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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 the
Council on International Educational Exchange, Inc.**

Report Number AUD/CG-08-23, April 2008

L.F. Harris & Associates, Certified Public Accountants, P.A., performed the agreed-upon procedures under the Department of State, Office of Inspector General, Contract No. S-AQMPD-04-D-0044, and by acceptance the report becomes a product of the Inspector General.



**Mark W. Duda
Assistant Inspector General
Office of Audits**

5/5/08

Date

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Summary

At the request of the Department of State, Office of Inspector General (OIG), L.F. Harris & Associates, CPA, P.A., performed certain agreed-upon procedures to determine whether the proposed indirect cost rates of the Council on International Educational Exchange, Inc., for the fiscal years ended August 31, 2005, 2004, and 2003, complied with applicable regulations.

Although we (the independent accounts) found that the Council had charged some unallowable costs to the federal programs, the Council's accounting system was adequate to accumulate and report 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*.

In reviewing the Council's indirect cost rates, we noted that the base used to calculate the rates was incorrectly computed, including participant support costs. Also, the indirect cost rate calculation submitted to the Department by the Council incorrectly calculated indirect costs as a percentage of total costs instead of indirect costs as a percentage of direct costs. As a result, we adjusted the base and recomputed the rates reported by the Council for FYs 2005, 2004, and 2003. In addition, we questioned as unallowable Council indirect expenses of \$1,953,607, \$587,049 and \$2,388,577 for fiscal years 2005, 2004, and 2003, respectively.

We recommend that the Department accept and finalize the indirect cost rates for fiscal years 2005, 2004, and 2003, as recommended in our report.

Background

The Council, founded in 1951, is a New York State not-for-profit membership organization. Its membership consists primarily of U.S. colleges and universities, along with international organizations, associations, and other entities that support international educational exchange.

In FYs 2005, 2004, and 2003, the Department awarded grants to the Council as shown in Table 1.

Table 1. Grants Awarded to Council on International Educational Exchange, Inc.

Grant Number	Period of Grant	Amount of Grant
Congress Bundestag Youth Exchange		
S-ECAPY-04-GR-070	05/19/2004 – 07/31/2005	\$ 496,244
S-ECAPY-03-GR-049	02/06/2003 – 08/31/2004	455,384
S-ECAPY-02-GR-171	07/05/2002 – 08/31/2003	462,936
Future Leaders Exchange (FLEX) Program		
S-ECAPY-04-GR-098	05/02/2004 – 09/30/2005	415,396
S-ECAPY-03-GR-103	05/02/2003 – 09/30/2004	391,028
S-ECAPY-02-GR-110	05/09/2002 09/30/2003	197,805
		\$ 2,418,793

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The Department gave the Council permission to use provisional indirect rates. Provisional rates are temporary rates used for funding and billing indirect costs for a specified period of time pending the establishment of a final rate.

The Future Leaders Exchange (FLEX) Program grants include cost sharing of indirect expenses. The total amount of indirect expenses is limited to a dollar amount specified in each FLEX award.

The grant agreements also specify that the Council is subject to the requirements of OMB Circulars A-110, A-122, and A-133, *Compliance Supplement*.

Purpose, Scope, and Methodology

The purpose of this agreed-upon procedures engagement was to determine whether the Council's indirect cost structure for FYs 2005, 2004, and 2003, complied with applicable regulations.

OMB Circular A-122 establishes principles and standards for determining costs for federal awards carried out through grants, cost-reimbursement contracts, and other agreements with non-profit organizations. The principles are for the purpose of cost determination and are designed to ensure that federal awards bear their fair share of costs. The principles and standards of OMB Circular A-122 apply to both direct and indirect costs.

A direct cost is a cost that can be identified specifically with a particular cost objective. Examples of direct costs include employee compensation and benefits, supplies, and travel. An indirect cost is a cost that cannot be identified with a single final cost objective but is identified with two or more final cost objectives, one or more of which benefit federal programs. Such costs should be combined into groups or pools and should be distributed to final cost objectives in a manner that will produce an equitable result based on relative benefits derived.

