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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
Maureen and Mike Mansfield Foundation

Report Number AUD/CG-07-34, June 2007

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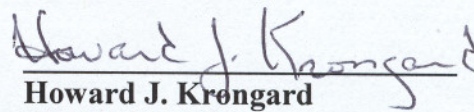
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L.F. Harris & Associates, P.A., Certified Public Accountants, performed the agreed-upon procedures under Department of State, Office of Inspector General, Contract No. S-AQM-PD-04-D-0044, and by acceptance the report becomes a product of the Inspector General.



Howard J. Krøngard
Inspector General

JUN 25 2007

Date

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Summary

At the request of the Department of State (Department), Office of the Inspector General (OIG), L.F. Harris & Associates, CPA, P.A., performed certain agreed-upon procedures to determine whether the Maureen and Mike Mansfield Foundation's proposed indirect cost rates for the fiscal years ended June 30, 2006, 2005, 2004, and 2003 complied with applicable regulations. We found the Foundation's accounting system to be adequate for accumulating and reporting indirect costs under the provisions of Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*, and 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 fiscal years ended June 30, 2006, 2005, 2004, and 2003, the indirect costs proposed by the Foundation were properly calculated. We recommend that the Department accept and finalize the indirect cost rates for these years as recommended in Table 1 of this report.

Our review also noted one instance of noncompliance with the requirements of OMB Circular A-122 relating to travel documentation. We recommend that the Department require the Foundation to comply with the requirements of OMB Circular A-122 relating to travel documentation.

Background

The Foundation, a Montana not-for-profit corporation, was established to pay tribute to Maureen and Mike Mansfield's distinguished careers. Its corporate office is located in Missoula, and its program offices are located in Washington, DC, and Tokyo, Japan. The Foundation sponsors and organizes programs to improve understanding and relations among the peoples of the Pacific area. The Foundation also provides support to the Maureen and Mike Mansfield Center at The University of Montana for teaching, research, and public education on modern Asian affairs and on ethical questions in public policy.

The Foundation entered into four cooperative agreements numbered S-ECAPE-05-GR-128CS, S-ECAPE-04-GR-157CS, S-ECAPE-03-GR-159CS, and S-ECAPE-02-GR-087CS during the fiscal years ended June 30, 2006, 2005, 2004, and 2003, respectively. Under the agreements, the Foundation received corresponding federal awards in the amounts of \$1,800,000, \$1,796,438, \$2,200,000, and \$2,200,000, respectively.

The Department gave the Foundation permission to use provisional indirect rates based on projected financials. Provisional rates are temporary rates used for funding and billing indirect costs pending the establishment of a final rate for a specified time period. The agreements specify that the Foundation is subject to the requirements of OMB Circulars A-110, A-122, and A-133, *Compliance Supplement*.

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Purpose, Scope, and Methodology

The primary purpose of this agreed-upon procedures engagement was to determine whether the Foundation's indirect cost rate structure for FYs 2006, 2005, 2004, and 2003 complied with applicable regulations. We conducted the testing and assessment at the Foundation's office in Missoula, MT, from November 27, 2006, to December 1, 2006.

OMB Circular A-122 establishes principles and standards for determining cost for federal awards carried out through grants, cost-reimbursement contracts, and other agreements with not-for-profit organizations. The principles are for the purpose of cost determination and are designed to provide that federal awards bear their fair share of costs.

The principles and standards of OMB Circular A-122 apply to both direct and indirect costs. A direct cost is one that can be identified specifically with a particular cost objective. Examples of direct costs include employee compensation and benefits, supplies, and travel. An indirect cost is one that cannot be identified with a single, final cost objective, but is identified with two or more final cost objectives, one or more of which benefits federal programs. Such costs should be combined into groups or pools and should be distributed to benefit final cost objectives in a manner that will produce an equitable result based on relative benefits derived.

We designed our approach to determine compliance with OMB Circular A-122, which describes selected cost items, allowable costs, and standard methodologies for calculating indirect cost rates for not-for-profit organizations. The purposes of OMB Circular A-122 are to

- ensure that the federal government bears its fair share of costs,
- identify allowable costs for determining the actual cost of federal programs, and
- establish policies and procedures for indirect cost allocation plans.

Our procedures included:

1. determining that charges to cost pools used in calculating indirect cost rates were mathematically accurate and supported by the grantee's accounting records and audited financial statements;
2. assessing the allowability and allocability of indirect costs by testing selected transactions to supporting documentation and inquiring about the nature and functions of activities included in the indirect cost pool;
3. assessing the casual and beneficial relationship between indirect costs and cost activities;
4. analyzing the allowability and allocability of accounts comprising the Foundation's fringe benefit pool and calculating a recommended fringe benefit rate;
5. reviewing the general ledger to determine whether the grantee had income and credits, and if they were credited to the indirect cost or fringe benefit pools as appropriate; and

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6. inquiring about applicable fiscal year operations and assessing the impact of changes on the indirect cost rate structure.

