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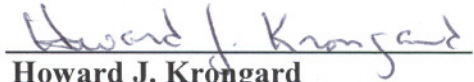
**United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General**

Office of Audits

**Independent Accountants' Report on the
Application of Agreed-Upon Procedures on Indirect Cost Rates
Proposed by
International Research & Exchanges Board**

Report Number AUD/CG-07-31, June 2007

Regis & Associates, PC, Certified Public Accountants, performed the agreed-upon procedures under Department of State, Office of Inspector General's Contract No. S-AQM-PD-04-D-0040, and by acceptance the report becomes a product of the Inspector General.


Howard J. Krøngard
Inspector General

Date

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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 International Research & Exchanges Board's (IREX) proposed indirect cost rates for the years ended December 31, 2006, 2005, 2004, 2003, 2002, and 2001, complied with applicable regulations. We found IREX'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 years ended December 31, 2006, 2005, and 2004, the indirect costs rates proposed by IREX were properly calculated, and we take no exception to the proposed rates as presented in Table 1 of this report. We did not make any determination on the indirect cost rates proposed by IREX for the years ended December 31, 2003, 2002, and 2001, because IREX was unable to provide detailed invoices to support all the charges for indirect costs claimed in those years. However, the indirect cost rates proposed by IREX in those years are consistent with those of subsequent years. We recommend that the Department accept and finalize the indirect cost rates for the years ended December 31, 2006, 2005, and 2004, as proposed by IREX.

Background

IREX was established in 1968 by a group of private academic organizations and foundations as the first American organization to conduct education programs with the Soviet Union and Eastern Europe. At present, IREX has an annual portfolio of \$50 million and a staff of over 400 professionals worldwide. IREX receives the majority of its funding through the Department and the U.S. Agency for International Development. IREX operates programs promoting education, independent media, and civil society development through partnership, consultation, training, and academic and professional exchanges. In addition to programs in the former Soviet Union territories and Eastern European countries, overseas programs have been expanded to include countries in Eurasia, Middle East, Africa, and Asia.

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.

The Department's Grants Policy Directive 22, issued by the Bureau of Administration, Office of the Procurement Executive, assigns responsibility for negotiating indirect cost rates with the Department's grantees to Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, International Programs Division.

Purpose, Scope, and Methodology

Our primary purpose was to determine whether IREX's indirect cost rate structure for FYs 2001 through 2006 complied with applicable regulations. In agreement with OIG, we performed the procedures identified below. We conducted this review between January 15 and March 16, 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 IREX's overall financial statements for the years ended December 31, 2001 through 2006.
- Verified the mathematical accuracy of the annual indirect cost rate proposals.
- 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 IREX, where applicable, properly excluded unallowable costs from the cost pools used in computing the indirect rates.
- Reviewed IREX's grants and its Negotiated Indirect Cost Rate Agreements to ascertain whether IREX's annual rate submissions were prepared in accordance with the grants' terms and the provisions of the rate agreements.

Results

We found IREX'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 years ended December 31, 2006, 2005, and 2004, the indirect costs rates proposed by IREX were properly calculated. We did not make any determination on the indirect costs rates proposed by IREX for the years ended December 31, 2003, 2002, and 2001, because IREX was unable to provide detailed invoices to support all the charges for indirect costs claimed in those years. However, the indirect cost rates proposed by IREX in those years are consistent with those of subsequent years. Details on the rates reviewed are presented in Table 1.

Table 1: IREX's Proposed Indirect Cost Rates and Our Recommended Rates

Description	IREX's Proposed Rate			Recommended Rate		
Year	2006	2005	2004	2006	2005	2004
District of Columbia						
Overhead	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Facilities	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Fringe Benefits	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Moscow						
Overhead	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Other Field Offices						
Overhead	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
All Offices						
General & Administrative	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)

Attachments A through Q of this report present a description of the 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 years ended December 31, 2006, 2005, and 2004, as proposed by the International Research & Exchanges Board.



