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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  
National Strategy Information Center,  
Inc.

Report Number AUD/CG-07-45, June 2007

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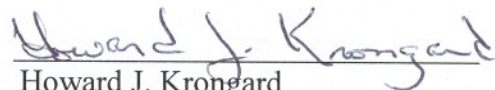
United States Department of State  
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Regis & Associates, PC, Certified Public Accountants, performed the agreed-upon procedures under Department of State, Office of Inspector General, Contract No. S-AQM-PD-D-0040, and by acceptance the report becomes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



Howard J. Krongard  
Inspector General

JUN 22 2007

\_\_\_\_\_  
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 National Strategy Information Center, Inc.'s proposed indirect cost rates for fiscal years ended October 31, 2005 and 2004 complied with applicable regulations. We found the Center'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, *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*.

We did note, however, that the proposed indirect cost for General and Administrative expenses for the fiscal year ended October 31, 2004, included \$154 for entertainment charges that contravene the provisions of OMB Circular A-122. Accordingly, we disallowed those costs.

Overall, our review disclosed that except for the disallowed costs, the indirect cost rates reported by the Center were properly calculated. The Center's indirect cost rate structures complied with OMB Circular A-122. We recommend that the Department accept and finalize the indirect cost rates for the fiscal years ended October 31, 2005 and 2004 as recommended by this report.

### Background

The National Strategy Information Center, Inc., was founded in 1962 as an independent, nongovernmental organization that provides an environment that brings together educators, government officials, and individuals from the private sector to identify, promote, pilot, and implement innovative strategies that enhance security and the quality of life in democratic societies. The Center has been at the forefront of education about challenges to democratic institutions for more than 40 years. The Center's traditional partnerships with academic and research institutions throughout the world also translate research into meaningful contributions to policy and programs.

To leverage its modest professional and financial resources, the Center collaborates with governments and nongovernmental organizations in the United States and abroad to develop, launch, and establish programs that can become independent and self-sustaining. The Center's programs focus on strong educational components, promote policy innovation, and seek to achieve a multiplier effect by disseminating information and by connecting and mobilizing key players.

OMB Circular A-122 provides for the allocation of indirect costs to grants awarded by federal agencies. Indirect costs are defined as those 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.

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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 the Center's indirect cost rate structures for FYs 2005 and 2004 complied with applicable regulations. In agreement with OIG, we performed the procedures identified below. We conducted this review between March 19 and May 18, 2007.

We performed this agreed-upon procedures engagement in accordance with 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 the Center's overall financial statements for the fiscal years ended October 31, 2005 and 2004.
- 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, tested sample items to determine whether they were properly classified as direct or indirect costs and whether the Center, where applicable, properly excluded unallowable costs from the cost pools used in computing the indirect cost rates.
- Reviewed the Center's grants and its negotiated indirect cost rate agreements to ascertain whether the Center's annual rate submissions were prepared in accordance with the grant's terms and provisions in the rate agreements.

### **Results**

We found the Center's accounting system to be adequate for accumulating and reporting indirect costs allowable under the provisions of OMB Circular A-122. However, we did note that the proposed indirect cost for General and Administrative (G&A) expenses in FY 2004 included \$154 for entertainment charges that contravene the provisions of OMB Circular A-122. Accordingly, we questioned these costs in their entirety and disallowed the amount as shown in Attachment E of this report.

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Our review of documentation supporting G&A costs claimed by the Center for the year ending October 31, 2004, noted that charges for alcoholic beverages amounting to \$154 were included in the G&A cost pool for indirect rate computation. OMB Circular A-122, Attachment B, Paragraph 2, states that “Costs of alcoholic beverages are unallowable.” The Center indicated that the inclusion of the cost of alcoholic beverages in the G&A cost pool for indirect cost rate computation was an oversight.

The inclusion of the unallowable costs identified above in the G&A cost pool, and thus in the indirect cost rate computation, increases the G&A rate. This increase in turn resulted in higher G&A expense amounts being charged to federal grants. As a result, we reduced the Center’s FY 2004 G&A expenses by the disallowed amount and recalculated the indirect cost rate. (See Table 1.)

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

Fiscal Year	Description	NSIC Proposed Rate	Recommended Rate
<b>2005</b>	<b>Fringe Benefits</b>	(b) (4)	(b) (4)
	<b>Occupancy</b>	(b) (4)	(b) (4)
	<b>General and Administrative</b>	(b) (4)	(b) (4)
<b>2004</b>	<b>Fringe Benefits</b>	(b) (4)	(b) (4)
	<b>Occupancy</b>	(b) (4)	(b) (4)
	<b>General and Administrative</b>	(b) (4)	(b) (4)

Attachments A through E of this report present the supporting calculations for the indirect cost rates identified in Table 1 above.

**Recommendation 1:** We recommend that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, International Programs Division accept and finalize the fiscal years 2005 and 2004 indirect cost rates as recommended by this report.

**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 National Strategy Information Center, Inc's proposed indirect cost rates for the fiscal years ending October 31, 2005 and 2004, 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 the Center complied with OMB Circular A-122. This agreed-upon procedures engagement was performed in accordance with 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  
May 18, 2007

National Strategy Information Center, Inc.