Our approach to addressing the procedures was as follows.

1. We obtained an understanding of internal control over the subject matter of this engagement through inquiry, observation and performing an assessment of risk, and testing internal controls.
2. For direct costs, we determined whether the organization complied with the provisions of OMB Circular A-122 by:
 - a. testing direct charges to federal awards for allowability; and
 - b. verifying that unallowable costs, determined to be direct costs, were included in the allocation base for the purpose of computing an indirect cost rate.
3. We tested indirect costs to determine whether:
 - a. the base used to distribute the approved allowable indirect cost was appropriate and reasonable and in accordance with the requirements of OMB Circular A-122;
 - b. the calculated indirect cost rate was (i) consistent with policies and procedures that apply uniformly to both federally funded and other activities of the organization, and (ii) applied consistently to the proper allocation bases; and
 - c. the organization complied with the provisions of OMB Circular A-122 as follows:
 - i. charges to indirect cost pools were for allowable costs;
 - ii. the base used to distribute indirect costs included both allowable and unallowable costs; and
 - iii. the cost allocation methodology provided equitable and consistent allocation of indirect costs to benefiting awards or activities.

The scope of detail testing of individual accounts, internal controls, direct costs, indirect costs, regulation compliance, and other applicable records are a matter of judgment. Auditors cannot assume responsibility for fraud detection or prevention. Auditors are expected to maintain an alertness that will permit adequate inspection of the financial records as well as the internal controls, internal accounting, and administrative controls. As such, the auditors were alert to the possibility of intentional wrongdoing, errors and omissions, inefficiency, waste, ineffectiveness, and conflicts of interest.

Results

Indirect Cost Rates

We found the Foundation's accounting system was adequate to properly identify and segregate direct and indirect costs as well as allowable and unallowable costs for the fiscal years ended June 30, 2006, 2005, 2004, and 2003 under the provisions of OMB Circular A-122. Our

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review disclosed that for these fiscal years, the indirect costs proposed by the Foundation were properly calculated.

Table 1: The Foundation’s Proposed Indirect Cost Rates and Our Recommended Rates

Fiscal Year	Description	The Foundation Proposed Rate	Recommended Rate
2006	General and Administrative	(b) (4)	(b) (4)
2005	General and Administrative	(b) (4)	(b) (4)
2004	General and Administrative	(b) (4)	(b) (4)
2003	General and Administrative	(b) (4)	(b) (4)

Attachment A of this report presents 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 Maureen and Mike Mansfield Foundation indirect cost rates for FYs 2006, 2005, 2004, and 2003 as proposed by the Foundation and recommended by this report.

Inadequate Travel-Related Documentation

OMB Circular A-122 requires that expenses incurred under federal grants be adequately documented, be reasonable for the performance of the grant, and be allocable. The items we selected for testing travel expenses under the grants, did not meet these criteria. Foundation employees did not routinely provide supporting documentation for travel-related expenses, making it difficult to determine the business purpose of the trip and the appropriate allocation of costs. However, we were provided with receipts for all travel-related expenses and, through inquiry, were provided with documentation and oral justification of the business purpose of the incurred expenditures.

The Foundation needs to establish a policy, consistent with OMB Circular A-122, requiring employees to prepare expense reports to document fully the business purpose and related expenses items or services purchased, the date and time of the expense, and the expense amount. The expense report, with related receipts, should be reviewed and approved by the traveling employee’s supervisor.

Recommendation 2: We recommend that the Bureau of Educational and Cultural Affairs require that the Maureen and Mike Mansfield Foundation establish a policy requiring that all employees prepare expense reports to support fully the business purpose of the travel and costs claimed for reimbursement under the Department grants and that the employees’ supervisors review and approve these reports.

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L.F. Harris & Associates, CPA, P.A.



Certified Public Accountants

**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

We have performed certain agreed-upon procedures (the Procedures), as summarized in the Purpose, Scope and Methodology section of this report. The Procedures, which were agreed to by the Office of Inspector General, U.S. State Department, were performed solely to assist the Office of Inspector General, U.S. State Department in evaluating the Foundation's computations of their indirect cost rates in accordance with Office of Management and Budget Circular A-122 for the fiscal years ended June 30, 2006, 2005, 2004, and 2003.