We designed our approach to determine compliance with OMB Circular A-122, which describes selected cost items, allowable costs, and standard methodologies for calculating indirect cost rates for non-profit organizations. The purposes of OMB Circular A-122 are to:

- ensure that the federal government bears its fair share of costs,
- identify allowable costs for determining the actual cost of federal programs, and
- establish policies and procedures for indirect cost allocation plans.

Our procedures included the following:

1. determining that charges to cost pools used in calculating indirect cost rates were mathematically accurate and supported by the grantee's accounting records and audited financial statements,

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2. assessing the allowability and allocability of indirect costs by testing selected transactions to supporting documentation and inquiring about the nature and functions of activities included in the indirect cost pool,
3. assessing the causal and beneficial relationship between indirect costs and cost activities,
4. analyzing the allowability and allocability of accounts that make up the Council's fringe benefit pool,
5. reviewing the general ledger to determine whether the grantee had income and credits and if they were credited to the indirect cost or fringe benefit pools as appropriate, and
6. inquiring about applicable fiscal year operations and assessing the impact of changes on the indirect cost rate structure.

Our approach to addressing the procedures was as follows:

1. We obtained an understanding of internal control over the subject matter of this engagement through inquiry and observation, through performing an assessment of risk, and through testing internal controls.
2. For direct costs, we determined whether the Council complied with the provisions of OMB Circular A-122 by:
 - a. testing direct charges to federal awards for allowability and
 - b. verifying that unallowable costs determined to be direct costs were included in the allocation base for the purpose of computing an indirect cost rate.
3. We tested indirect costs to determine whether:
 - a. the base used to distribute the approved allowable indirect cost was appropriate and reasonable and was in accordance with the requirements of OMB Circular A-122;
 - b. the calculated indirect cost rate was
 - i. consistent with policies and procedures that apply uniformly to both federally funded and other activities of the Council and
 - ii. applied consistently to the proper allocation bases; and
 - c. the Council complied with the provisions of OMB Circular A-122 in that
 - i. charges to indirect cost pools were for allowable costs,
 - ii. the base used to distribute indirect costs included both allowable and unallowable costs, and
 - iii. the cost allocation methodology provides equitable and consistent allocation of indirect costs to benefiting awards or activities.

The scope of detail testing of individual accounts, internal controls, direct costs, indirect costs, regulation compliance, and other applicable records are a matter of judgment. Auditors

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cannot assume responsibility for fraud detection or prevention. Auditors are expected to maintain an alertness that will permit adequate inspection of the financial records as well as the internal controls, internal accounting, and administrative controls. As such, the auditors were alert to the possibility of intentional wrongdoing, errors and omissions, inefficiency, waste, ineffectiveness, and conflicts of interest.

Results

Indirect Cost Rates

We found the Council’s accounting system to be adequate for accumulating and reporting indirect costs under the provisions of OMB Circular A-122. The Council meets the criteria to use the simplified allocation method, as outlined in OMB Circular A-122, Attachment A, Part D.2., “Simplified allocation method,” because it is a major functions benefit from its indirect costs to approximately the same degree.

Unallowable Costs

In reviewing the Council’s costs under the grants, we noted that the Council had unallowable costs, as shown in Table 2.

Table 2. Unallowable Costs for FYs 2005-03

	FY 2005	FY 2004	FY 2003	Totals
Entertainment	\$693	\$469	\$0	\$1,162
Organization Costs	1,952,914	2,451	12,249	1,967,614
Housing and Personal Living	0	55,000	60,682	115,682
Donations	0	2,500	0	2,500
Executive Compensation	0	0	66,977	66,977
Allocable Costs	0	526,629	2,248,669	2,775,298
Totals	\$1,953,607	\$587,049	\$2,388,577	\$4,929,233

Entertainment

OMB Circular A-122 states that costs of entertainment, including amusement, diversion, and social activities, and any costs directly associated with such costs are unallowable. We noted, during our review, costs for entertainment; therefore, costs of \$693 and \$469 for fiscal years 2005 and 2004, respectively, were questioned.

