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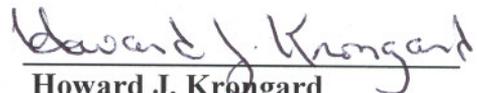
United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General

Office of Audits

Independent Accountants' Report on the
Application of Agreed-Upon Procedures on Indirect Cost Rates
Proposed by Sabre Foundation, Inc.

Report Number AUD/CG-07-24, April, 2007

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


Howard J. Krøngard
Inspector General


Date

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Summary

At the request of the Department of State (Department), Office of Inspector General (OIG), L.F. Harris & Associates, CPA, P.A., performed certain agreed-upon procedures to determine whether Sabre Foundation, Inc.'s proposed indirect cost rates for the years ended December 31, 2003, 2004, and 2005, complied with applicable regulations. We found the Foundation's accounting system to be adequate for accumulating and reporting indirect costs under the provisions of Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*, and Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*. Our review takes exception to the rates reported by the Foundation for the years ended December 31, 2003, 2004, and 2005, and recommends that the Department accept and finalize the indirect cost rates for these years as recommended in Table 1 of this report.

Background

The Foundation was established in 1969 as a tax-exempt organization devoted to the philosophy and practice of free institutions. It is exempt from tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation raises funds on a project-by-project basis. Its support has come from a wide variety of individual philanthropists, business corporations, private foundations, and public bodies. The Foundation's Book Program provides library support and in-kind donations of educational materials to developing and transitional societies worldwide. Book donations are negotiated with tax-exempt organizations and overseas equivalent organizations that ensure reliable distribution. The corporate office and warehouse space are located in Cambridge, MA.

The Foundation entered into three cooperative agreements numbered S-IIPIP-03-GR-158DH, S-IIPIP-05-GR-901DH, and S-IIPIP-03-GR-192DH (agreements) with the Department. Under the agreements, the Foundation received federal awards in the amounts of \$200,000 each, for a cumulative total of \$600,000. The Department gave the Foundation permission to use provisional indirect cost rates based on projected financials. Provisional rates are temporary rates used for funding and billing indirect costs pending the establishment of a final rate for a specified time period. The agreements specify that the Foundation is subject to the requirements of OMB Circulars A-110, A-122, and A-133, *Compliance Supplement*.

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Purpose, Scope, and Methodology

The primary purpose of this agreed-upon procedures engagement was to determine whether the Foundation's indirect cost structure for FYs 2003, 2004, and 2005 complied with applicable regulations. We conducted the testing and assessment at the Foundation's office in Cambridge, MA, from December 18 to December 22, 2006.

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 not-for-profit organizations. The principles are for the purpose of cost determination and are designed to provide 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 one 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 one 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 benefits federal programs. Such costs should be combined into groups or pools and should be distributed to benefit 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 not-for-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:

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;
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 comprising the Foundation's fringe benefit pool and calculating a recommended fringe benefit rate;
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, performed an assessment of risk, and tested internal controls.
2. For direct costs, we determined whether the organization 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 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 organization, and (ii) applied consistently to the proper allocation bases; and
 - c. the organization complied with the provisions of OMB Circular A-122 as follows:
 - i. Charges to indirect cost pools were for allowable costs.
 - ii. The base used to distribute indirect costs included both allowable and unallowable costs.
 - iii. The cost allocation methodology provided 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 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

The Foundation meets the criteria to use the simplified allocation method, as outlined in OMB Circular A-122, resulting in a single indirect cost rate. We found that the Foundation's accounting system was adequate to properly identify and segregate direct and indirect costs as well as allowable and unallowable costs for the years ended December 31, 2003, 2004, and 2005.

The following table represents the indirect cost rates as proposed by the Foundation and the recommended indirect costs rates as recomputed by us:

Table 1: Foundation's Proposed and Our Recommended Rates

Fiscal Year	Description	Foundation Proposed Rates	Our Recommended Rate
2005	General and Administrative	(b) (4)	(b) (4)
2004	General and Administrative	(b) (4)	(b) (4)
2003	General and Administrative	(b) (4)	(b) (4)

Attachments A, B, and C of this report present a listing of the indirect costs and the supporting calculations for the recommended indirect cost rates identified in the table above.