The Foundation's management is responsible for compliance with those requirements. This agreed-upon procedures engagement was conducted 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 these Procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the Procedures as described in the Purpose, Scope and Methodology section of this report either for the purpose for which this report has been requested or for any other purpose. Our test procedures revealed two findings. The findings and the associated recommendations are presented in the "Results" section of this report.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the total costs claimed. 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.

L.F. Harris & Associates, CPA, P.A.
December 1, 2006

Attachment A – Supporting Schedules Page 1 of 4

The Maureen and Mike Mansfield Foundation

**Schedule of Indirect Costs Allowable and Indirect Cost Rates
for the Fiscal Year Ended June 30, 2003**

<u>Indirect Costs</u>	<u>Amount</u>
Salaries	(b) (4)
Payroll Taxes & Employee Benefits	(b) (4)
Office Expense	(b) (4)
Insurance	(b) (4)
Repair & Maintenance	(b) (4)
Travel	(b) (4)
Board Meetings	(b) (4)
Professional Fees	(b) (4)
Miscellaneous	(b) (4)
Depreciation	(b) (4)
Allocation of Central Foundation	(b) (4)
Total Administrative Indirect Costs Allowable (Numerator)	(b) (4)
G&A Allocation Base:	
Total Adjusted Expenses	(b) (4)
Add: Unallowable Activities	(b) (4)
Total Adjusted Direct Expenses (Denominator)	(b) (4)
Rate	(b) (4)

Attachment A - Supporting Schedules Page 2 of 4

The Maureen and Mike Mansfield Foundation

**Schedule of Indirect Costs Allowable and Indirect Cost Rates
for the Fiscal Year Ended June 30, 2004**

<u>Indirect Costs</u>	<u>Amount</u>
Salaries	(b) (4)
Payroll Taxes & Employee Benefits	(b) (4)
Office Expense	(b) (4)
Insurance	(b) (4)
Repair & Maintenance	(b) (4)
Travel	(b) (4)
Board Meetings	(b) (4)
Professional Fees	(b) (4)
Miscellaneous	(b) (4)
Depreciation	(b) (4)
Allocation of Central Foundation	(b) (4)
Total Administrative Indirect Costs Allowable (Numerator)	(b) (4)
G&A Allocation Base:	
Total Adjusted Expenses	(b) (4)
Add: Unallowable Activities	(b) (4)
Total Adjusted Direct Expenses (Denominator)	(b) (4)
Rate	(b) (4)

Attachment A - Supporting Schedules Page 3 of 4

The Maureen and Mike Mansfield Foundation

**Schedule of Indirect Costs Allowable and Indirect Cost Rates
for the Fiscal Year Ended June 30, 2005**

<u>Indirect Costs</u>	<u>Amount</u>
Salaries	(b) (4)
Payroll Taxes & Employee Benefits	(b) (4)
Office Expense	(b) (4)
Insurance	(b) (4)
Repair & Maintenance	(b)
Travel	(b) (4)
Board Meetings	()
Professional Fees	(b) (4)
Miscellaneous	()
Depreciation	(b) (4)
Allocation of Central Foundation	(b) (4)
Total Administrative Indirect Costs Allowable (Numerator)	<u>(b) (4)</u>
 G&A Allocation Base:	
Total Adjusted Expenses	(b) (4)
Add: Unallowable Activities	(b) (4)
Allocated Indirect Costs to Centers	()
Total Adjusted Direct Expenses (Denominator)	<u>(b) (4)</u>
 Rate	 (b) (4)

Attachment A - Supporting Schedules Page 4 of 4

The Maureen and Mike Mansfield Foundation

**Schedule of Indirect Costs Allowable and Indirect Cost Rates
for the Fiscal Year Ended June 30, 2006**

<u>Indirect Costs</u>	<u>Amount</u>
Salaries	(b) (4)
Payroll Taxes & Employee Benefits	(b) (4)
Office Expense	(b) (4)
Insurance	(b) (4)
Repair & Maintenance	(b) (4)
Travel	(b) (4)
Professional Fees	(b) (4)
Miscellaneous	(b) (4)
Depreciation	(b) (4)
Allocation of Central Foundation's Indirect	(b) (4)
Total Administrative Indirect Costs Allowable (Numerator)	<u>(b) (4)</u>
 G&A Allocation Base:	
Total Adjusted Expenses	(b) (4)
Add: Unallowable Activities	(b) (4)
Allocated Indirect Costs	(b) (4)
Total Adjusted Direct Expenses (Denominator)	<u>(b) (4)</u>
 Rate	<u>(b) (4)</u>

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