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

# Office of Audits

## **Review of the Center for Cultural and Technical Interchange Between East and West, Inc.'s Indirect Cost Rates for Fiscal Years 1999 Through 2005**

**Report Number AUD/CG-07-15 March 2007**

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### **Summary**

In coordination with the Department of State (Department), Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM), the Office of Inspector General (OIG) conducted a review of indirect cost rates for the fiscal years ending September 30, 1999, through 2005 for the Center for Cultural and Technical Interchange Between East and West, Inc. (East-West Center). OIG's primary purpose was to determine whether the rates and cost principles used were in compliance with pertinent Office of Management and Budget (OMB) circulars. OIG took no exception to the East-West Center's indirect cost rates.

OIG found that the indirect cost rates reported by the East-West Center in its annual audit reports for the stated periods complied with applicable regulations. Moreover, tracing components of the indirect cost rates to the audited financial statements did not disclose any matters that significantly affected the indirect cost rates. OIG recommended that A/LM/AQM use the recommended rates set forth in Schedules 1 through 7 of this report in finalizing the indirect cost rates.

OIG found that the East-West Center did not submit its indirect cost rate proposals in accordance with the provisions of OMB Circular A-122, *Cost Principles for Non-Profit Organizations*. The circular requires organizations that have previously established indirect cost rates to submit a new indirect cost rate proposal package to the cognizant agency within six months after the close of each fiscal year. OIG recommended that A/LM/AQM require the East-West Center to submit indirect cost rate proposals to the Department within six months after the close of each fiscal year.

OIG conducted an exit conference with East-West Center officials at the conclusion of the fieldwork on August 28, 2006. Their comments are incorporated in this report as applicable.

### **Background**

The East-West Center is a not-for-profit education and research organization established by the U.S. Congress in 1960. The purpose of the East-West Center is to promote better relations and understanding between the United States and the nations of Asia and the Pacific through programs of cooperative study, research, training, and other outreach programs.

For the fiscal years reviewed, the East-West Center received between 70 and 94 percent of its financial support from congressional appropriations under the terms of a grant agreement with the Department. The East-West Center received the remaining financial support through grants, contracts, and cost-sharing contributions from other federal agencies, foreign governments, private foundations, businesses, and individuals.

The Department is the cognizant agency responsible for the determination and establishment of the indirect cost rates for the East-West Center. OMB established the cognizant agency concept, whereby a single agency represents all others in dealing with grantees in common areas. The cognizant agency reviews and approves grantees' indirect cost rates. The

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East-West Center has a combined indirect cost rate for allocating indirect costs to federal programs, which consists of a General & Administrative (G&A) rate and a Facilities rate.

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. Final indirect cost rates are applicable to specific past periods and are based on the actual costs of the period. Underpayments resulting from application of the provisional rate are subject to the availability of funds, while overpayments must be credited or returned.

The Department's Grants Policy Directive 22, Indirect Costs, issued by the Bureau of Administration, Office of the Procurement Executive, assigns responsibility for negotiating and establishing indirect cost rates with Department grantees to the International Program Division within A/LM/AQM.

For the fiscal years ended September 30, 1999, through 2005, the East-West Center's auditors rendered an unqualified opinion on the East-West Center's audit of federal awards, as governed by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, the auditors found that the East-West Center complied, in all material respects, with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs in accordance with auditing standards applicable to financial audits contained in *Government Auditing Standards* and Circular A-133.

