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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
Sister Cities International, Inc.

Report Number: AUD/CG-08-11, 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.



Mark W. Duda
Assistant Inspector General
Office of Audits



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 Sister Cities International, Inc., for the years ended December 31, 2006, 2005, 2004, and 2003, complied with applicable regulations. We found Sister Cities' 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*.

We determined that the proposed indirect costs for 2005, 2004, and 2003 included, in total, \$36,968 of unsupported charges and charges for alcoholic beverages that contravene the provisions of OMB Circulars A-110 and A-122.

- For 2005, 2004, and 2003, Sister Cities did not have supporting documentation for \$34,054 charged to indirect cost pool through the use of journal entries or credit cards. We questioned this amount as unsupported.
- For 2005 and 2004, Sister Cities charged to indirect cost pool \$2,914 for alcoholic beverages. We questioned this amount as unallowable.

The inclusion of the unsupported and unallowable cost elements identified above in the indirect cost pool, and thus in the indirect cost rate computation, increases the indirect cost rate. This increase, in turn, resulted in higher indirect cost amounts being charged to federal grants.

We recommend that the Department accept and finalize the indirect cost rates for 2006, 2005, 2004, and 2003 as recommended in this report.

Background

Sister Cities is a not-for-profit citizen diplomacy network that creates and strengthens partnerships between U.S. and international communities. Sister Cities strives to build global cooperation at the municipal level, promote cultural understanding, and stimulate economic development.

OMB Circular A-122 provides for the allocation of indirect costs 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 costs 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

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the Department's grantees to A's Office of Logistics Management, Office of Acquisitions Management, International Programs Division.

Purpose, Scope, and Methodology

Our primary purpose was to determine whether Sister Cities' indirect cost structures for 2006, 2005, 2004, and 2003 complied with applicable regulations. In agreement with OIG, we performed the procedures identified below. We conducted this review between September 24, 2007, and November 16, 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 Sister Cities' overall financial statements for 2006, 2005, 2004, and 2003.
- Verified the mathematical accuracy of the annual indirect cost rate proposal.
- Traced and compared the amounts reported as grant costs 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 costs and that Sister Cities, where applicable, properly excluded unallowable costs from the cost pools used in computing the indirect cost rates.
- Reviewed Sister Cities' grants and its negotiated indirect cost rate agreements to ascertain whether its annual rate submissions were prepared in accordance with the grant's terms and provisions of the rate agreements.

Results

We found Sister Cities' accounting system to be adequate for accumulating and reporting indirect costs allowable under the provisions of OMB Circular A-122. However, we noted that the proposed indirect costs for 2005, 2004, and 2003 included unsupported charges and charges for alcoholic beverages that contravene the provisions of OMB Circulars A-110 and A-122. Accordingly, we questioned those costs in their entirety, which amount to \$3,691, \$30,367, and \$2,910 for 2005, 2004, and 2003, respectively. The details of the questioned amounts are presented in Attachments C through E of this report.

Our review of indirect costs claimed, and Sister Cities' supporting documentation for 2006, 2005, 2004, and 2003, showed that there was no supporting documentation for some

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amounts charged to indirect cost pool through the use of journal entries or credit cards. These unsupported amounts are \$790, \$30,354, and \$2,910 for 2005, 2004, and 2003, respectively. We also noted that amounts totaling \$2,901 and \$13 for 2005 and 2004, respectively, incurred for alcoholic beverages, were charged to indirect cost pool.

OMB Circular A-110, Subpart C, Section .21(b) requires that recipients' financial management systems provide accounting records, including cost accounting records that are supported by source documentation. OMB Circular A-122, Attachment A, Paragraph A, Subparagraph 2 requires that to be allowable under an award, cost must be adequately documented. Additionally, OMB Circular A-122, Attachment B, Paragraph 2 states that "[c]osts of alcoholic beverages are unallowable."

Sister Cities' managers said they were new to the organization, and that these unsupported and alcoholic beverage charges resulted from transactions processed by program and financial officers who were no longer with the organization. Therefore, they could not explain the reason for their occurrence and the lack of supporting documentation.

The inclusion of the unsupported and unallowable cost elements identified above in the indirect cost pool, and thus in the indirect cost rate computation, increases the indirect cost rates. This increase, in turn, resulted in higher indirect cost amounts being charged to federal grants.

