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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
NAFSA: Association of International Educators

Report Number AUD/CG-08-10, January 2008

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



Mark W. Duda
Assistant Inspector General
Office of Audits



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 indirect cost rates proposed by NAFSA: Association of International Educators¹ for the years ended December 31, 2005 and 2004 complied with applicable regulations.

We found NAFSA's accounting system to be adequate for accumulating and reporting indirect costs under the provisions of Office of Management and Budget (OMB) Circulars A-122, Codified at 2 CFR Part 230, *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*.

In reviewing NAFSA costs under the grants, we noted that the proposed indirect costs for 2005 and 2004 included a total of \$292,741 in bank charges related to NAFSA member subscriptions. We also noted that for the two years NAFSA charged a total of \$4,810 to overhead costs for personal use gifts and alcoholic beverages. In both cases, the charges contravene the provisions of OMB Circular A-122. Accordingly, we questioned these costs totaling \$297,551 (\$155,255 for 2005 and \$142,296 for 2004) as unallowable. The details of the amounts disallowed are presented in Attachments C and D of this report.

We recommend that the Department accept and finalize the indirect cost rates for 2005 and 2004 as recommended in this report.

Background

NAFSA was founded in 1948 to promote the professional development of American college and university officials responsible for assisting and advising foreign students who had come to study in the United States after World War II. NAFSA is now an association of individuals engaged in the field of international education at the postsecondary level. It promotes educational opportunities across national boundaries; serving members, their institutions and students, and organizations with an interest in international education mobility.

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 (A), Office of the Procurement Executive, assigns responsibility for negotiating indirect cost

¹ The National Association of Foreign Student Advisers (NAFSA) was founded in 1948. In 1990 it changed its name to NAFSA: Association of International Educators.

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rates with the Department's grantees to A's Office of Logistics Management, Office of Acquisitions Management, International Programs Division.

Purpose, Scope, and Methodology

Our primary purpose was to determine whether NAFSA's indirect cost structures for 2005 and 2004 complied with applicable regulations. In agreement with OIG, we performed the procedures identified below. We conducted this review between December 18, 2006, 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 we performed are summarized as follows.

- Interviewed NAFSA's finance personnel to determine the extent to which each funded program benefited from common services.
- Reviewed NAFSA's overall financial statements for 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, sample items were subjected to tests to determine whether they were properly classified as direct or indirect costs and whether NAFSA, where applicable, properly excluded unallowable costs from the cost pools used in computing the indirect cost rates.
- Reviewed NAFSA's grants and its negotiated indirect cost rate agreements to ascertain whether NAFSA's annual rate submissions were prepared in accordance with the grants' terms and provisions of the rate agreements.

Results

We found NAFSA's accounting system to be adequate for accumulating and reporting indirect costs allowable under the provisions of OMB Circular A-122. However, in reviewing NAFSA costs under the grants, we noted that the proposed indirect costs for 2005 and 2004 included a total of \$292,741 in bank charges related to NAFSA member subscriptions, including \$151,595 for 2005 and \$141,146 for 2004. We also noted that NAFSA charged a total of \$4,810 to overhead costs for personal use gifts and alcoholic beverages, including \$3,660 for 2005 and \$1,150 for 2004. In both cases, the charges contravene the provisions of OMB Circular A-122. Accordingly, we questioned these costs totaling \$297,551 (\$155,255 for 2005 and \$142,296 for 2004) as unallowable. The details of the amounts disallowed are presented in Attachments C and D of this report.

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OMB Circular A-122, Attachment A, Section B, Subsection 4 states that

The costs of activities performed primarily as a service to members, clients, or the general public when significant and necessary to the organization’s mission must be treated as direct costs whether or not allowable and be allocated an equitable share of indirect costs. Some examples of these types of activities include: a. Maintenance of membership rolls, subscriptions, publications, and related functions....

OMB Circular A-122, Attachment B, Paragraph 18 states that “Costs of goods or services for personal use of the organization’s employees are unallowable regardless of whether the cost is reported as taxable income to the employees.” Additionally, OMB Circular A-122, Attachment B, Paragraph 2 states that “Costs of alcoholic beverages are unallowable.”