### **Purpose, Scope, and Methodology**

OIG's primary purpose was to determine whether the indirect cost rate structure for fiscal years ending September 30, 1999, through 2005 complied with the pertinent OMB circulars. OIG performed its review in accordance with *Government Auditing Standards*. For the fiscal years ending September 30, 2003, through 2005, OIG performed the procedures listed below. For the fiscal years ending September 30, 1999, through 2002, OIG did not select and test specific items, as it had not identified any material issues concerning the items it had selected and tested for FYs 2003 through 2005. OIG's review did not constitute an audit. Had OIG performed an audit, other matters might have come to its attention. OIG performed its review by:

- determining whether the indirect cost rate structure complied with OMB Circulars A-122 and A-133;
- verified the mathematical accuracy of the computation of the indirect cost rates claimed for each year;
- reviewed and traced components of the indirect cost rates to the audited financial statements for FYs 1999 through 2005 to determine whether there were any issues or matters that might affect the indirect cost rates; and

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- selected and tested items in the indirect cost pools for FYs 2003, 2004, and 2005.

OIG conducted fieldwork in Honolulu, Hawaii, from August 14 through August 29, 2006. The Office of Audits, Contracts and Grants Division conducted this review.

**Results**

OIG found that the indirect cost rates reported by the East-West Center in its annual audit reports for the stated periods complied with regulations. In connection with tracing the components of the indirect cost rates to the audited financial statements for the stated review periods, no matters came to OIG's attention that significantly affected the indirect cost rates. The East-West Center's indirect costs reported in its OMB Circular A-133 reports for FYs 1999 through 2005 were mathematically correct and were in accordance with the requirements of the circular. However, the East-West Center has not had its indirect cost rates finalized since FY 1998. The grantee does not have finalized indirect cost rates for FYs 1999 through 2005. Table 1 provides a summary of the G&A and Facilities indirect cost pools for FYs 1999 through 2005.

**Table 1: Summary of East-West Center's G&A and Facilities Indirect Cost Pools (FYs 1999-2005)**

<b>Fiscal Year</b>	<b>Claimed &amp; Recommended G&amp;A Rate</b>	<b>Claimed &amp; Recommended Facilities Rate</b>	<b>Combined Claimed &amp; Recommended Rate</b>
1999	(b) (4)	(b) (4)	(b) (4)
2000	(b) (4)	(b)	(b) (4)
2001	(b) (4)	(b)	(b) (4)
2002	(b) (4)	(b)	(b) (4)
2003	(b) (4)	(b)	(b) (4)
2004	(b) (4)	(b)	(b) (4)
2005	(b) (4)	(b)	(b) (4)

The East-West Center submitted a provisional indirect cost rate proposal for the fiscal year ending September 30, 2003, requesting an increased provisional rate. However, for FYs 1999 through 2005, the East-West Center did not submit final indirect cost proposal packages in accordance with the provisions of OMB Circular A-122. The circular requires organizations that have previously established indirect cost rates to submit a new indirect cost rate proposal package to the cognizant agency within six months after the close of each fiscal year.

**Recommendation 1:** OIG recommends that the grants officer for the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management finalize the indirect cost rates for fiscal years 1999 through 2005 using the recommended rates and require the Center for Cultural and Technical Interchange Between East and West, Inc., to make the necessary accounting adjustments.

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**Recommendation 2:** OIG recommends that the grants officer for the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management require the Center for Cultural and Technical Interchange Between East and West, Inc., to comply with Office of Management and Budget Circular A-122 by submitting final indirect cost rate proposals within six months after the close of each fiscal year.

**East-West Center  
Combined Indirect Cost Rate Schedule  
Fiscal Year Ended September 30, 1999**

<b>FY 1999 Administrative Indirect Cost Pool</b>			
<b>Description</b>	<b>Claimed</b>	<b>Questioned</b>	<b>Recommended</b>
Program on Environment	(b) (4)		(b) (4)
Program on Population	(b) (4)		(b) (4)
Pacific Islands Development Program	(b) (4)		(b) (4)
Center Research Programs	(b) (4)		(b) (4)
Education and Training Program	(b) (4)		(b) (4)
Board of Governors and International Advisory Panel	(b) (4)		(b) (4)
Office of The President	(b) (4)		(b) (4)
Office of Administration	(b) (4)		(b) (4)
<b>Subtotal</b>	(b) (4)		(b) (4)
Depreciation - General & Administrative	(b) (4)		(b) (4)
<b>Total Indirect Cost Pool</b>	(b) (4)		(b) (4)
<b>Direct Cost Base</b>	(b) (4)(b) (4)		(b) (4)(b) (4)
<b>Administrative Indirect Cost Rate</b>	(b) (4)	<b>0</b>	(b) (4)