Recommendation: We recommend that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management accept and finalize Sabre Foundation, Inc.'s indirect cost rates for FYs 2003, 2004, and 2005, based on the recommended rates included in this report.



Certified Public Accountants

**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. State Department, were performed solely to assist the Office of Inspector General, U.S. State Department in determining whether the Foundation's indirect cost rate structure complied with Office of Management and Budget Circular A-122 for the years ended December 31, 2003, 2004, and 2005.

The Foundation'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 Scope and Methodology section of this report either for the purpose for which this report has been requested or for any other purpose. Our Procedures resulted in our recommending indirect cost rates that differ from those proposed by the Foundation.

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.

A handwritten signature in cursive script that reads "L.F. Harris & Associates".

L.F. Harris & Associates, CPA, P.A.
December 22, 2006

Sabre Foundation, Inc.
Schedule of Indirect Costs Allowable and Indirect Cost Rates
for the Year Ended December 31, 2003

Indirect Costs	Allowable Costs
Salaries	(b) (4)
Payroll taxes and benefits	(b) (4)
Consulting fees	(b) (4)
Travel	(b)
Communications	(4)(b)
Legal and accounting	(b) (4)
Supplies	(b)
Equipment rental and lease	(4)(b)
Postage	(b)(4)
Printing and publications	(b)
Conferences and meetings	(b)
Insurance	(b)
Other	(b)
Total Administrative Indirect Costs Allowable	<u>(b) (4)</u>

Allocation Base:	
Total adjusted direct expenses (net of in-kind)	(b) (4)
Add: Unallowable activities	(b) (4)
Total Adjusted Direct Expenses	<u>(b) (4)</u>

Indirect Rate Calculation:		
Administration: Total Administrative Indirect	(b) (4)	
Costs Allowable/Total Adjusted Direct Expenses	(b) (4)	= (b) (4)

Sabre Foundation, Inc.
Schedule of Indirect Costs Allowable and Indirect Cost Rates
for the Year Ended December 31, 2004

Indirect Costs	Allowable Costs
Salaries	(b) (4)
Payroll taxes and benefits	
Consulting fees	
Travel	
Communications	
Legal and accounting	
Supplies	
Equipment rental and lease	
Postage	
Printing and publications	(b) 7
Conferences and meetings	(4)
Insurance	
Other	
Total Administrative Indirect Costs Allowable	(b) (4) —
 Allocation Base:	
Total adjusted direct expenses (net of in-kind)	(b) (4)
Add: Unallowable activities	(b) (4) —
Total Adjusted Direct Expenses	(b) (4) —
 Indirect Rate Calculation:	
Administration: Total Administrative Indirect	(b) (4) —
Costs Allowable/Total Adjusted Direct Expenses	(b) (4) = (b) (4)

Sabre Foundation, Inc.
Schedule of Indirect Costs Allowable and Indirect Cost Rates
for the Year Ended December 31, 2005

Indirect Costs	Allowable Costs
Salaries	(b) (4)
Payroll taxes and benefits	(b) (4)
Consulting fees	(b) (4)
Travel	(b)
Communications	(b)
Legal and accounting	(b) (4)
Supplies	(b)
Equipment rental and lease	(b)
Postage	(b)
Printing and publications	(b) (4)
Conferences and meetings	(b)
Insurance	(b)
Other	(b)
Total Administrative Indirect Costs Allowable	(b) (4) —
 Allocation Base:	
Total adjusted direct expenses (net of in-kind)	(b) (4)
Add: Unallowable activities	(b) (4) —
Total Adjusted Direct Expenses	—
 Indirect Rate Calculation:	
Administration: Total Administrative Indirect Costs Allowable/Total Adjusted Direct Expenses	— =