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

Office of Audits

**Independent Accountant's Report on the
Application of Agreed-Upon Procedures on the Indirect Cost Rate
Proposed by
Church World Service, Inc.**

Report Number AUD/CG-08-30, June 2008

Leonard G. Birnbaum and Company, LLP, Certified Public Accountants, performed the Agreed-Upon procedures under Department of State, Office of Inspector General, Contract No. S-AQM-PD-04-D-0033, and by acceptance, the report becomes a product of the Inspector General.



Mark W. Duda
Assistant Inspector General
Office of Audits

6/11/08

Date

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Summary

At the request of the Department of State's Office of Inspector General (OIG), Leonard G. Birnbaum and Company, LLP, Certified Public Accountants, performed certain agreed-upon procedures to determine whether the indirect cost rate proposed by Church World Service, Inc. (CWS), for the fiscal year ended June 30, 2006, complied with applicable regulations.

We found CWS's accounting system to be adequate for accumulating and reporting indirect costs under the provisions of 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*.

During our engagement, CWS submitted a revised indirect cost submission to correct a typographical error in its original submission. Our report addresses the revised submission for FY 2006. Our review disclosed that for FY 2006, the indirect cost rate reported by CWS was appropriately structured and calculated.

We recommend that the Department accept and finalize CWS's indirect cost rate for FY 2006, as recommended in this report.

Background

Founded in 1946, CWS is the relief, development, and refugee assistance ministry of 35 Protestant, Orthodox, and Anglican denominations in the United States. Working in partnership with indigenous organizations in more than 80 countries, CWS works worldwide to meet humanitarian needs. Within the United States, CWS assists communities in responding to disasters, resettles refugees, promotes fair national and international policies, and provides educational resources. CWS is tax exempt under section 501(c)(3) of the Internal Revenue Code.

OMB Circular A-122 provides for the allocation of indirect costs to grants awarded by federal agencies. The Circular defines indirect costs 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 interim reimbursement, and reporting indirect costs on grants pending the establishment of final rates.

The Department's Grants Policy Directive 22, issued by the Bureau of Administration's (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 CWS's indirect cost structures for FY 2006 complied with applicable regulations. In agreement with OIG, we performed the procedures identified below. We conducted this review between January 16 and February 8, 2008.

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:

- Verified that the indirect cost rate proposed was mathematically accurate and was supported by accounting records and audited financial statements.
- Assessed the allowability and allocability of indirect costs by testing selected transactions to supporting documentation and inquiring about the nature and functions of entities included in the indirect pools.
- Assessed the causal and beneficial relationship between indirect costs and cost activities.
- Reviewed CWS's accounting records to determine whether any income recorded there is appropriate for credit to the indirect cost pool.
- Made inquiries about CWS's operations and assessed the impact of changes on the indirect rate structure.

Results

We found CWS's accounting system to be adequate for accumulating and reporting indirect costs allowable under the provisions of OMB Circular A-122. CWS's negotiated indirect cost rate agreement does not address fringe benefits; accordingly, CWS's indirect cost submission did not include a fringe benefit rate. CWS allocates benefit/payroll-related expenses to cost objectives using appropriate salary-based methods. Fringe benefit expenses include health insurance, group life insurance, disability insurance, unemployment/workers compensation insurance, pensions, and FICA-related expenditures.

Our review disclosed a typographical error in CWS's original FY 2006 indirect cost submission. CWS corrected the error and provided a new submission. For FY 2006, the revised indirect rate reported by CWS was properly calculated. The proposed and recommended rates are shown in Table 1.

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**INDEPENDENT ACCOUNTANT'S 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

Leonard G. Birnbaum and Company, LLP, has applied certain agreed-upon procedures (the Procedures), as summarized in the Purpose, Scope and Methodology section of this report, relative to the Church World Service, Inc. (CWS) proposed indirect cost rate for the fiscal year ended June 30, 2006 at the request of the U.S. Department of State (Department), 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 Institute complied with the provisions of OMB Circular A-122.

This agreed-upon procedures engagement was performed in accordance with attestation 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 purpose.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on the Institute's indirect cost proposals. 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 information and use of the U.S. Department of State, Office of Inspector General, and the Department's Bureau of Administration 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.

Leonard G. Birnbaum and Company, LLP

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Church World Service, Inc.

Schedule of Proposed and Recommended Indirect Cost Rates
for the Fiscal Year Ended June 30, 2006

<u>Proposed and Recommended Indirect Costs</u>	<u>Amount</u>
<u>Administration</u>	(b) (4)(b) (4)(b) (4)
Salary and Related Costs	(b) (4)(b) (4)(b) (4)
Professional Fees	(b) (4)(b) (4)(b) (4)
Supplies	(b) (4)(b) (4)(b) (4)
Communications	(b) (4)(b) (4)(b) (4)
Travel and Transportation	(b) (4)(b) (4)(b) (4)
Meetings	(b) (4)(b) (4)(b) (4)
Misc. Expenses/Unallowable Cost Deletions	(b) (4)(b) (4)(b) (4)
Total Administration	(b) (4)(b) (4)(b) (4)
Facilities Expense	(b) (4)(b) (4)(b) (4)
<u>Proposed and Recommended Allocation Base</u>	(b) (4)(b) (4)(b) (4)
Direct Costs - FY Audited Financial Statements	(b) (4)(b) (4)(b) (4)
Reclassification of Indirect Costs to Direct	(b) (4)(b) (4)(b) (4)
Contributions/Pass Thru Expense –Affiliated Fundraising	(b) (4)(b) (4)(b) (4)
Donated Goods – Health Kits, Cleaning & Sewing Kits	(b) (4)(b) (4)(b) (4)
Sub Grant Exclusions – OMB A-122 Attachment A, Para. D	(b) (4)(b) (4)(b) (4)
Direct Cost Allocation Base	(b) (4)(b) (4)(b) (4)
Proposed and Recommended Administration Rate (A/C)	(b) (4)(b) (4)(b) (4)
Proposed and Recommended Facilities Rate (B/C)	(b) (4)(b) (4)(b) (4)
Total	(b) (4)(b) (4)(b) (4)