Organization Costs

OMB Circular A-122 states that expenditures such as incorporation fees, broker’s fees, and fees to promoters, organizers, management consultants, attorneys, accountants, or investment counselors in connection with the establishment or reorganization of an organization are unallowable except with prior approval of the awarding agency.

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We noted, during our review, costs associated with closing foreign offices; therefore, we questioned costs of \$1,952,914, \$2,451, and \$12,249 for fiscal years 2005, 2004, and 2003, respectively.

Housing and Personal Living

OMB Circular A-122 states that housing costs, housing allowances, and personal living expenses for an organization’s officers are unallowable as fringe benefits or indirect costs regardless of whether the costs are reported as taxable income to the employee.

We noted, during our review, costs for housing allowances; therefore, we questioned costs of \$55,000 and \$60,682 for fiscal years 2004 and 2003, respectively.

Donations

Contributions or donations, including cash, property, and services made by the organization regardless of the recipient, are unallowable.

We questioned costs for donations of \$2,500 for FY 2004.

Executive Compensation

The benchmark compensation amount, established by Section 39 of the Office of Federal Procurement Policy (OFFP) Act (41U.S.C.435) limits the allowability of compensation costs under government contracts. The benchmark compensation amount for contract costs incurred in 2003 was \$405,273. We questioned \$66,977 in compensation costs in excess of the benchmark for FY 2003.

Allocable Costs

We found that the Council inappropriately charged various costs that did not benefit the federal awards. A cost is allocable to a particular cost objective, such as a grant, contract, project, service or other activity, in accordance with the relative benefits received. OMB Circular A-122, 2 CFR Part 230, Appendix A, “4 Allocable Costs,” states, “A cost is allocable to a Federal award 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. or (3) Is necessary to the overall operation of the organization.” We questioned as unallowable the following costs associated with activities that do not benefit the federal awards:

	<u>FY 2004</u>	<u>FY 2003</u>
Bond Expenses	\$ 119,370	\$ 13,543
Amortization of Goodwill	6,665	9,997
Employee Expenses	6,091	19,339
Interest Expense	26,122	-
Write off of Goodwill	-	1,132,500
Legal	368,381	489,977
Miscellaneous Adjustments	-	<u>583,313</u>
Total Questioned Costs	<u>\$ 526,629</u>	<u>\$ 2,248,669</u>

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Adjustment to Base

While performing the agreed-upon procedures, we noted that the base used to calculate the indirect cost rate was incorrectly computed, including participant support costs. In addition, the indirect costs rate calculation submitted to the Department by the Council incorrectly calculated indirect costs as a percentage of total costs instead of computing the indirect costs as a percentage of direct costs. We adjusted the base as follows:

	FY 2005	FY 2004	FY 2003
Total Direct Costs	\$ 12,393,589	\$ 10,560,693	\$ 8,066,755
Less Participant Support Costs	234,526	243,464	190,875
Adjusted Base	\$ 12,159,063	\$ 10,317,229	\$ 7,875,880

We recomputed the rates reported by the Council for three fiscal years as follows:

2003	(b) (4)	(b) (4)	(b) (4)
2004	(b) (4)	(b) (4)	(b) (4)
2005	(b) (4)	(b) (4)	(b) (4)

Attachment A of this report presents the supporting calculations for the indirect cost rates identified above.

Recommendation 1: We recommend that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, International Programs Division, accept and finalize the indirect cost rates for fiscal years 2005, 2004, and 2003 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

We have performed certain agreed-upon procedures (Procedures), as summarized in the Purpose, Scope and Methodology section of this report. The Procedures, which were agreed to by the Office of Inspector General, U.S. Department of State, were performed solely to assist the Office of Inspector General, U.S. Department of State in evaluating the Council's computations of their indirect cost rates in accordance with OMB Circular A-122, for the fiscal years ended August 31, 2005, 2004, and 2003.

The Council's management is responsible for compliance with those requirements. This agreed-upon procedures engagement was conducted 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 these Procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the Procedures as described in the Purpose, Scope and Methodology section of this report, either for the purpose for which this report has been requested or for any other purpose. Our test Procedures revealed three findings. The findings and the associated recommendations are presented in the "Results" section of this report.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the total costs claimed. 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.

