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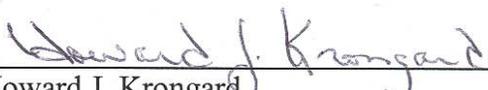
United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General

Office of Audits

Independent Accountants' Report on
Applying Agreed-Upon Procedures
American Councils for International Education

Report Number AUD/CG-06-28, June 2006

Cotton & Company LLP performed the agreed-upon procedures under Department of State, Office of Inspector General, Contract No. S-AQMPD-04-D-0035, and by acceptance the report becomes a product of the Inspector General.



Howard J. Krongard
Inspector General
6/16/06

Date

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**Independent Accountants' Report on
Applying Agreed-Upon Procedures
American Councils for International Education
April 6, 2006**

SUMMARY

At the request of the Department of State (Department), Office of Inspector General (OIG), Cotton & Company LLP performed agreed-upon procedures on the financial management and reporting systems and financial condition of the American Councils for International Education (ACIE) to assist in the Department's Bureau of Educational and Cultural Affairs (ECA) review of ACIE.

Our results are summarized below and detailed in the section titled Agreed-Upon Procedures and Results.

Financial Management and Reporting Systems: ACIE's accounting system identified the source and application of funds for federal awards and compared expenditures with budgeted amounts for each award in accordance with Office of Management and Budget (OMB) Circular A-110 requirements. Financial Status Reports (FSR) and reimbursement requests were supported by accounting records.

Financial Condition: ACIE's assets and revenues exceeded liabilities and expenses, respectively, in 2005 and 2004. Its ratio of current assets to current liabilities is significantly lower than ratios at other similar organizations. It has, however, managed cash flow through the use of its lines-of-credit with available balances of \$1.8 million.

BACKGROUND

ECA fosters mutual understanding between the people of the United States and those of other countries around the world. It has awarded grants to ACIE, an international nonprofit organization working to advance education, research, and mutual understanding across the United States, Canada, and the nations of Southeastern Europe, Eurasia, and South Asia. With a

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staff of over 370 professionals, ACIE designs, implements, and supports innovative programs in education, professional development, and scholarly research. ACIE had over \$28 million in expenditures of Department awards during its fiscal year ending June 30, 2005.

PURPOSE AND SCOPE

At the request of OIG, Cotton & Company performed the procedures described below to assist ECA in evaluating whether ACIE's financial management and reporting systems complied with OMB Circular A-110 requirements and evaluating its financial condition. These procedures were agreed to by ECA.

We conducted 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 the parties specified in this report. Consequently, we make no representation regarding the sufficiency of procedures described below 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 subject matter. 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.

AGREED-UPON PROCEDURES AND RESULTS

The agreed-upon procedures and results are as follow.

1. Financial Management and Reporting Systems

- a. Obtain OMB Circular A-133 audit reports for ACIE's past three fiscal years and identify internal control and compliance findings noted in those reports.

Result: The audit reports did not note any internal control weaknesses or instances of noncompliance.

- b. Trace samples of expenditures incurred under ACIE's current Department awards from job cost reports to supporting documentation. Confirm that costs, including salaries and wages, were supported by adequate documentation meeting OMB Circular A-122 requirements. Confirm that ACIE's accounting documentation records and accounts for sampled costs by budgeted categories and amounts.

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Result: ACIE’s accounting system identified the source and application of funds for federal awards and compared expenditures with budgeted amounts for each award. Accounting records were supported by source documentation. ACIE support for salaries and wages charged to federal awards met OMB Circular A-122 requirements.

- c. Trace a sample of ACIE’s recent FSRs and reimbursement requests for federal awards to supporting accounting records.

Result: FSRs and reimbursement requests were supported by ACIE’s accounting records.

2. **Financial Condition**

- a. Obtain ACIE’s recent audited and interim financial statements and summarize asset, liability, revenue, and expense balances and calculate its current ratio for each period.

Result: ACIE’s assets exceeded liabilities, and revenues exceeded expenses during 2005 and 2004, and its current ratio ranged from 1.03 to 1.07, as detailed below.

	12/31/05	6/30/05	12/31/04	6/30/04
Current Assets	\$12,425,446	\$6,389,645	\$11,646,222	\$6,874,050
Current Liabilities	<u>12,045,109</u>	<u>5,994,841</u>	<u>11,197,153</u>	<u>6,604,442</u>
Excess	<u>\$380,337</u>	<u>\$394,804</u>	<u>\$449,069</u>	<u>\$269,608</u>
Current Ratio	<u>1.03</u>	<u>1.07</u>	<u>1.04</u>	<u>1.04</u>
Total Assets	\$12,739,909	\$14,579,165	\$11,978,810	\$15,136,985
Total Liabilities	<u>12,292,305</u>	<u>14,133,237</u>	<u>11,529,645</u>	<u>14,843,688</u>
Excess	<u>\$447,604</u>	<u>\$445,928</u>	<u>\$449,165</u>	<u>\$293,297</u>
Total Revenue	\$19,353,093	\$43,526,079	\$24,039,881	\$50,696,359
Total Expenses	<u>19,351,422</u>	<u>43,373,448</u>	<u>23,955,542</u>	<u>50,529,052</u>
Excess	<u>\$1,671</u>	<u>\$152,631</u>	<u>\$84,339</u>	<u>\$167,307</u>

- b. Using Guide Star’s database of financial information on nonprofit organizations, we identified ten organizations with the same National Taxonomy for Exempt Entities (NTEE) code as ACIE and calculated the current ratios for those organizations. We then compared those ratios to ACIE’s ratios.

Result: Current ratios for sample organizations ranged from 1.13 to 8.45 with an average of 2.63. ACIE’s recent ratios as detailed above were outside the sample range and significantly lower than the average.

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- c. Identify the lines-of-credit used by ACIE and the available balances.

Result: ACIE had a \$500,000 line of credit with Bank of America. As of March 31, 2006, the available balance was \$322,763. ACIE had not exceeded its line of credit since it was opened in September 2004. ACIE also had \$1.3 million of credit available through its corporate credit card. The highest balance on the credit card account since it was opened in March 2005 was \$256,067.

COTTON & COMPANY LLP



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