**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 International Research & Exchanges Board's (IREX's) proposed indirect cost rates for the fiscal years ended December 31, 2006, 2005, 2004, 2003, 2002, and 2001 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 IREX 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
March 16, 2007

International Research & Exchanges Board

Schedule of Allowable District of Columbia Overhead Costs and Rate for the Year Ended December 31, 2006

<u>Description</u>	<u>Amount</u>
Books and Subscriptions	(b) (4)
Communications	(b) (4)
Consultants	(b) (4)
Facilities	(b) (4)
Fringe	(b) (4)
Honorarium	(b)
Meetings	(b)
Operating Expenses	(b) (4)
Postage	(b) (4)
Print and Copy	(b)
Recruitment	(b)
Salaries	(b) (4)
Supplies	(b) (4)
Training	(b) (4)
Travel and Meals	(b) (4)
Total Overhead Costs (Numerator)	(b) (4)
Total Direct Cost (Denominator)	(b) (4)
Rate	(b) (4)

International Research & Exchanges Board

**Schedule of Allowable District of Columbia Facilities Costs and Rate
for the Year Ended December 31, 2006**

<u>Description</u>	<u>Amount</u>
Rent	(b) (4)
Internet Fee	(b)
Utilities, Storage, Maintenance	(b) (4)
Insurance Liability/Fire	(b) (4)
Furniture and Equipment	(b) (4)
Depreciation Furniture/Office	(b) (4)
Office Supplies	(b)
Telephone	(b) (4)
Postage/Express Mail	(b)
Miscellaneous	(b)
Office Moving	(b)
Total Facilities Costs (Numerator)	(b) (4)
Total Direct and Indirect Salaries (Denominator)	(b) (4)
Rate	(b) (4)

International Research & Exchanges Board

Schedule of Allowable District of Columbia Fringe Benefit Costs and Rate for the Year Ended December 31, 2006

<u>Description</u>	<u>Amount</u>
Award and Bonuses	(b) (4)
Social Security Expenses	(b) (4)
DC Unemployment	(b) (4)
Workers' Compensation	(b) (4)
Disability Insurance	(b) (4)
Life Insurance Expenses	(b) (4)
Medicare Expenses	(b) (4)
Pension Annuity	(b) (4)
Housing Allowance	(b)
Travel Local	(b)
Telephone	(b)
Professional Developments	(b) (4)
Staff Training	(b)
Gifts/Function	(b)
Consulting Fees	(b)
Total Payroll Taxes and Benefits (Numerator)	(b) (4)
Total Salaries and Benefits (Denominator)	(b) (4)
Rate	(b) (4)

International Research & Exchanges Board

Schedule of Allowable Other Field Offices Overhead Costs and Rate for the Year Ended December 31, 2006

<u>Description</u>	<u>Amount</u>
Salaries	(b) (4)
Field Income Tax	(b) (4)
Travel Ticket/Other/Meal/Lodging	(b) (4)
Advertising	(b)
Professional Development	(b) (4)
Honorarium	(b)
Rent	(b) (4)
Utilities	(b) (4)
Insurance	(b) (4)
Renovation	(b)
Furniture Equipment	(b) (4)
Depreciation Lease Improvement	(b)
Repair and Maintenance	(b)
Office Supplies	(b) (4)
Books/Subscriptions	(b)
Fees	(b)
Bank Charges	(b) (4)
Miscellaneous	(b) (4)
Consulting/Accounting/Legal Fees	(b) (4)
Office Moving	(b)
Benefit Charges	(b) (4)
Facility Charges	(b) (4)
Total Other Field Offices Overhead Costs (Numerator)	(b) (4) -
Total Salaries and Benefits (Denominator)	(b) (4)
Rate	(b) (4)

International Research & Exchanges Board

**Schedule of Allowable All Offices General & Administrative Costs and Rate
for the Year Ended December 31, 2006**

<u>Description</u>	<u>Amount</u>
Bank/Wire Fees	(b) (4)
Books and Subscriptions	(b)
Communications	(b) (4)
Consultants	(b) (4)
Facilities	(b) (4)
Benefits	(b) (4)
Meetings	(b) (4)
Operating Expenses	(b) (4)
Recruitment	(b)
Salaries	(b) (4)
Supplies	(b) (4)
Training	(b)
Travel and Meals	(b) (4)
Total General & Administrative Costs (Numerator)	(b) (4)
Total Direct Cost (Denominator)	(b) (4)(b) (4)
Rate	(b) (4)

