4)	0	(b) (4)
Dues and Subscriptions	(b) (4)	0	(b) (4)
Education – Boeshar	(b) (4)	0	(b) (4)
Freight and Shipping	(b) (4)	0	(b) (4)
Fringe Allocation	(b) (4)	0	(b) (4)
Headquarter Labor	(b) (4)	0	(b) (4)
Insurance	(b) (4)	0	(b) (4)
Legal and Audit Fees	(b) (4)	0	(b) (4)
Miscellaneous	(b) (4)	0	(b) (4)
Other Fees and Services	(b) (4)	0	(b) (4)
Petrol	(b)	0	(b)
Postage	(b)	0	(b)
Printing/Publication/Reproduction	(b) (4)	0	(b) (4)
Rate Exchange Difference	(b) (4)	0	(b) (4)
Recruitment	(b) (4)	0	(b) (4)
Registration	(b)	0	(b)
Repair and Maintenance	(b) (4)	0	(b) (4)
Security Expenses	(b) (4)	0	(b) (4)
Shipping/Storage	(b)	0	(b)
Taxes	(b) (4)	0	(b) (4)
Telephone/E-mail	(b) (4)	0	(b) (4)
Temporary Help	(b) (4)	0	(b) (4)
Training Program	(b) (4)	0	(b) (4)
Travel/Lodging/Meals	(b) (4)	\$2,130*	(b) (4)
Consultant Fees	(b) (4)	0	(b) (4)
Total General and Administrative Costs (Numerator)	<u>(b) (4)</u>	<u>\$2,130</u>	<u>(b) (4)</u>
Total Direct Expenses (Denominator)	<u>(b) (4)(b) (4)</u>	<u>(b) (4)(b) (4)</u>	<u>(b) (4)(b) (4)</u>
General and Administrative Rate	<u>(b) (4)</u>	<u>(b) (4)</u>	<u>(b) (4)</u>

* Of the \$2,130, \$1,788 was a membership fee for the AMIDEAST executive director to the University Club of Washington, DC, a social organization; the remaining \$342 was for two separate lunches costing \$247 and \$95 by two AMIDEAST executives for which there were no records that the lunches were business related.



Independent Accountants' Report on the Application of Agreed-Upon Procedures on Indirect Cost Rates Proposed by America-Mideast Educational and Training Services, Inc.

The Department of State, Office of Inspector General contracted with Regis & Associates, PC, Certified Public Accountants, to perform agreed-upon procedures to determine whether the indirect cost rates proposed by America-Mideast Educational and Training Services, Inc. (AMIDEAST), for the fiscal year ended September 30, 2005, complied with applicable regulations.

The independent accountants found AMIDEAST's accounting system to be adequate for accumulating and reporting indirect costs under the provisions of the Office of Management and Budget (OMB) Circulars A-122, Codified at 2 CFR Part 230, *Cost Principles for Non-Profit Organizations*, and A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*. However, the independent accountants noted that the proposed indirect costs for general and administrative expenses for FY 2005 included \$2,130 of entertainment charges that contravene the provisions of OMB Circular A-122. Accordingly, the independent accountants questioned these costs as unallowable.

The independent accountants found that except for the questioned costs, the indirect cost rates proposed by AMIDEAST for FY 2005 were properly calculated, and the indirect cost rate structures complied with the provisions OMB Circular A-122. The independent accountants recommended that the Department accept and finalize the indirect cost rates for FY 2005, as recommended in the report.

The work for OIG Report AUD/CG-08-08 was conducted by Regis & Associates, PC. This is an unclassified summary of a full report, which may receive limited official distribution.

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