<b>FY 1999 Facilities Indirect Cost Pool</b>			
<b>Description</b>	<b>Claimed</b>	<b>Questioned</b>	<b>Recommended</b>
Plant Operations	(b) (4)		(b) (4) 0
Depreciation - Facilities	(b) (4)		(b) (4)
<b>Total Indirect Cost Pool</b>	(b) (4)		(b) (4)
<b>Direct Cost Base</b>	(b) (4)(b) (4)		(b) (4)(b) (4)
<b>Facilities Indirect Cost Rate</b>	(b) (4)	<b>0</b>	(b) (4)
<b>Combined Facilities &amp; Administrative Rate</b>	(b) (4)	<b>0</b>	(b) (4)

**East-West Center  
Combined Indirect Cost Rate Schedule  
Fiscal Year Ended September 30, 2000**

<b>FY 2000 Administrative Indirect Cost Pool</b>			
<b>Description</b>	<b>Claimed</b>	<b>Questioned</b>	<b>Recommended</b>
Center Research Programs	(b) (4)		(b) (4)
Pacific Islands Development Program	(b) (4)		(b) (4)
Education and Training Program	(b) (4)		(b) (4)
Office of External Affairs	(b) (4)		(b) (4)
Board of Governors and International Advisory Panel	(b) (4)		(b) (4)
Office of The President	(b) (4)		(b) (4)
Office of Administration	(b) (4)		(b) (4)
<b>Subtotal</b>	(b) (4)		(b) (4)
Depreciation – General & Administrative	(b) (4)		(b) (4)
<b>Total Indirect Cost Pool</b>	(b) (4)		(b) (4)
<b>Direct Cost Base</b>	(b) (4)(b) (4)		(b) (4)(b) (4)
<b>Administrative Indirect Cost Rate</b>	(b) (4)	<b>0</b>	(b) (4)

<b>FY 2000 Facilities Indirect Cost Pool</b>			
<b>Description</b>	<b>Claimed</b>	<b>Questioned</b>	<b>Recommended</b>
Plant Operations	(b) (4)		(b) (4)
Depreciation – Facilities	(b) (4)		(b) (4)
<b>Total Indirect Cost Pool</b>	(b) (4)		(b) (4)
<b>Direct Cost Base</b>	(b) (4)(b) (4)		(b) (4)(b) (4)
<b>Facilities Indirect Cost Rate</b>	(b) (4)	<b>0</b>	(b) (4)
<b>Combined Facilities &amp; Administrative Rate</b>	(b) (4)	<b>0</b>	(b) (4)

**East-West Center  
Combined Indirect Cost Rate Schedule  
Fiscal Year Ended September 30, 2001**

<b>FY 2001 Administrative Indirect Cost Pool</b>			
<b>Description</b>	<b>Claimed</b>	<b>Questioned</b>	<b>Recommended</b>
Research Program	(b) (4)		(b) (4)
Education Program	(b) (4)		(b) (4)
Board of Governors and International Advisory Panel	(b) (4)		(b) (4)
Office of the President	(b) (4)		(b) (4)
Office of Administration	(b) (4)		(b) (4)
<b>Subtotal</b>	(b) (4)		(b) (4)
Depreciation – General & Administrative	(b) (4)		(b) (4)
<b>Total Indirect Cost Pool</b>	(b) (4)		(b) (4)
<b>Direct Cost Base</b>	(b) (4)(b) (4)		(b) (4)(b) (4)
<b>Administrative Indirect Cost Rate</b>	(b) (4)	<b>0</b>	(b) (4)