International Research & Exchanges Board

Schedule of Allowable District of Columbia Overhead Costs and Rate for the Year Ended December 31, 2005

<u>Description</u>	<u>Amount</u>
Applied Facilities	(b) (4)
Bank Charges	(b) (4)
Books and Subscriptions	(b) (4)
Communication	(b) (4)
Consultants	(b) (4)
Meetings	(b) (4)
Miscellaneous	(b) (4)
Operating Expenses	(b) (4)
Participant	(b) (4)
Postage	(b) (4)
Printing and Copying	(b) (4)
Property and Equipment	(b) (4)
Recruitment	(b) (4)
Salaries/Benefit/Leave	(b) (4)
Supplies	(b) (4)
Training	(b) (4)
Travel and Meals	(b) (4)
Total Overhead Costs (Numerator)	(b) (4)
Total Direct Cost (Denominator)	(b) (4)
Rate	(b) (4)

International Research & Exchanges Board

**Schedule of Allowable District of Columbia Facilities Costs and Rate
for the Year Ended December 31, 2005**

<u>Description</u>	<u>Amount</u>
Rent	(b) (4)
Utilities	(b)
Furniture & Equipment	(b) (4)
Depreciation Furniture and Fixture	(b) (4)
Depreciation Computer and Machines	(b) (4)
Depreciation Office Equipment	(b) (4)
Consulting	(b) (4)
Office Moving	(b)
Total Facilities Costs (Numerator)	(b) (4) -
Total Direct and Indirect Salaries (Denominator)	(b) (4)
Rate	(b) (4)

International Research & Exchanges Board

Schedule of Allowable District of Columbia Fringe Benefit Costs and Rate for the Year Ended December 31, 2005

<u>Description</u>	<u>Amount</u>
Awards and Bonuses	(b) (4)
Social Security Expenses	(b) (4)
DC Unemployment	(b) (4)
Workers' Compensation	(b) (4)
Disability Insurance	(b) (4)
Life Insurance Expenses	(b) (4)
Medicare Expense	(b) (4)
Pension Annuity	(b) (4)
Housing Allowance	(b)
Maternity leave	(b)
Annual Leave	(b) (4)
Sick Leave	(b)
Holiday Leave	(b)
Professional Development	(b) (4)
Staff Training	(b) (4)
Expert Relocation	(b)
Insurance	(b)
Membership Fees	(b)
ADP/FSA Fees	(b)
Consulting	(b)
Total Payroll Taxes and Benefits (Numerator)	(b) (4)
Total Salaries and Benefits (Denominator)	(b) (4)
Rate	(b) (4)

International Research & Exchanges Board

Schedule of Allowable Moscow Overhead Costs and Rate for the Year Ended December 31, 2005

<u>Description</u>	<u>Amount</u>
Salaries	(b) (4)
Housing Allowance	(b)
Field Income Tax	(b)
Field Benefit	(b) (4)
Travel Other	(b)
Travel Local	(b)
Rent	(b)
Internet Fee	(b)
Utilities	(b)
Furniture and Equipment	(b)
Depreciation	(b)
Office Supplies	(b) (4)
Telephone	(b)
Postage/Express	(b)
Books/Subscription	(b)
Membership Fees	(b)
Outside Printing	(b)
Gifts/Functions	(b)
Bank Charges	(b)
Consulting Fees	(b) (4)
Accounting Fees	(b)
Legal Fees	(b)
Office Moving	(b) (4)
Applied Leave	(b)
Applied Fringe	(b)
Provision Allocation	(b) (4)
Total Overhead Costs (Numerator)	(b) (4)
Total Direct Cost (Denominator)	(b) (4)
Rate	(b) (4)

International Research & Exchanges Board

Schedule of Allowable Other Field Offices Overhead Costs and Rate for the Year Ended December 31, 2005

