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

Office of Audits

**Independent Accountant's Report on the
Application of Agreed-Upon Procedures on Indirect Cost Rates
Proposed by the
Institute for Training and Development**

Report Number AUD/CG-08-14, January 2008

Leonard G. Birnbaum and Company, LLP, Certified Public Accountants, performed the agreed-upon procedures under Department of State, Office of Inspector General, Contract No. S-AQM-PD-04-D-0033, and by acceptance, the report becomes a product of the Inspector General.



Mark W. Duda
Assistant Inspector General
Office of Audits



Date

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Summary

At the request of the Department of State (Department), Office of Inspector General (OIG), Leonard G. Birnbaum and Company, LLP, Certified Public Accountants, performed certain agreed-upon procedures to determine whether the indirect cost rates proposed by the Institute for Training and Development for the years ended December 31, 2006, 2005, and 2004 complied with applicable regulations. We found the Institute's accounting system to be adequate for accumulating and reporting indirect costs under the provisions of the Office of Management and Budget (OMB) Circulars A-122, Codified at 2 CFR Part 230, *Cost Principles for Non-Profit Organizations*, and 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 2006, 2005, and 2004, the indirect cost rates reported by the Institute, while appropriately structured and calculated, included \$4,551 interest expense within the administrative expense pools (2006 - \$1,328; 2005 - \$2,185; and 2004 - \$1,038). We questioned these interest expense amounts as unallowable under the provisions of OMB Circular A-122.

We recommend that the Department accept and finalize the indirect cost rates for 2006, 2005, and 2004 as recommended in this report.

Background

The Institute was founded in 1985. It is a private, not-for-profit organization that specializes in designing and implementing international training, internship, and exchange programs for educators, community leaders, journalists, environmentalists, and officials from government agencies and nongovernmental organizations. The Institute is located in Amherst, Massachusetts, and its programs and services have been primarily funded by federal agencies.

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 interim reimbursement and reporting indirect costs on grants, pending the establishment of final rates.

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 Institute's indirect cost structures for 2006, 2005, and 2004 complied with applicable regulations. In agreement with OIG, we performed the procedures identified below. We conducted this review between October 25, 2007, and December 27, 2007.

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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.

- Verified that the indirect cost rates proposed were mathematically accurate and supported by accounting records and audited financial statements.
- Assessed the allowability and allocability of indirect costs by testing selected transactions to supporting documentation and inquiring about the nature and functions of entities included in the indirect pools.
- Assessed the causal and beneficial relationship between indirect costs and cost activities.
- Reviewed the Institute's accounting records to determine whether any income recorded therein was appropriate for credit to the indirect cost pool.
- Made inquiries about the Institute's operations and assessed the impact of changes on the indirect rate structure.

Results

We found the Institute'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, except for inclusion of \$4,551 unallowable interest expenses for 2006 (\$1,328), 2005 (\$2,185), and 2004 (\$1.038), the indirect rates reported by the Institute were properly calculated. The proposed and recommended rates are presented in Table 1.

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

Fiscal Year	Description	Institute's Proposed Rate	Recommended Rate
2006	Administrative	(b) (4)	(b) (4)
2005	Administrative	(b) (4)	(b) (4)
2004	Administrative	(b) (4)	(b) (4)

Attachments A through C of this report present the supporting calculations for the indirect 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 rates for 2006, 2005, and 2004 as recommended in this report.

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**INDEPENDENT ACCOUNTANT'S 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

Leonard G. Birnbaum and Company, LLP, has applied certain agreed-upon procedures (the Procedures), as summarized in the Purpose, Scope and Methodology section of this report, relative to the Institute for Training and Development's (Institute) proposed indirect cost rates for the years ended December 31, 2006, 2005 and 2004 at the request of the U.S. Department of State (Department), 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 Institute complied with the provisions of 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 purpose.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the Institute's indirect cost proposals. 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 information and use of the U.S. Department of State, Office of Inspector General, and the Department's Bureau of Administration 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.

Leonard G. Birnbaum and Company, LLP
December 21, 2007

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Institute for Training and Development

Schedule of Proposed and Recommended Indirect Costs Rate for the Year Ended December 31, 2006

<u>Proposed Indirect Costs</u>	<u>Amount</u>
Communications	(b) (4)
Consultants	(b) (4)
Depreciation	(b) (4)
Fringe Benefits	(b) (4)
Insurance	(b) (4)
Interest	(b) (4)
Meals and Incidentals	(b)
Occupancy	(b) (4)
Office	(b) (4)
Payroll Taxes	(b) (4)
Repairs and Maintenance	(b) (4)
Salaries and Wages	(b) (4)
Travel and Living	(b) (4)
Publications	(b) (4)
Total Proposed Indirect Costs (A)	(b) (4)
Audit Adjustment – Interest	(b) (4)
Recommended Indirect Costs (B)	(b) (4)