<b>FY 2001 Facilities Indirect Cost Pool</b>			
<b>Description</b>	<b>Claimed</b>	<b>Questioned</b>	<b>Recommended</b>
Plant Operations	(b) (4)		(b) (4)
Depreciation – Facilities	(b) (4)		(b) (4)
<b>Total Indirect Cost Pool</b>	(b) (4)		(b) (4)
<b>Direct Cost Base</b>	(b) (4)(b) (4)		(b) (4)(b) (4)
<b>Facilities Indirect Cost Rate</b>	(b) (4)	<b>0</b>	(b) (4)
<b>Combined Facilities &amp; Administrative Rate</b>	(b) (4)	<b>0</b>	(b) (4)

**East-West Center  
Combined Indirect Cost Rate Schedule  
Fiscal Year Ended September 30, 2002**

<b>FY 2002 Administrative Indirect Cost Pool</b>			
<b>Description</b>	<b>Claimed</b>	<b>Questioned</b>	<b>Recommended</b>
Research Program	(b) (4)		(b) (4)
Education Program	(b) (4)		(b) (4)
Board of Governors and International Advisory Panel	(b) (4)		(b) (4)
Office of the President	(b) (4)		(b) (4)
Office of Administration	(b) (4)		(b) (4)
<b>Subtotal</b>	(b) (4)		(b) (4)
Depreciation - General & Administrative	(b) (4)		(b) (4)
<b>Total Indirect Cost Pool</b>	(b) (4)		(b) (4)
<b>Direct Cost Base</b>	(b) (4)(b) (4)		(b) (4)(b) (4)
<b>Administrative Indirect Cost Rate</b>	(b) (4)	<b>0</b>	(b) (4)

<b>FY 2002 Facilities Indirect Cost Pool</b>			
<b>Description</b>	<b>Claimed</b>	<b>Questioned</b>	<b>Recommended</b>
Plant Operations	(b) (4)		(b) (4)
<b>Subtotal</b>	(b) (4)		(b) (4)
Depreciation - Facilities	(b) (4)		(b) (4)
<b>Total Indirect Cost Pool</b>	(b) (4)		(b) (4)
<b>Direct Cost Base</b>	(b) (4)(b) (4)		(b) (4)(b) (4)
<b>Facilities Indirect Cost Rate</b>	(b) (4)	<b>0</b>	(b) (4)
<b>Combined Facilities &amp; Administrative Rate</b>	(b) (4)	<b>0</b>	(b) (4)

**East-West Center  
Combined Indirect Cost Rate Schedule  
Fiscal Year Ended September 30, 2003**

<b>FY 2003 Administrative Indirect Cost Pool</b>			
<b>Description</b>	<b>Claimed</b>	<b>Questioned</b>	<b>Recommended</b>
Research Program	(b) (4)		(b) (4)
Education Program	(b) (4)		(b) (4)
Board of Governors and International Advisory Panel	(b) (4)		(b) (4)
Office of the President	(b) (4)		(b) (4)
Office of Administration	(b) (4)		(b) (4)
<b>Subtotal</b>	(b) (4)		(b) (4)
Depreciation - General & Administrative	(b) (4)		(b) (4)
<b>Total Indirect Cost Pool</b>	(b) (4)		(b) (4)
<b>Direct Cost Base</b>	(b) (4)(b) (4)		(b) (4)(b) (4)
<b>Administrative Indirect Cost Rate</b>	(b) (4)	<b>0</b>	(b) (4)