Schedule of Indirect Cost and Indirect Cost Rates  
for the Fiscal Years Ending October 31, 2005 and 2004

Rate Description	Allowable Indirect Cost Amounts		Indirect Cost Base	Indirect Cost Rates	
	Proposed	Recommended		Proposed	Recommended
<b><u>Fringe Benefits</u></b>					
2005	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
2004	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
<b><u>Occupancy</u></b>					
2005	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
2004	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
<b><u>General and Administrative</u></b>					
2005	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
2004	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)

National Strategy Information Center, Inc.

Schedule of Allowable Fringe Benefits Cost and Rates  
for the Fiscal Years Ending October 31, 2005 and 2004

<u>Allowable Fringe Benefits Costs</u>	<u>FY 2005</u>	<u>FY 2004</u>
Vacation Leave, & Other Compensated Absences	(b) (4)	(b) (4)
Health Insurance	(b) (4)	(b) (4)
Salary-Payroll Taxes	(b) (4)	(b) (4)
Disability Insurance-General Administration	(b) (4)	(b) (4)
Transportation Fringe	(b) (4)	(b) (4)
Pension	(b) (4)	(b) (4)
<b>Total Allowable Fringe Benefits Costs (Numerator)</b>	<b>(b) (4)</b>	<b>(b) (4)</b>
<b>Total Salaries (Denominator)</b>	<b>(b) (4)</b>	<b>(b) (4)</b>
<b>Allowable Fringe Benefits Rate</b>	<b>(b) (4)</b>	<b>(b) (4)</b>



National Strategy Information Center, Inc.

Schedule of Allowable Occupancy Cost and Rates  
for the Fiscal Years Ending October 31, 2005 and 2004

<u>Indirect Costs</u>	<u>FY 2005</u>	<u>FY 2004</u>
Rent	(b) (4)	(b) (4)
Depreciation	(b) (4)	(b) (4)
Equipment Rental	(b)	(b) (4)
Travel/General Administration	(b)	(b)
Parking	(b)	(b)
Repair and Maintenance	(b) (4)	(b) (4)
Real Estate Taxes	(b) (4)	(b) (4)
<b>Total Allowable Occupancy Costs (Numerator)</b>	<b>(b) (4)</b>	<b>(b) (4)</b>
<b>Total Direct Costs (Denominator)</b>	<b>(b) (4)</b>	<b>(b) (4)</b>
<b>Occupancy Rate</b>	<b>(b) (4)</b>	<b>(b) (4)</b>

National Strategy Information Center, Inc.

Schedule of Allowable General and Administrative Cost and Rate  
for the Fiscal Year Ending October 31, 2005

<u>Indirect Costs</u>	<u>Amount</u>
Salaries	(b) (4)
Applied Fringe	(b) (4)
Training	(b) (4)
Flex Plan	(b) (4)
Accounting Fees	(b) (4)
Consulting	(b) (4)
Misc. Taxes	(b) (4)
Travel/Lodging/Meals	(b) (4)
Placement Fees	(b) (4)
Postage/Printing Expenses	(b) (4)
Telephone/Internet/Fax Expenses	(b) (4)
Bank Charges	(b) (4)
Temporary Help	(b) (4)
Office Supplies	(b) (4)
Insurance	(b) (4)
Dues and Membership	(b) (4)
Miscellaneous	(b) (4)
<b>Total Administrative Costs (Numerator)</b>	<b>(b) (4)</b>
<b>Total Direct Costs (Denominator)</b>	<b>(b) (4)</b>
<b>General and Administrative Rate</b>	<b>(b) (4)</b>

National Strategy Information Center, Inc.

Schedule of Allowable General and Administrative Cost and Rate  
for the Fiscal Year Ending October 31, 2004

	Amount		
	Claimed	Disallowed	Allowable
<b>Indirect Costs</b>			
Accounting Fees	(b) (4)		(b) (4)
Bank Charges	(b) (4)		(b) (4)
Book/Subscription	(b)		(b)
Consultant Fees	(b) (4)		(b) (4)
Dues and Memberships	(b)		(b)
Fringe Applied	(b) (4)		(b) (4)
Insurance	(b) (4)		(b) (4)
Internet/Fax	(b) (4)		(b) (4)
Legal / Profession Fees	(b) (4)		(b) (4)
Travel/Lodging /Meals	(b) (4)	\$154	(b) (4)
Miscellaneous Expenses	(b)		(b)
Miscellaneous Taxes	(b)		(b)
Office Expenses	(b) (4)		(b) (4)
Postage Expenses	(b) (4)		(b) (4)
Professional Fees	(b)		(b)
Printing and Reproduction Expenses	(b) (4)		(b) (4)
Rabbi Trust Fund	(b) (4)		(b) (4)
Rabbi Trust Fund Medical	(b) (4)		(b) (4)
Salary	(b) (4)		(b) (4)
Telephone	(b) (4)		(b) (4)
Temporaries Help Administration	(b) (4)		(b) (4)
Training	(b)		(b)
<b>Total Administrative Costs (Numerator)</b>	(b) (4)	\$154	(b) (4)
<b>Total Direct Costs (Denominator)</b>	(b) (4)		(b) (4)
<b>General and Administrative Rate</b>	(b) (4)		(b) (4)

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