<u>Description</u>	<u>Amount</u>
Salaries	(b) (4)
Field Income Tax	(b) (4)
Benefits	(b) (4)
Travel	(b) (4)
Advertising	(b)
Training	(b)
Rent	(b) (4)
Utilities	(b) (4)
Renovation	(b)
Furniture	(b) (4)
Depreciation	(b)
Office Supplies	(b) (4)
Telephone	(b) (4)
Postage	(b) (4)
Books	(b)
Membership	(b)
Commissions	(b)
Meetings	(b)
Gifts/Functions	(b)
Bank Charges	(b) (4)
Miscellaneous	(b)
Consulting	(b) (4)
Accounting	(b)
Legal Fees	(b) (4)
Office Moving	(b) (
Less: Moscow Overhead	(b) (4)
Total Other Field Offices Overhead Costs (Numerator)	(b) (4)
Total Salaries and Benefits (Denominator)	(b) (4)
Rate	(b) (4)

International Research & Exchanges Board

Schedule of All Offices Allowable General & Administrative Costs and Rate for the Year Ended December 31, 2005

<u>Description</u>	<u>Amount</u>
Facilities	(b) (4)
Bank Charges	(b)
Books and Subscriptions	(b)
Communications	(b)
Consultants	(b) (4)
Fringe	(b)
Honorarium	(b)
Meetings	(b) (4)
Miscellaneous	(b)
Operating Expenses	(b) (4)
Postages	(b) (4)
Print and Copy	(b)
Salaries	(b) (4) (
Supplies	(b) (
Training	(b) (4)
Travel and Meals	(b) (4)
Less: Other Allocated Costs	(b) (4)
Total General & Administrative Costs (Numerator)	(b) (4)
Total Direct Cost (Denominator)	(b) (4)(b) (4)
Rate	(b) (4)

International Research & Exchanges Board

Schedule of Allowable District of Columbia Overhead Costs and Rate for the Year Ended December 31, 2004

<u>Description</u>	<u>Amount</u>
Salaries	(b) (4)
Books and Subscriptions	(b) (4)
Communications	(b)
Consultant	(b) (4)
Meetings	(b)
Miscellaneous	(b)
Operating Expenses	(b) (4)
Postage	(b)
Print and Copy	(b) (4)
Supplies	(b) (4)
Training	(b) (4)
Travel/Meals	(b) (4)
Accrued Expenses	(b) (4)
Applied Facilities	(b) (4)
Honorarium	(b)
Total Overhead Costs (Numerator)	(b) (4) -
Total Direct Cost (Denominator)	(b) (4)
Rate	(b) (4)

International Research & Exchanges Board

Schedule of Allowable District of Columbia Facilities Costs and Rate for the Year Ended December 31, 2004

<u>Description</u>	<u>Amount</u>
Rent	(b) (4) (
Internet fees	(b) (
Utilities/Storage/Main	(b) (
Insurance Liabilities	(b) (
Renovation	(b) (
Furniture Equipment	(b) (4) (
Depreciation Furniture/Fixtures	(b) (4) (
Telephone	(b) (4) (
Miscellaneous	(b) (
Office Moving	(b) (
Unallowable Depreciation on Donated Software	(b) (4) (
Total Facilities Costs (Numerator)	(b) (4) (
Total Direct and Indirect Salaries (Denominator)	(b) (4) (
Rate	(b) (4) (

International Research & Exchanges Board

Schedule of Allowable District of Columbia Fringe Benefit Costs and Rate for the Year Ended December 31, 2004

<u>Description</u>	<u>Amount</u>
Award and Bonuses	(b) (4)
Medicare Expenses	(b) (4)
Social Security Expenses	(b) (4)
DC Unemployment	(b) (4)
Workers' Compensation	(b)
Disability Insurance	(b) (4)
Life Insurance	(b) (4)
Medical Insurance	(b) (4)
Pension and Annuities	(b) (4)
Housing Allowance	(b) (4)
Maternity Leave	(b)
Professional Development	(b) (4)
Miscellaneous	(b)
Consulting/Legal Fees	(b)
Total Payroll Taxes and Benefits (Numerator)	(b) (4) -
Total Salaries and Benefits (Denominator)	(b) (4)
Rate	(b) (4)

International Research & Exchanges Board

Schedule of Allowable Moscow Overhead Costs and Rate for the Year Ended December 31, 2004