<b>FY 2003 Facilities Indirect Cost Pool</b>			
<b>Description</b>	<b>Claimed</b>	<b>Questioned</b>	<b>Recommended</b>
Plant Operations	(b) (4)		(b) (4)
Depreciation - Facilities	(b) (4)		(b) (4)
<b>Total Indirect Cost Pool</b>	(b) (4)		(b) (4)
<b>Direct Cost Base</b>	(b) (4)(b) (4)		(b) (4)(b) (4)
<b>Facilities Indirect Cost Rate</b>	(b) (4)	<b>0</b>	(b) (4)
<b>Combined Facilities &amp; Administrative Rate</b>	(b) (4)	<b>0</b>	(b) (4)

**East-West Center  
Combined Indirect Cost Rate Schedule  
Fiscal Year Ended September 30, 2004**

<b>FY 2004 Administrative Indirect Cost Pool</b>			
<b>Description</b>	<b>Claimed</b>	<b>Questioned</b>	<b>Recommended</b>
Research Program	(b) (4)		(b) (4)
Education Program	(b) (4)		(b) (4)
Board of Governors and International Advisory Panel	(b) (4)		(b) (4)
Office of the President	(b) (4)		(b) (4)
Office of Administration	(b) (4)		(b) (4)
<b>Subtotal</b>	(b) (4)		(b) (4)
Depreciation - General & Administrative	(b) (4)		(b) (4)
<b>Total Indirect Cost Pool</b>	(b) (4)		(b) (4)
<b>Direct Cost Base</b>	(b) (4)(b) (4)		(b) (4)(b) (4)
<b>Administrative Indirect Cost Rate</b>	(b) (4)	<b>0</b>	(b) (4)

<b>FY 2004 Facilities Indirect Cost Pool</b>			
<b>Description</b>	<b>Claimed</b>	<b>Questioned</b>	<b>Recommended</b>
Plant Operations	(b) (4)		(b) (4)
Depreciation - Facilities	(b) (4)		(b) (4)
<b>Total Indirect Cost Pool</b>	(b) (4)		(b) (4)
<b>Direct Cost Base</b>	(b) (4)(b) (4)		(b) (4)(b) (4)
<b>Facilities Indirect Cost Rate</b>	(b) (4)	<b>0</b>	(b) (4)
<b>Combined Facilities &amp; Administrative Rate</b>	(b) (4)	<b>0</b>	(b) (4)

**East-West Center  
Combined Indirect Cost Rate Schedule  
Fiscal Year Ended September 30, 2005**

<b>FY 2005 Administrative Indirect Cost Pool</b>			
<b>Description</b>	<b>Claimed</b>	<b>Questioned</b>	<b>Recommended</b>
Research Program	(b) (4)		(b) (4)
Education Program	(b) (4)		(b) (4)
Seminars and Outreach	(b) (4)		(b) (4)
Board of Governors and International Advisory Panel	(b) (4)		(b) (4)
Office of the President	(b) (4)		(b) (4)
Office of Administration	(b) (4)		(b) (4)
<b>Subtotal</b>	(b) (4)		(b) (4)
Depreciation - General & Administrative	(b) (4)		(b) (4)
<b>Total Indirect Cost Pool</b>	(b) (4)		(b) (4)
<b>Direct Cost Base</b>	(b) (4)(b) (4)		(b) (4)(b) (4)
<b>Administrative Indirect Cost Rate</b>	(b) (4)	<b>0</b>	(b) (4)

<b>FY 2005 Facilities Indirect Cost Pool</b>			
<b>Description</b>	<b>Claimed</b>	<b>Questioned</b>	<b>Recommended</b>
Plant Operations	(b) (4)		(b) (4)
Depreciation - Facilities	(b) (4)		(b) (4)
<b>Total Indirect Cost Pool</b>	(b) (4)		(b) (4)
<b>Direct Cost Base</b>	(b) (4)(b) (4)		(b) (4)(b) (4)
<b>Facilities Indirect Cost Rate</b>	(b) (4)	<b>0</b>	(b) (4)
<b>Combined Facilities &amp; Administrative Rate</b>	(b) (4)	<b>0</b>	(b) (4)

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