L.F. Harris & Associates, CPA, P.A.

_____, 2007

ATTACHMENT A

**Council on International Educational Exchange, Inc.,
Indirect Cost Rate Calculation
for the Year Ended December 31, 2005**

Indirect Costs	Proposed Costs	Questioned Costs	Audited Costs	Notes *
Bank Charges	(b()4) ((4b))((4b))		- (b()4) ((4b))((4b))((4b))	
Computer	(b()4) ((4b))((4b))		- (b()4) ((4b))((4b))((4b))	
Consultants	(b()4) ((4b))((4b))		- (b()4) ((4b))((4b))((4b))	
Depreciation/Amortization	(b()4) ((4b))((4b))		- (b()4) ((4b))((4b))((4b))	
Dues/Memberships/Subscriptions	(b()4) ((4b))((4b))		- (b()4) ((4b))((4b))((4b))	
Employee Expense	(b()4) ((4b))((4b))		- (b()4) ((4b))((4b))((4b))	
Equipment Rental/Repair/Maintenance	(b()4) ((4b))((4b))		- (b()4) ((4b))((4b))((4b))	
Miscellaneous	(b()4) ((4b))((4b))	693	(b()4) ((4b))((4b))((4b))	
Occupancy Expense	(b()4) ((4b))((4b))		- (b()4) ((4b))((4b))((4b))	
Office Expense	(b()4) ((4b))((4b))		- (b()4) ((4b))((4b))((4b))	
Payroll Taxes & Employee Benefits	(b()4) ((4b))((4b))		- (b()4) ((4b))((4b))((4b))	
Postage/Delivery	(b()4) ((4b))((4b))		- (b()4) ((4b))((4b))((4b))	
Reorganization	(b()4) ((4b))((4b))	1,952,914	(b()4) ((4b))((4b))((4b))	
Salaries/Wages/Temporary Labor	(b()4) ((4b))((4b))		- (b()4) ((4b))((4b))((4b))	
Telephone	(b()4) ((4b))((4b))		- (b()4) ((4b))((4b))((4b))	
Travel/Meetings/Conferences	(b()4) ((4b))((4b))		- (b()4) ((4b))((4b))((4b))	
Total Administrative Indirect Costs \$	(b()4)	\$ 1,953,607	(b()4) ((4b))((4b))((4b))	

G&A Allocation Base:
Total Adjusted Direct Expenses

(b()4) ((4b))((4b))((4b))
(b()4) ((4b))((4b))((4b))

Indirect Rate Calculation:

Administration: Total Administrative Indirect Costs
Allowable/Total Adjusted Direct Expenses

(b()4) ((4b))((4b))((4b))
(b()4) ((4b))((4b))((4b))
(b()4) ((4b))((4b))((4b))
(b()4) ((4b))((4b))((4b))
(b()4) ((4b))((4b))((4b))
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(b()4) ((4b))((4b))((4b))
(b()4) ((4b))((4b))((4b))

* See details of notes on page 12.

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**Council on International Educational Exchange, Inc.,
Indirect Cost Rate Calculation
for the Year Ended December 31, 2004**