Table 1: Sister Cities' Proposed Indirect Cost Rates and Our Recommended Rates

Fiscal Year	Sister Cities International Inc.'s Proposed Rate	Recommended Rate
2006	(b) (4)	(b) (4)
2005	(b) (4)	(b) (4)
2004	(b) (4)	(b) (4)
2003	(b) (4)	(b) (4)

Attachments A through E 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 2006, 2005, 2004, and 2003 indirect cost rates as recommended in 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 Sister Cities International, Inc.'s proposed indirect cost rates for the fiscal years ended December 31, 2006, 2005, 2004, and 2003, 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 Sister Cities International, Inc. 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
November 16, 2007

Sister Cities International, Inc.

**Summary of Indirect Costs and Indirect Cost Rates
for the Years Ended December 31, 2006, 2005, 2004, and 2003**

Fiscal Year	Indirect Cost Amount		Indirect Cost Base	Indirect Cost Rates	
	Proposed	Recommended		Proposed	Recommended
2006	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
2005	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
2004	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
2003	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)

Sister Cities International, Inc.

**Schedule of Allowable Indirect Costs and Rate
for the Year Ended December 31, 2006**

<u>Total Expenses per Audited Financial Statement</u>	Amount		
	<u>Claimed</u>	<u>Unallowable</u>	<u>Allowable</u>
Salaries, taxes, and related benefits	(b) (4)		(b) (4)
Accounting and legal	(b) (4)		(b) (4)
Office supplies and expense	(b) (4)		(b) (4)
Telecommunications	(b) (4)		(b) (4)
Postage and shipping	(b) (4)		(b) (4)
Occupancy	(b) (4)		(b) (4)
Equipment rental and maintenance	(b) (4)		(b) (4)
Printing and publications	(b) (4)		(b) (4)
Travel	(b) (4)		(b) (4)
Conferences, conventions and meetings	(b) (4)		(b) (4)
50th Anniversary	(b) (4)		(b) (4)
Depreciation	(b) (4)		(b) (4)
Grants to affiliates	(b) (4)		(b) (4)
Insurance	(b) (4)		(b) (4)
Consulting	(b) (4)		(b) (4)
Interns	(b) (4)		(b) (4)
Computer and website	(b) (4)		(b) (4)
Other	(b) (4)		(b) (4)
Subtotal	(b) (4)		(b) (4)
Less:			
Total direct program expenses	(b) (4)(b) (4)		(b) (4)(b) (4)
Fundraising	(b) (4)		(b) (4)
In-kind expenses	(b) (4)		(b) (4)
Total Adjusted Indirect Costs (Numerator)	(b) (4)		(b) (4)
Total Adjusted Direct Costs (Denominator)	(b) (4)		(b) (4)
Indirect Cost Rate	(b) (4)		(b) (4)

Sister Cities International, Inc.

**Schedule of Allowable Indirect Costs and Rate
for the Year Ended December 31, 2005**

<u>Total Expenses Per Audited Financial Statement</u>	Amount		
	<u>Claimed</u>	<u>Unallowable</u>	<u>Allowable</u>
Salaries, taxes, and related benefits	(b) (4)	(b)	(b) (4)
Accounting and legal	(b) (4)	'^	(b) (4)
Office supplies and expense	(b) (4)		(b) (4)
Telecommunications	(b) (4)		(b) (4)
Postage and shipping	(b) (4)		(b) (4)
Occupancy	(b) (4)		(b) (4)
Equipment rental and maintenance	(b) (4)		(b) (4)
Printing and publications	(b) (4)		(b) (4)
Travel	(b) (4)	2,901	(b) (4)
Conferences, conventions and meetings	(b) (4)	495	(b) (4)
Depreciation	(b) (4)		(b) (4)
Grants to affiliates	(b) (4)		(b) (4)
Insurance	(b) (4)		(b) (4)
Consulting	(b) (4)		(b) (4)
Interest	(b)		(b)
Professional services	(b) (4)		(b) (4)
Computer and website	(b) (4)		(b) (4)
Other	(b) (4)		(b) (4)
Subtotal	(b) (4)	<u>\$3,691</u>	(b) (4)
Less:			
Total direct program expenses	(b) (4)(b) (4)		(b) (4)(b) (4)
Fundraising	(b) (4)		(b) (4)
Advocacy	(b) (4)		(b) (4)
In-kind expenses	(b) (4)		(b) (4)
Unallowable	(b)		(b)
Total Adjusted Indirect Costs (Numerator)	(b) (4)	<u>\$3,691</u>	(b) (4)
Total Adjusted Direct Costs (Denominator)	(b) (4)		(b) (4)
Indirect Cost Rate	(b) (4)		(b) (4)

Sister Cities International, Inc.

