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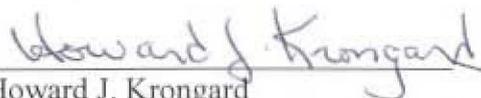
United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General

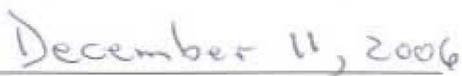
Office of Audits

Agreed-Upon Procedures on Indirect Cost Rates
Proposed by
National Endowment for Democracy

Report Number AUD/CG-07-02, 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 audit of the National Endowment for Democracy (NED), 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 NED for the years ended September 30, 2004 and September 30, 2005. The objective was to provide recommended final rates for those two years for use in reimbursing costs incurred under awards made to NED by the Department of State (Department). During our review, NED revised its proposed indirect rates. We took no exception to the revised rates, which are those presented on Exhibit A.

Recommendation 1: We recommend that the Department use the rates set forth on Exhibit A for purposes of determining the final costs incurred by NED during the years ended September 30, 2004 and 2005, under awards made by the Department to NED.

Background

NED is a private, not-for-profit organization headquartered in Washington, DC, that was established coincident to a grant awarded by the former U.S. Information Agency (USIA) as mandated by the National Endowment for Democracy Act (P.L. 98-164). The purpose of NED is to encourage free and democratic institutions throughout the world through activities that promote individual rights and freedoms. NED awards grants to organizations with programs consistent with its objectives. On October 1, 1999, USIA and the Department consolidated. Accordingly, NED receives funding for its annual congressional appropriation and other special federal funding from the Department. 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 NED'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 NED'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;

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3. We assessed the causal and beneficial relationship between the claimed indirect costs and incurred direct costs;
4. We analyzed the allowability and allocability of accounts comprising NED's fringe benefit pool and calculated a recommended fringe benefit rate;
5. We reviewed NED's general ledger to determine whether NED had received income properly credited to the indirect cost or fringe benefit pools; and
6. We inquired about NED'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 Endowment for Democracy
Summary of Proposed and Recommended Overhead and Fringe Benefit Rates
for the Years Ended September 30, 2004 and September 30, 2005

	<u>Fringe</u> <u>Benefits</u> (Note 1)	<u>Overhead</u> (Note 2)
<u>2004</u>		
Expense Pool	(b) (4)	(b) (4)
Allocation Base	(b) (4)	(b) (4)
Rate	(b) (4)	(b) (4)
<u>2005</u>		
Expense Pool	(b) (4)	(b) (4)
Allocation Base	(b) (4)	(b) (4)(b) (4)
Rate	(b) (4)	(b) (4)

Notes

1. Applicable to total salaries and wages excluding compensated absences.
2. Applicable to modified total direct costs, consisting of salaries and wages, fringe benefits, other direct costs, and subrecipient awards.