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## **Review of the Institute of International Education's Indirect Cost Rates for Fiscal Years 2002-05**

At the request of the Bureau of Educational and Cultural Affairs (ECA), the Office of Inspector General (OIG) conducted a review of the indirect costs reported by the Institute of International Education, Inc., and Affiliate (IIE) for fiscal years ending September 30, 2002-05. OIG's primary purpose was to determine whether IIE's indirect costs for the years reviewed complied with applicable federal laws and regulations.

OIG found that IIE's reporting of indirect costs did not comply with federal regulations and its internal organizational policy. Specifically, IIE was not following required accounting principles in reporting its severance costs; was making severance payments to current and former employees in excess of established organizational policy; and was including other unallowable costs in its indirect cost pools. As a result, OIG questioned indirect costs totaling \$5,652,439 and direct costs totaling \$176,244. For FYs 2002-05, OIG classified as unallowable, \$1,774,519 for severance pay because of inconsistent accounting treatment; that is, sometimes it was charged as direct costs and other times as indirect costs. Included in this severance total were overpayments to former employees totaling \$747,291 for FY 2005 and selected transactions for FYs 2002-04. In addition, OIG questioned \$3,478,125 for bond and loan interest expenses and \$576,039 for other expenses that were not appropriate under federally-established cost principles.

OIG recommended that ECA require IIE to establish a consistent accounting approach for reporting severance payments, identify additional severance overpayments for FYs 2002-04, reimburse the Department for all overpayments related to severance pay and other unallowable costs, adjust the indirect cost pools to exclude the unallowable costs, and recompute the indirect cost rates. Also, OIG recommended that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management negotiate and establish a final indirect cost rate agreement with IIE after IIE has taken the appropriate actions.

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The fieldwork for OIG Report AUD/CG-07-25 was conducted by the Office of Audits from November 2005 to March 2006. This is an unclassified summary of a full report, which may receive limited official distribution.

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