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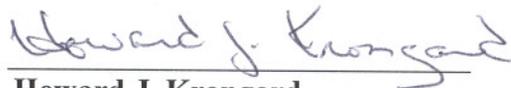
United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General

Office of Audits

Independent Accountants' Report on the
Application of Agreed-Upon Procedures on Indirect Cost Rates
Proposed by
U.S. Civilian Research and Development Foundation

Report Number AUD/CG-07-22, May 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

5/8/07
Date

Important Notice

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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 U.S. Civilian Research and Development Foundation's proposed indirect cost rates for the year ended December 31, 2004, complied with applicable regulations. We found the Foundation's accounting system to be adequate for accumulating and reporting indirect costs allowable under the provisions of 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 year ended December 31, 2004, the indirect costs reported by the Foundation were properly calculated, and we take no exception to the proposed rates as presented in Table 1 of this report. We recommend that the Department accept and finalize the indirect cost rates for the year ended December 31, 2004, as submitted by the Foundation.

Background

The Foundation was formed in August 1995, and began operations on October 1, 1995. The Foundation was created by the Director of the National Science Foundation under the Freedom Support Act of 1992. This act was an American response to several important circumstances arising from the dissolution of the Soviet Union. The dramatic reduction in resources available for scientific and engineering research in the Soviet Union and successor states increased the possibility that research that would benefit all nations would be lost. The same circumstances increased the possibility that the talents of scientists and engineers who had been involved in making weapons of mass destruction could be redirected to peaceful uses that would benefit their countries. The Foundation provides resources to the former Soviet Union and successor states for scientific and engineering research and redirects the talents of scientists and engineers from military arms research to peaceful uses.

Department grants support a substantial portion of the Foundation's operating budget. Future grants are subject to the actions of Congress and are, therefore, not assured. Additional support is also provided through private contributions, grants, and fees for services generated by the Foundation's Grant Assistance Program (GAP). The GAP was established to provide external organizations with financial and project management services for a fee. More than 60 organizations began or extended GAP partnerships in 2004. GAP revenue in 2004 amounted to \$1,628,185.

OMB Circular A-122 provides for the allocation of indirect costs to grants awarded by federal agencies. Indirect costs are defined as those 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 (A), Office of the Procurement Executive, assigns responsibility for negotiating indirect cost rates with the Department's grantees to A's Office of Logistics Management, Office of Acquisitions Management, International Programs Division.

Purpose, Scope, and Methodology

Our primary purpose was to determine whether the Foundation's indirect cost structures for the year ended 2004 complied with applicable regulations. In agreement with OIG, we performed the procedures identified below. We conducted this review between December 18, 2006, and January 22, 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 Foundation's overall financial statements for the year ended December 31, 2004.
- Verified the mathematical accuracy of the annual indirect cost rates proposal.
- 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 Foundation, where applicable, properly excluded unallowable costs from the cost pools used in computing the indirect cost rates.
- Reviewed the Foundation's grants and its Negotiated Indirect Cost Rate Agreements to ascertain whether the Foundation's annual rate submissions were prepared in accordance with the grants' terms and provisions of the rate agreements.

Results

We found the Foundation'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 year ended December 31, 2004, the indirect costs rates reported by the Foundation were properly calculated. These rates are presented in Table 1.

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Table 1: The Foundation's Proposed and Our Recommended Rates

Description	Foundation's Proposed Rate	Recommended Rate
Fringe Benefits: Arlington Moscow Kyiv	(b) (4)	
Occupancy: Arlington Moscow Kyiv		
Overhead		
Award Administration		

Attachments A through E of this report present a listing of the indirect costs and 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 year ended December 31, 2004, as submitted by the U.S. Civilian Research and Development Foundation.



**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 U.S. Civilian Research and Development Foundation's (Foundation's) proposed indirect cost rates for the fiscal year ended December 31, 2004, 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 Foundation complied with 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 22, 2007

U.S. Civilian Research and Development Foundation

Schedule of Indirect Costs and Indirect Cost Rates
for the Year Ended December 31, 2004

Rate	Allowable Indirect Cost Amounts for 2004		2004 Indirect Cost Base	Indirect Cost Rates for 2004	
	Proposed	Recommended		Proposed	Recommended
<u>Fringe Benefits</u>	(b) (4)				
Arlington					
Moscow					
Kyiv	(b) (4)				
<u>Occupancy</u>					
Arlington					
Moscow	(b) (4)				
Kyiv					
Award Administration					
Overhead	(b) (4)				

U.S. Civilian Research and Development Foundation

Schedule of Indirect Costs Allowable for Fringe Benefits
for the Year Ended December 31, 2004

<u>Indirect Costs</u>	<u>Arlington</u>	<u>Moscow</u>	<u>Kyiv</u>	<u>Total</u>
Vacation Leave	(b) (4)			
Holiday Leave				
Sick Leave				
Severance Leave				
Other Leave				
Variable Holidays				
Bonuses				
Medical Insurance				
Dental, AD&D, Life Insurance				
Vision and Hearing				
Short-Term/Long-Term Disability Insurance				
Payroll Taxes				
Retirement Plan				
Retirement Plan Administration				
Flex Spending				
Parking				
Other Benefits				
Total				

U.S. Civilian Research and Development Foundation

Schedule of Indirect Costs Allowable for Occupancy
for the Year Ended December 31, 2004

<u>Indirect Costs</u>	<u>Arlington</u>	<u>Moscow</u>	<u>Kyiv</u>	<u>Total</u>
Rent	(b) (4)			
Depreciation				
Amortization				
Telephone Service Fees				
Maintenance and Repairs				
Personal Property Tax				
Property Business Insurance				
Copier Rental				
Postage Expenses				
Purchases Equipment				
Purchases Furniture and Fixtures				
Computer Services				
Miscellaneous				
Total Before Credits				
Applicable Credits				
Total				

U.S. Civilian Research and Development Foundation

Schedule of Indirect Costs Allowable for Award Administration
for the Year Ended December 31, 2004

<u>Indirect Costs</u>	<u>Amount</u>
Salaries	(b) (4)
Temporary Help	
Non-Capitalized Purchases	
Legal	
Training	
Bank Fees	
Office Supplies	
Postage and deliveries	
Consulting Services	
Travel	
Fringe	
Occupancy	
Grant Admin Pool	
Other	
Total	

U.S. Civilian Research and Development Foundation

Schedule of Indirect Costs Allowable for Overhead
for the Year Ended December 31, 2004

<u>Indirect Costs</u>	<u>Amount</u>
Salaries	(b) (4)
Temporary Services	
Parking	
Meetings and Events	
Dues and Subscriptions	
Non-Capitalized Purchases	
Maintenance and Repairs	
Telephone	
Internet	
Accounting Services	
Legal	
Training	
Business Insurance	
Bank Charges	
Marketing	
Office Supplies	
Printing	
Postage and Deliveries	
Consulting Services	
Computer Services	
Travel	
Fringe Allocation	
Occupancy Allocation	
Miscellaneous	
Total	