Schedule of Allowable Indirect Costs and Rate
for the Year Ended December 31, 2004

<u>Total Expenses Per Audited Financial Statement</u>	<u>Amount</u>		
	<u>Claimed</u>	<u>Unallowable</u>	<u>Allowable</u>
Salaries, taxes, and related benefits	(b) (4)	\$28,089	(b) (4)
Accounting and legal	(b) (4)		(b) (4)
Office supplies and expense	(b) (4)		(b) (4)
Telecommunications	(b) (4)		(b) (4)
Postage and shipping	(b) (4)		(b) (4)
Occupancy	(b) (4)		(b) (4)
Equipment rental and maintenance	(b) (4)		(b) (4)
Printing and publications	(b) (4)		(b) (4)
Travel	(b) (4)	13	(b) (4)
Conferences, conventions and meetings	(b) (4)		(b) (4)
Depreciation	(b) (4)		(b) (4)
Grants to affiliates	(b) (4)		(b) (4)
Insurance	(b) (4)		(b) (4)
Consulting	(b) (4)		(b) (4)
Interest	(b)		(b)
Professional services	(b) (4)		(b) (4)
Computer and website	(b) (4)		(b) (4)
Other	(b) (4)	<u>2,265</u>	(b) (4)
Subtotal	(b) (4)	\$30,367	(b) (4)
Less:			
Total direct program expenses	(b) (4)(b) (4)		(b) (4)(b) (4)
Fundraising	(b) (4)		(b) (4)
Advocacy	(b) (4)		(b) (4)
In-kind expenses	(b) (4)		(b) (4)
Total Adjusted Indirect Costs (Numerator)	(b) (4)	<u>\$30,367</u>	(b) (4)
Total Adjusted Direct Costs (Denominator)	(b) (4)		(b) (4)
Indirect Cost Rate	(b) (4)		(b) (4)

Sister Cities International, Inc.

**Schedule of Allowable Indirect Costs and Rate
for the Year Ended December 31, 2003**

<u>Total Expenses Per Audited Financial Statement</u>	Amount		
	<u>Claimed</u>	<u>Unallowable</u>	<u>Allowable</u>
Salaries, taxes and related benefits	(b) (4)	\$1,803	(b) (4)
Accounting and legal	(b) (4)		(b) (4)
Office supplies and expense	(b) (4)		(b) (4)
Telecommunications	(b) (4)	86	(b) (4)
Postage and shipping	(b) (4)		(b) (4)
Occupancy	(b) (4)		(b) (4)
Equipment rental and maintenance	(b) (4)		(b) (4)
Printing and publications	(b) (4)		(b) (4)
Travel	(b) (4)	1,021	(b) (4)
Conferences, conventions and meetings	(b) (4)		(b) (4)
Depreciation	(b) (4)		(b) (4)
Grants to affiliates	(b) (4)		(b) (4)
Insurance	(b) (4)		(b) (4)
Consulting	(b) (4)		(b) (4)
Interest	(b) (4)		(b) (4)
Professional services	(b) (4)		(b) (4)
Computer and website	(b) (4)		(b) (4)
Other	(b) (4)		(b) (4)
Subtotal	(b) (4) -	\$2,910	(b) (4) -
Less:			
Total direct program expenses	(b) (4)		(b) (4)
Fundraising	(b) (4)		(b) (4)
In-kind expenses	(b) (4)		(b) (4)
Unallowable	(b) (4)		(b) (4)
Total Adjusted Indirect Costs (Numerator)	(b) (4)	<u>\$2,910</u>	(b) (4)
Total Adjusted Direct Costs (Denominator)	(b) (4)		(b) (4)
Indirect Cost Rate	(b) (4)		(b) (4)