Proposed and Recommended Direct Program Costs

IP3	Indonesia Pesantren Program 3	(b) (4)
KOL	Kosovo Library	(b) (4)
IP2	Indonesia Pesantren Program 2	(b) (4)
TSI 9	Teachers Summer Institute 9	(b) (4)
LACI	Latin America Culture Identity	(b) (4)
BWI	Bolivia Winter Institute	(b) (4)
ICE	Indonesia Civic Education	(b) (4)
UZFA	Uzbekistan Fine Arts	(b) (4)
PHM	Philippines Medrasah	(b) (4)
RUPH	Russia Public Health	(b) (4)
PASI	Pakistan Summer Institute	(b) (4)
NET	Netherlands Teachers	(b) (4)
ISI 2	Indonesia Sports Initiative 2	(b) (4)
BWI2	Bolivia Winter Institute 2	(b) (4)
Misc. Programs		(b) (4)
Total Direct Program Costs (C)		(b) (4)

Proposed Indirect Cost Rate (A/C) (b) (4)

Recommended Indirect Cost Rate (B/C) (b) (4)

Institute for Training and Development

Schedule of Proposed and Recommended Indirect Costs Rate for the Year Ended December 31, 2005

<u>Proposed Indirect Costs</u>	<u>Amount</u>
Communications	
Consultants	(b) (4)
Depreciation	
Fringe Benefits	(b) (4)
Insurance	
Interest	
Meals and Incidentals	
Occupancy	
Office	
Payroll Taxes	
Repairs and Maintenance	(b) (4)
Salaries and Wages	(b) (4)
Travel and Living	(b) (4)
Total Proposed Indirect Costs (A)	(b) (4)
Audit Adjustment – Interest	(b) (4)
Recommended Indirect Costs (B)	(b) (4)
<u>Proposed and Recommended Direct Program Costs</u>	
UZRP Uzbekistan Cultural & Religious Pluralism	(b) (4)
IP 3 Indonesia Pesantren Program 3	
GRT Georgia Religious Tolerance	(b) (4)
PHM Philippines Medrasah	(b) (4)
GEB Georgia Business	(b) (4)
TSI 8 Teachers Summer Institute 8	(b) (4)
KOL Kosovo Library	(b) (4)
AFL Afghan Library	(b) (4)
BEYF Belarus Youth and Family Services	(b) (4)
RCEEX Romania Civic Education Extension Contract	(b) (4)
SRJ Samara/Russia Justice	(b) (4)
IP 2 Indonesia Pesantren Program 2	(b) (4)
BAC Baltic Anti Corruption	(b) (4)
ACEEX Armenia Civic Education	(b) (4)
Misc. Programs	(b) (4)
Total Direct Program Costs (C)	(b) (4)
Proposed Indirect Cost Rate (A/C)	(b) (4)
Recommended Indirect Cost Rate (B/C)	(b) (4)

Institute for Training and Development

Schedule of Proposed and Recommended Indirect Costs Rate for the Year Ended December 31, 2004

<u>Proposed Indirect Costs</u>	<u>Amount</u>
Communications	(b) (4)
Consultants	(b) (4)
Depreciation	(b) (4)
Fringe Benefits	(b) (4)
Insurance	(b) (4)
Interest	(b) (4)
Occupancy	(b) (4)
Office	(b) (4)
Payroll Taxes	(b) (4)
Repairs and Maintenance	(b) (4)
Salaries and Wages	(b) (4)
Travel and Living	(b)
Total Proposed Indirect Costs (A)	(4)
Audit Adjustment – Interest	(b) (4)
Recommended Indirect Costs (B)	(b) (4)
<u>Proposed and Recommended Direct Program Costs</u>	
GRT Georgia Religious Tolerance	(b) (4)
KCEEX Kyrgyzstan Extension	(b) (4)
RDEEX2 Romania Civic Education Extension Contract 2	(b) (4)
IJ2 Indonesia Journalist	(b) (4)
IP 2 Indonesia Pesantren Program 2	(b) (4)
BAC Baltic Anti Corruption	(b) (4)
ACE-EX Armenia Civic Education	(b) (4)
UKD Ukraine Disability	(b) (4)
USIDS2 Uzbekistan Islam in a Diverse Society	(b) (4)
AB Azerbaijan Business	(b) (4)
TSI 7 Teachers Summer Institute 7	(b) (4)
ACE Armenia Civic Education	(b) (4)
AFL Afghanistan Literacy	(b) (4)
IP-PH 2 Indonesia Pesantren Program Phase 2	(b) (4)
KLP Kyrgystan Library	(b) (4)
RCEEX Romania Civic Education Extension Contract	(b) (4)
Misc. Programs	(b) (4)
Total Direct Program Costs (C)	(b) (4)
Proposed Indirect Cost Rate (A/C)	(b) (4)
Recommended Indirect Cost Rate (B/C)	(b) (4)