Indirect Costs	Proposed Costs	Questioned Costs	Audited Costs	Notes *
Bank Charges	(b)(4) ((4))((4))	\$ -	(b)(4) ((4))((4))	
Board Meetings	(b)(4) ((4))((4))	-	(b)(4) ((4))((4))	
Bond Expenses	(b)(4) ((4))((4))	119,370	(b)(4) ((4))((4))	C
Computer	(b)(4) ((4))((4))	-	(b)(4) ((4))((4))	
Consultants	(b)(4) ((4))((4))	-	(b)(4) ((4))((4))	
Depreciation/Amortization	(b)(4) ((4))((4))	6,665	(b)(4) ((4))((4))	C
Dues/Memberships/Subscriptions	(b)(4) ((4))((4))	-	(b)(4) ((4))((4))	
Employee Expense	(b)(4) ((4))((4))	61,091	(b)(4) ((4))((4))	C, D
Equipment Rental/Repair/Maintenance	(b)(4) ((4))((4))	-	(b)(4) ((4))((4))	
Interest	(b)(4) ((4))((4))	26,122	(b)(4) ((4))((4))	C
Marketing/Recruiting	(b)(4) ((4))((4))	-	(b)(4) ((4))((4))	
Miscellaneous	(b)(4) ((4))((4))	2,969	(b)(4) ((4))((4))	A, F
Occupancy Expense	(b)(4) ((4))((4))	-	(b)(4) ((4))((4))	
Office Expense	(b)(4) ((4))((4))	-	(b)(4) ((4))((4))	
Payroll Taxes & Employee Benefits	(b)(4) ((4))((4))	-	(b)(4) ((4))((4))	
Postage/Delivery	(b)(4) ((4))((4))	-	(b)(4) ((4))((4))	
Professional Fees	(b)(4) ((4))((4))	368,381	(b)(4) ((4))((4))	G
Reorganization	(b)(4) ((4))((4))	2,451	(b)(4) ((4))((4))	B
Salaries/Wages/Temporary Labor	(b)(4) ((4))((4))	-	(b)(4) ((4))((4))	
Telephone	(b)(4) ((4))((4))	-	(b)(4) ((4))((4))	
Travel/Meetings/Conferences	(b)(4) ((4))((4))	-	(b)(4) ((4))((4))	
Total Administrative Indirect Costs	(b)(4) ((4))((4))	\$ 587,049	(b)(4) ((4))((4))	

G&A Allocation Base:

Total Adjusted Direct Expenses

(b)(4) ((4))((4))((4))
 (b)(4) ((4))((4))((4))
 (b)(4) ((4))((4))((4))
 (b)(4) ((4))((4))((4))
 (b)(4) ((4))((4))((4))

Indirect Rate Calculation:

Administration: Total Administrative Indirect Costs

Allowable/Total Adjusted Direct Expenses

(b)(4) ((4))((4))((4))
 (b)(4) ((4))((4))((4))
 (b)(4) ((4))((4))((4))
 (b)(4) ((4))((4))((4))

* See details of notes on page 12.

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**Council on International Educational Exchange, Inc.,
Indirect Cost Rate Calculation
for the Year Ended December 31, 2003**

Indirect Costs	Proposed Costs	Questioned Costs	Audited Costs	Notes *
Bank Charges	(b) (4)(b) (4)	\$ -	\$ (b) (4)(b) (4)	
Board Meetings	(b) (4)(b) (4)	-	(b) (4)(b) (4)	
Bond Expenses	(b) (4)(b) (4)	13,543	(b) (4)(b) (4)	C
Computer	(b) (4)(b) (4)	-	(b) (4)(b) (4)	
Consultants	(b) (4)(b) (4)	-	(b) (4)(b) (4)	
Depreciation/Amortization	(b) (4)(b) (4)	9,997	(b) (4)(b) (4)	C
Dues/Memberships/Subscriptions	(b) (4)(b) (4)	-	(b) (4)(b) (4)	
Employee Expense	(b) (4)(b) (4)	80,021	(b) (4)(b) (4)	C,D
Equipment Rental/Repair/Maintenance	(b) (4)(b) (4)	-	(b) (4)(b) (4)	
Miscellaneous	(b) (4)(b) (4)	1,715,813	(b) (4)(b) (4)	C
Occupancy Expense	(b) (4)(b) (4)	-	(b) (4)(b) (4)	
Office Expense	(b) (4)(b) (4)	-	(b) (4)(b) (4)	
Payroll Taxes & Employee Benefits	(b) (4)(b) (4)	-	(b) (4)(b) (4)	
Postage/Delivery	(b) (4)(b) (4)	-	(b) (4)(b) (4)	
Professional Fees	(b) (4)(b) (4)	489,977	(b) (4)(b) (4)	G
Reorganization	(b) (4)(b) (4)	12,249	(b) (4)(b) (4)	B
Salaries/Wages/Temporary Labor	(b) (4)(b) (4)	66,977	(b) (4)(b) (4)	E
Telephone	(b) (4)(b) (4)	-	(b) (4)(b) (4)	
Travel/Meetings/Conferences	(b) (4)(b) (4)	-	(b) (4)(b) (4)	
Total Administrative Indirect Costs	(b) (4)(b) (4)	\$ 2,388,577	(b) (4)(b) (4)	

