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**United State 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 Direct and Indirect
Costs Proposed, Financial Capability, and
the Accounting System Used by
Youth for Understanding, Inc.**

Report Number AUD/CG-09-14, March 2009

Leonard G. Birnbaum and Company, LLP, Certified Public Accountants, performed the agreed-upon procedures under Department of State, Office of Inspector General, Contract No. SAQMPD04D0033, and by acceptance this report becomes a product of the Office of Inspector General.



**Harold W. Geisel
Acting Inspector General**

Date

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Summary

At the request of the Department of State, Office of Inspector General (OIG), Leonard G. Birnbaum and Company, LLP, Certified Public Accountants, performed certain agreed-upon procedures to determine whether Youth for Understanding, Inc. (YFU), had sufficient financial capability to perform the proposed Bureau of Educational and Cultural Affairs (ECA) grant; to assess the reasonableness, allocability, and allowability of the proposed direct and indirect costs; and to determine whether the accounting system adequately estimated, recorded, and reported costs under the award.

We found that YFU has more than adequate financial capability to perform under the proposed grant and that it has an accounting system appropriate for estimating, reporting, and recording costs under a federal flexibly priced award.

Background

YFU has submitted a grant application with a 3-year budget of \$524,430 to ECA. YFU is a nonprofit organization exempt from taxation under the provisions of Section 501(c)(3) of the Internal Revenue Code. YFU was founded in 1951 as a student exchange program to bring students from Germany to the United States to attend high school for a year. The program grew throughout the 1950s as American students began to study in Europe, and Asian and Latin American students also became part of the program during that decade. Today, YFU exchanges with more than 50 countries and has more than 4,500 students and 2,500 volunteers participating in its programs each year.

Purpose, Scope, and Methodology

Our primary purposes were (1) to determine whether YFU has sufficient financial capability to perform the proposed ECA grant; (2) to assess the reasonableness, allocability, and allowability of proposed direct and indirect costs; and (3) to assess whether the accounting system in place is adequate for estimating, recording, and reporting costs under a federal flexibly priced award.

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, which were agreed to by OIG, are summarized as follows:

- We reviewed YFU's Return of Organization Exempt From Income Tax (Form 990) for the years ended December 31, 2006 and 2007.
- We reviewed YFU's audited financial statements for the years ended December 31, 2006 and 2007.
- We calculated YFU's current ratio and quick ratio as of August 14, 2008.

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- We obtained sufficient supporting documentation to assess the reasonableness of the proposed direct costs.
- We obtained sufficient supporting documentation to assess the reasonableness of the indirect expense rate.
- We inquired as to the accounting system in place at YFU, the structure of the system, and controls established within the system.

Because the above procedures do not constitute an audit conducted in accordance with generally accepted auditing standards or *Government Auditing Standards*, 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 information specified above.

Results

We concluded that YFU has more than adequate financial capability to perform under this grant and that it has an accounting system appropriate for estimating, reporting, and recording costs under a federal flexibly priced award.

Financial Capability

We found that YFU has more than adequate financial resources to perform the contemplated award, even if it is not provided the opportunity to draw advances against contemplated expenditures through the Payment Management System. YFU is liquidating its accounts payable on a timely basis in the ordinary course of business, and withheld and matching payroll taxes are paid on a timely basis. YFU is not a party to any loan agreements, lines of credit, or other borrowing facility. YFU recently transferred over \$10 million from a money market account to investments.

Accounting System

We found that YFU maintains a conventional cost accounting system that identifies direct costs with individual projects and employs an after-the-fact labor distribution system. Because certain costs are incurred for the benefit of groups of participants rather than by project, such costs are assigned to projects on the basis of the ratio of participants in each project. While YFU does not have a federally approved indirect cost rate, we determined that the proposed indirect cost structure, which uses total cost less participant support cost as its allocation algorithm, conforms to requirements of Office of Management and Budget Circular A-122, *Cost Principles for Non-Profit Organizations*. We concluded that YFU's accounting system is appropriate for estimating, reporting, and recording cost information under a federal flexibly priced award.

Recommendation 1: We recommend that the Bureau of Educational and Cultural Affairs use the budget as proposed in the Exhibit as the basis for an award to Youth for Understanding, Inc.

**Youth for Understanding, Inc.,
Direct and Indirect Costs Proposed, Financial Capability, and
the Accounting System**

Summary of Proposed and Recommended Costs

	<u>ECA* Funds</u>	<u>Cost Share</u>	<u>Total</u>
Program Costs			
Advertising	\$8,475		
Staff Travel	100		
Background Check	704		
Compliance Audit	855		
Volunteer Time		\$8,842	
Total Program Costs	<u>\$10,134</u>	<u>\$8,842</u>	<u>\$18,976</u>
Participant Program Costs			
German Support	\$195,757		
American Support	212,722		
Total Participant Program Costs	<u>\$408,479</u>		<u>\$408,479</u>
Administrative Costs			
Salaries & Benefits		\$15,246	
A-133 Audit	\$6,000		
Indirect Cost	75,729		
Total Administrative Costs	<u>\$81,729</u>	<u>\$15,246</u>	<u>\$96,975</u>
Total Costs	<u>\$500,342</u>	<u>\$24,088</u>	<u>\$524,430</u>
Cost Share Percentage	95%	5%	

*Bureau of Educational and Cultural Affairs

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