NAFSA believes that bank charges in general and, specifically, credit card processing fees are allowable indirect costs. However, this position contravenes the provisions of OMB Circular A-122. NAFSA was not aware of the restrictions on costs of goods purchased for personal use. NAFSA further said that the inclusion of the costs of alcoholic beverages in the overhead cost pool was an oversight.

The inclusion of the unallowable cost elements identified above in the overhead cost pool, and thus in the overhead rate computation, increases the overhead rate. This increase in turn resulted in higher overhead amounts being charged to federal grants.

We recommend that the Department accept and finalize the indirect cost rates for 2005 and 2004 as recommended by this report. These rates are presented in Table 1.

Table 1: NAFSA’s Proposed and Our Recommended Rates

Fiscal Year	Description	NAFSA’s Proposed Rate	Recommended Rate
2005	Fringe Benefits	(b) (4)	(b) (4)
	Overhead	(b) (4)	(b) (4)
2004	Fringe Benefits	(b) (4)	(b) (4)
	Overhead	(b) (4)	(b) (4)

Attachments A through D of this report present 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 2005 and 2004 as recommended in 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 NAFSA: Association of International Educators' (NAFSA's) proposed indirect cost rates for the fiscal years ending December 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 NAFSA 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
March 16, 2007

NAFSA: Association of International Educators

**Summary of Indirect Costs and Indirect Cost Rates
for the Years Ending December 31, 2005 and 2004**

Fringe Benefits	Indirect Cost Amount		Indirect Cost Base	Indirect Rates	
	Proposed	Recommended		Proposed	Recommended
2005	(b) (4)(b) (4)	(b) (4)(b) (4)	(b) (4)(b) (4)	(b) (4)	(b) (4)
2004	(b) (4)	(b) (4)	(b) (4)(b) (4)	(b)	(b)
Overhead					
2005	(b) (4)(b) (4)	(b) (4)(b) (4)	(b) (4)(b) (4)	(b) (4)	(b) (4)
2004	(b) (4)(b) (4)	(b) (4)(b) (4)	(b) (4)(b) (4)	(b)	(b)

NAFSA: Association of International Educators

**Schedule of Allowable Fringe Benefit Costs and Rates
for the Years Ending December 31, 2005 and 2004**

<u>Allowable Fringe Benefit Costs</u>	<u>FY 2005</u>	<u>FY 2004</u>
Taxes	(b) (4)(b) (4)	(b) (4)(b) (4)
Dental/Health Net	(b) (4)	(b) (4)
Life Insurance	(b) (4)	(b) (4)
403 (b) Company Match	(b) (4)	(b) (4)
Workers Compensation	(b) (4)	(b) (4)
Other Benefits	(b) (4)	(b) (4)
Administrative Expense	(b) (4)	(b) (4)
Total Allowable Fringe Benefit Costs (Numerator)	(b) (4)(b) (4)	(b) (4)(b) (4)
Total Salaries (Denominator)	(b) (4)(b) (4)	(b) (4)(b) (4)
Allowable Fringe Benefits Rate	(b) (4)	(b) (4)

NAFSA: Association of International Educators

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

<u>Allowable Indirect Costs</u>	<u>Amount</u>		
	<u>Claimed</u>	<u>Disallowed</u>	<u>Allowable</u>
Accounting Fees	(b) (4)		(b) (4)
Advertising/Archives Costs	(b) (4)		(b) (4)
Bank Charges ^a	(b) (4)	\$151,595.49	(b) (4)
Catering Expenses	(b) (4)		(b) (4)
Consultant Fees	(b) (4)		(b) (4)
Data Processing	(b) (4)		(b) (4)
Delivery	(b) (4)		(b) (4)
Depreciation/Amortization	(b) (4)		(b) (4)
Dues and Communication Subscriptions	(b) (4)		(b) (4)
Equipment Purchase/Rent/Lease Costs	(b) (4)		(b) (4)
Fringe Benefit	(b) (4)		(b) (4)
Hospitality/Holiday Party Costs ^b	(b) (4)	861.00	(b) (4)
Insurance	(b) (4)		(b) (4)
Interest Expense-Xerox	(b)		(b)
Legal Fees	(b) (4)		(b) (4)
Life and Death Insurance	(b) (4)		(b) (4)
Miscellaneous (Alcoholic Beverages) ^b	(b) (4)	1,118.00	(b) (4)
Office Lease Operation Expenses	(b) (4)		(b) (4)
Office Rent/Repair/Security Costs	(b) (4)		(b) (4)
Office Supplies	(b) (4)		(b) (4)
Other Meeting Expense	(b) (4)		(b) (4)
Other Tax and Fees	(b)		(b)
Photocopying/Postage/Printing Costs	(b) (4)		(b) (4)
Repair and Maintenances	(b) (4)		(b) (4)
Salaries	(b) (4)(b) (4)		(b) (4)(b) (4)
Small Gifts ^b	(b) (4)	1,680.58	(b) (4)
Software Expenses	(b) (4)		(b) (4)
Telephone/Special Events Costs	(b) (4)		(b) (4)
Temporary Help	(b) (4)		(b) (4)
Training and Seminars	(b) (4)		(b) (4)
Travel Regional/Local/International & Committee	(b) (4)		(b) (4)
Tuition Reimbursement	(b) (4)		(b) (4)
Total Overhead Costs (Numerator)	(b) (4)(b) (4)	\$155,255.07	(b) (4)(b) (4)
Total Direct Costs (Denominator)	(b) (4)(b) (4)		(b) (4)(b) (4)
Overhead Rate	(b) (4)		(b) (4)