G&A Allocation Base:

Total Adjusted Direct Expenses

(b) (4)(b) (4)(b) (4)
(b) (4)(b) (4)(b) (4)

Indirect Rate Calculation:

Administration: Total Administrative Indirect Costs
Allowable/Total Adjusted Direct Expenses

* See details of notes on page 12.

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Council on International Educational Exchange, Inc.

Notes to Attachment A

A Appendix B, Item 14. Entertainment Costs

Costs of entertainment, including amusement, diversion, and social activities, and any costs directly associated with such costs are unallowable. We questioned \$693 and \$469 of entertainment costs for the fiscal years ending August 31, 2005, and 2004, respectively.

B 2 CFR Part 230, Appendix B, Item 31. Organization Costs

Expenditures such as incorporation fees, broker's fees, and fees to promoters, organizers, or management consultants, attorneys, accountants, or investment counselors in connection with establishment or reorganization of an organization are unallowable except with the prior approval of the awarding agency. We questioned costs associated with closing foreign offices of \$1,952,914, \$2,451, and \$12,249 for the fiscal years ending August 31, 2005, 2004, and 2003, respectively.

C 2 CFR Part 230, Appendix A, 4. Allocable Costs

A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a federal award 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, or (3) is necessary to the overall operation of the organization." We questioned the following costs associated with activities that do not benefit the federal awards:

For the fiscal year ending August 31, 2004:

Bond Expenses	\$119,370	(Costs do not benefit the federal award)
Depreciation/Amortization	\$ 6,665	(Amortization of Goodwill)
Employee Expenses	\$ 6,091	(Costs do not benefit the federal award)
Interest Expense	\$ 26,122	(Costs do not benefit the federal award)

For the fiscal year ending August 31, 2003:

Bond/Expenses	\$ 13,543	(Costs do not benefit the federal award)
Depreciation/Amortization	\$ 9,997	(Amortization of Goodwill)
Employee Expenses	\$ 19,339	(Costs do not benefit the federal award)
Miscellaneous	\$1,132,500	(Write off of Goodwill)
Miscellaneous	\$583,313	(Costs do not benefit the federal award)

D 2 CFR Part 230, Appendix B, Item 20. Housing and personal living expenses.

Costs of housing, housing allowances, and personal living expenses for/of the organization's officers are unallowable as fringe benefit or indirect costs regardless of whether the cost is reported as taxable income to the employee. We questioned \$55,000 and \$60,682 of housing allowance costs for the fiscal years ending August 31, 2004, and 2003, respectively.

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E OMB; Office of Federal Procurement Policy; Memorandum Regarding Determination of Executive Compensation Benchmark Amount.

The benchmark compensation amount, established by Section 39 of the Office of Federal Procurement Policy (OFFP) Act (41U.S.C. 435) limits the allowability of compensation costs under government contracts. The benchmark compensation amount for contract costs incurred in 2003 is \$405,273. We questioned \$66,977 in compensation costs in excess of the benchmark for the fiscal year ending August 31, 2003.

F 2 CFR Part 230, Appendix B. Item 12. Donations and Contributions

Contributions or donations, including cash, property, and services made by the organization regardless of the recipient, are unallowable. We questioned donations of \$2,500 for the fiscal year ending August 31, 2004.

G 2 CFR Part 230, Appendix A, 4. Allocable Costs

A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity in accordance with the relative benefits received. A cost is allocable to a federal award 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, or (3) is necessary to the overall operation of the organization.” The Council included both allocable and non-allocable legal costs in its general ledger legal expense category; therefore, we questioned the entire balance of legal costs of \$368,381 and \$489,977 for the fiscal years ending August 31, 2004, and 2003, respectively.