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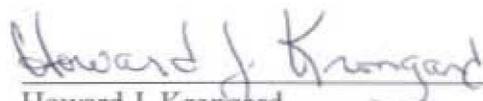
**United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General**

Office of Audits

**Agreed-Upon Procedures on Indirect Cost Rates
Proposed by
National Democratic Institute for International Affairs**

Report Number AUD/CG-07-05, December 2006

Leonard G. Birnbaum and Company, LLP, Certified Public Accountants, performed these Agreed-Upon Procedures under Department of State, Office of Inspector General, Contract No. S-AQM-PD-04-D0033, and by its acceptance, this report becomes a product of the Office of Inspector General.


Howard J. Krongard
Inspector General


Date

Important Notice

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Summary

As part of the overall audit of the National Endowment for Democracy, the Office of Inspector General (OIG) contracted with Leonard G. Birnbaum and Company, LLP, to perform agreed-upon procedures on indirect cost rates submitted by the National Democratic Institute for International Affairs (NDI) for the year ended September 30, 2005. The objective was to provide recommended final rates for that year for use in reimbursing costs incurred under awards made to NDI by the Department of State (Department). We took no exceptions to the proposed rates.

Recommendation 1: We recommend that the Department use the rates set forth on Exhibit A for purposes of determining the final costs incurred by NDI during the year ended September 30, 2005, under awards made by the Department to NDI.

Background

NDI is a nonprofit organization working to strengthen and expand democracy worldwide. Calling on a global network of volunteer experts, NDI provides practical assistance to civic and political leaders, advancing democratic values, practices, and institutions. NDI works with democrats in every region of the world to build political and civic organizations; safeguard elections; and promote citizen participation, openness, and accountability in government. It is one of the National Endowment for Democracy's core institutes. As provided under subparagraph E.2.a of Attachment A to OMB Circular A-122, the Department has been designated as the cognizant agency for the negotiation and approval of NDI's indirect cost rates for application to all federal awards.

Purpose, Scope, and Methodology

We performed this agreed-upon procedures engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of OIG. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or any other purpose. The procedures we performed are summarized as follows:

1. We verified that the indirect cost rate claimed was mathematically correct and supported by NDI's accounting records and audited financial statements;
2. We assessed the allowability and allocability of the indirect costs by testing selected transactions to supporting documentation and inquiring about the nature and functions of entities included in the indirect cost pools;
3. We assessed the causal and beneficial relationship between the claimed indirect costs and incurred direct costs;

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4. We analyzed the allowability and allocability of accounts comprising NDI's fringe benefit pool and calculated a recommended fringe benefit rate;
5. We reviewed NDI's general ledger to determine whether NDI had received income properly credited to the indirect cost or fringe benefit pools; and
6. We inquired about NDI's applicable fiscal year operations and assessed the impact of recent or pending changes on the indirect cost structure.

The above procedures do not constitute an audit conducted in accordance with generally accepted auditing standards or *Government Auditing Standards*; thus, we do not express an opinion on the adequacy and compliance of the reviewed cost or pricing data. In connection with the procedures referred to above, no matters came to our attention that caused us to believe that there were significant inadequacies or noncompliance related to the areas reviewed. This report relates only to the rates specified above.

Leonard G. Birnbaum and Company, LLP



Leslie A. Leiper, Senior Partner

**National Democratic Institute for International Affairs
Summary of Proposed and Recommended Overhead and Fringe Benefit Rates
for the Year Ended September 30, 2005**

	U.S. Fringe <u>Benefits</u> (Note 1)	TCN Fringe <u>Benefits</u> (Note 2)	<u>Overhead</u> (Note 3)
Expense Pool	(b) (4)	(b) (4)	(b) (4)(b) (4)
Allocation Base	(b) (4)	(b) (4)	(b) (4)
Rate	(b) (4)	(b) (4)	(b) (4)

Notes

1. Applicable to total U.S. salaries and wages excluding compensated absences.
2. Applicable to total TCNs salaries and wages excluding compensated absences.
3. Applicable to modified total direct costs, consisting of all salaries and wages, fringe benefits, materials and supplies, contracted services, occupancy, travel, and subgrants and subcontracts up to the first \$25,000 of each subgrant and subcontract (regardless of the period covered by the subgrant or subcontract). Equipment, capital expenditures, donated services, and that portion of each subgrant and subcontract in excess of \$25,000 shall be excluded from the base.