<u>Description</u>	<u>Amount</u>
Salaries	(b) (4)
House Allowance	(b)
Field Income Tax	(b) (4)
Field Benefit	(b) (4)
Maternity Leave	(b)
Travel/Meals	(b)
Rent	(b) (4)
Internet Fees	(b)
Utilities	(b) (4)
Furniture and Equipments	(b) (4)
Depreciation/Lease Improvement	(b)
Office Supplies	(b) (4)
Telephone	(b) (4)
Postage	(b)
Books and Subscriptions	(b)
Membership Fees	(b)
Bank Charges	(b) (4)
Consulting Fees	(b) (4)
Legal Fees	(b) (4)
Miscellaneous Expenses	(b)
Field Operation	(b) (4)
Total Overhead Costs (Numerator)	(b) (4)
Total Direct Cost (Denominator)	(b) (4)
Rate	(b) (4)

International Research & Exchanges Board

Schedule of Allowable Other Field Offices Overhead Costs and Rate for the Year Ended December 31, 2004

<u>Description</u>	<u>Amount</u>
Salaries	(b) (4)
Benefits	(b) (4)
Field Income Tax	(b) (4)
Travel/Local/Meal/Lodging	(b) (4)
Workshop/Seminar/Training	(b)
Rent	(b) (4)
Internet Fees	(b) (4)
Utilities	(b) (4)
Furniture and Equipment	(b) (4)
Depreciation/Lease Improvement	(b)
Office Supplies	(b) (4)
Telephone	(b) (4)
Postage	(b)
Books and Subscription	(b)
Membership Fees	(b)
Printing and Copying	(b) (4)
Bank Charges	(b) (4)
Miscellaneous	(b) (4)
Consulting/Accounting/Legal Fees	(b) (4)
Office Moving	(b)
Field Operations	(b) (4) -
Total Other Field Offices Overhead Costs (Numerator)	(b) (4) -
Total Salaries and Benefits (Denominator)	(b) (4)
Rate	(b) (4)

International Research & Exchanges Board

Schedule of All Offices Allowable General & Administrative Costs and Rate for the Year Ended December 31, 2004

<u>Description</u>	<u>Amount</u>
Salaries	(b) (4)
Books and Subscriptions	(b)
Communications	(b) (4)
Consultant	(b) (4)
Meetings	(b) (4)
Operating Expenses	(b) (4)
Postage	(b)
Supplies	(b) (4)
Travel/Meals	(b) (4)
Applied Facilities	(b) (4)
Bank Charges	(b) (4)
Miscellaneous	(b)
Accrued Expenses	(b) (4)
Less: Unallowable Expenses	(b) (4)
Total General & Administrative Costs (Numerator)	(b) (4)
 Total Direct Cost (Denominator)	 (b) (4)(b) (4)
 Rate	 (b) (4)



**Independent Accountants' Report on the
Application of Agreed-Upon Procedures on Indirect Cost Rates
Proposed by
International Research & Exchanges Board**

The Department of State, Office of Inspector General contracted with Regis & Associates, PC, Certified Public Accountants, to perform agreed-upon procedures to determine whether the International Research & Exchanges Board's (IREX) proposed indirect cost rates for the years ended December 31, 2006, 2005, 2004, 2003, 2002, and 2001, complied with applicable regulations. The independent accountants found IREX's accounting system to be adequate for accumulating and reporting indirect costs under the provisions of Office of Management and Budget Circulars A-122, *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*.

The independent accountants' review disclosed that for the years ended December 31, 2006, 2005, and 2004, the indirect cost rates proposed by IREX were properly calculated. The independent accountants did not make any determination on the indirect cost rates proposed by IREX for the years ended December 31, 2003, 2002, and 2001, because IREX was unable to provide detailed invoices to support all the charges for indirect costs claimed in those years. However, the report notes that the indirect cost rates proposed by IREX in those years are consistent with those reviewed for the three subsequent years. The independent accountants recommended that the Department accept and finalize the indirect cost rates proposed by IREX for the years ended December 31, 2006, 2005, and 2004.

The work for OIG Report AUD/CG-07-31 was conducted by Regis & Associates, PC. This is an unclassified summary of a full report, which may receive limited official distribution.

Office of Inspector General

The Office of Inspector General conducts independent audits, inspections, and investigations to promote effective management, accountability, and positive change in the Department of State, the Broadcasting Board of Governors, and the foreign affairs community.