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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 International Center

Report Number AUD/CG-07-21, August 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

AUG 16 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 International Center's proposed indirect cost rates for years ended December 31, 2005, 2004, and 2003, complied with applicable regulations. We found the Center's accounting system to be adequate for accumulating and reporting indirect costs under the provisions of the Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*, and OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*.

Our review disclosed that for the years ended December 31, 2005, 2004, and 2003, the indirect costs rates reported by the Center were properly calculated, with the exception of the noted modification to the Center's 2004 proposed rate identified in Table 1 of this report. Table 1 identifies our recommended rates and the change to the year ended December 31, 2004, indirect cost rate, which we adjusted to account for a computation error by the Center. We recommend that the Department accept and finalize the indirect cost rates for the years ended December 31, 2005, 2004, and 2003, as recommended by this report.

Background

The International Center is a Washington, DC-based 501(c) 3 nonprofit organization, which was founded in 1977 to focus on issues between the United States and the developing world. Since its inception, the Center has had projects in Asia, Africa, Latin-America, and with the former Soviet Union. In October 2003, the Center entered into an agreement to transfer certain activities to a new nonprofit organization, International Action, Inc.

The Center currently coordinates three core programs: (1) the U.S.-Vietnam Trade Council Education Forum, which works to achieve full economic and diplomatic normalization of U.S.-Vietnamese relations through education, capacity-building, and private-sector engagement; (2) the New Forests Project which supports renewable self-sustaining grassroots efforts in agro forestry, reforestation, protection of watersheds, water and sanitation, and renewable energy initiatives; and (3) the U.S.-ASEAN (Association of Southeast Asian Nations) Business Council Education Forum that works through public and private partnership programs to enhance dialogue, understanding, and governance of global trade issues among the United States, ASEAN, and its member countries.

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.

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

Purpose, Scope, and Methodology

Our primary purpose was to determine whether the Center's indirect cost structures for the years ended December 31, 2005, 2004, and 2003, complied with applicable regulations. In agreement with OIG, we performed the procedures identified below. We conducted this review between December 4, 2006, and January 31, 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 the Center's overall financial statements for the years ended December 31, 2005, 2004, and 2003.
- Verified the mathematical accuracy of the annual indirect cost rate proposals
- 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 whether the Center, where applicable, properly excluded unallowable costs from the cost pools used in computing the indirect cost rates.
- Reviewed the Center's grants and its negotiated indirect cost rate agreements to ascertain whether the Center's annual rate submissions were prepared in accordance with the grant's terms and provisions of the rate agreements.

Results

We found the Center’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 the years ended December 31, 2005, 2004, and 2003, the indirect costs rates reported by the Center were properly calculated, except for the Center’s proposed rate for the year ended December 31, 2004, identified in Table 1. As shown by our recommended rate, we revised the administrative indirect cost rate for the year ended December 31, 2004, to adjust for an addition error by the Center in the amounts for the “total allowable direct program costs.”

Table 1: The Center’s Proposed and Our Recommended Rates

Fiscal Year	Description	Center’s Proposed Rate	Recommended Rate
2005	Administrative	(b) (4)	(b) (4)
2004	Administrative	(b) (4)	(b) (4)
2003	Administrative	(b) (4)	(b) (4)

Attachments A through C 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 indirect cost rates for the years ended December 31, 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

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 International Center's (the Center's) proposed indirect cost rates for the years ended December 31, 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 the Center 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 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
January 31, 2007

The International Center

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

<u>Indirect Costs</u>	<u>Allowable Costs</u>
Salaries	(b) (4)
Fringe Benefits	(b) (4)
Copying/Printing	(b) (4)
Depreciation and Amortization	(b) (4)
Insurance	(b) (4)
Leases/Rents	(b) (4)
Meetings/Seminars	(b) (4)
Office Supplies	(b) (4)
Postage/Delivery	(b) (4)
Professional Fees/Outside Services	(b) (4)
Reference Materials	(b)
Repairs/Maintenance	(b) (4)
Taxes	(b) (4)
Telephone	(b) (4)
Travel	(b) (4)
Utilities	(b) (4)
Total Allowable Indirect Costs (Numerator)	<u>(b) (4)</u>
 Allowable Direct Program Costs	
General Program	(b) (4)
New Forests Program	(b) (4)
Vietnam Program	(b) (4)
Fundraising	(b) (4)
Total Allowable Direct Program Costs (Denominator)	<u>(b) (4)</u>
 Indirect Cost Rate	(b) (4)

The International Center

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

<u>Indirect Costs</u>	<u>Allowable Costs</u>
Salaries	(b) (4)
Fringe Benefits	(b) (4)
Copying/Printing	(b)
Depreciation and Amortization	(b) (4)
Insurance	(b) (4)
Leases/Rents	(b) (4)
Meetings/Seminars	(b) (4)
Office Supplies	(b) (4)
Postage/Delivery	(b) (4)
Professional Fees/Outside Services	(b) (4)
Reference Materials	(b)
Repairs/Maintenance	(b) (4)
Taxes	(b) (4)
Telephone	(b) (4)
Travel	(b) (4)
Utilities	(b) (4)
Total Allowable Indirect Costs (Numerator)	<u>(b) (4)</u>
 Allowable Direct Program Costs	
New Forests Program	(b) (4)
Vietnam Program	(b) (4)
US Vietnam Trade Council	(b) (4)
Fundraising	(b) (4)
Total Allowable Direct Program Costs (Denominator)*	<u>(b) (4)</u>
 Indirect Cost Rate	(b) (4)

* The Center made a mathematical error in adding up the amounts for the "Total Allowable Direct Program Costs." (b) (4)(b) (4)(b) (4)(b) (4)(b) (4)(b) (4)(b) (4)(b) (4) (b) (4)(b) (4)(b) (4) Using the corrected amount, we recomputed the administrative indirect cost rate for the year ended December 31, 2004. The adjustment resulted in a slight increase in the indirect cost rate over the Center's proposed rate.

The International Center

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

<u>Indirect Costs</u>	<u>Allowable Costs</u>
Salaries	(b) (4)
Fringe Benefits	(b) (4)
Copying/Printing	(b) (4)
Depreciation and Amortization	(b) (4)
Insurance	(b) (4)
Leases/Rents	(b) (4)
Meetings/Seminars	(b) (4)
Office Supplies	(b) (4)
Postage/Delivery	(b) (4)
Professional Fees/Outside Services	(b) (4)
Reference Materials	(b) (4)
Repairs/Maintenance	(b) (4)
Taxes	(b) (4)
Telephone	(b) (4)
Travel	(b) (4)
Utilities	(b) (4)
Total Allowable Indirect Costs (Numerator)	<u>(b) (4)</u>
 Allowable Direct Program Costs	
International Action	(b) (4)
New Forests Program	(b) (4)
Vietnam Program	(b) (4)
U.S.-Vietnam Trade Council	(b) (4)
Fundraising	(b) (4)
Total Allowable Direct Program Costs (Denominator)	<u>(b) (4)</u>
 Indirect Cost Rate	(b) (4)