^a NAFSA's proposed indirect costs for the fiscal year ended 2005 included \$151,595.49 in bank charges related to NAFSA member subscriptions that contravene the provisions of OMB Circular A-122.

^b NAFSA's proposed indirect costs for the fiscal year ended 2005 included \$3,659.58 for personal use gifts and alcoholic beverages that contravene the provisions of OMB Circular A-122.

NAFSA: Association of International Educators

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

	<u>Amount</u>		
	<u>Claimed</u>	<u>Disallowed</u>	<u>Allowable</u>
<u>Allowable Indirect Costs</u>			
Accounting Fees	(b) (4)		(b) (4)
Advertising/Archives/Audio Visual Expenses	(b) (4)		(b) (4)
Bank Charges ^a	(b) (4)	\$141,145.84	(b) (4)
Communication Subscription/Catering/Delivery Charges	(b) (4)		(b) (4)
Consultant Fees	(b) (4)		(b) (4)
Data Processing	(b) (4)		(b) (4)
Depreciation/Amortization	(b) (4)		(b) (4)
Equipment Purchase/Lease and Rent	(b) (4)		(b) (4)
Fringe Benefit	(b) (4)		(b) (4)
Hospitality/Honoraria/Holiday Party Expense ^b	(b) (4)	986.65	(b) (4)
Insurance	(b) (4)		(b) (4)
Interest Expense-Xerox	(b) (4)		(b) (4)
Legal Fees	(b) (4)		(b) (4)
Miscellaneous/Meeting/Dues and Subscription Expenses	(b) (4)		(b) (4)
Office Lease Operation Expenses	(b) (4)		(b) (4)
Office Rent/Repair and Office Security	(b) (4)		(b) (4)
Office Supplies	(b) (4)		(b) (4)
Other Meeting and Committee Costs	(b) (4)		(b) (4)
Other Personal Costs	(b) (4)		(b) (4)
Other Tax and Fees	(b) (4)		(b) (4)
Photocopying/Postage/Printing Costs	(b) (4)		(b) (4)
Repair and Maintenances	(b) (4)		(b) (4)
Salaries	(b) (4)(b) (4)		(b) (4)(b) (4)
Small Gifts ^b	(b) (4)	163.45	(b) (4)
Software Expenses	(b) (4)		(b) (4)
Telephone/Special Events/Temporary Help	(b) (4)		(b) (4)
Training and Seminars	(b) (4)		(b) (4)
Transportation Benefits/Other Transportation Costs	(b) (4)		(b) (4)
Travel Regional/Local/Committee and Travel Services Fees	(b) (4)		(b) (4)
Web Service Fees	(b) (4)		(b) (4)
Total Overhead Costs (Numerator)	(b) (4)(b) (4)	\$142,295.94	(b) (4)(b) (4)
Total Direct Costs (Denominator)	(b) (4)(b) (4)		(b) (4)(b) (4)
Overhead Rate	(b) (4)		(b) (4)

^a NAFSA's proposed indirect costs for the fiscal year ended 2004 included \$141,145.84 in bank charges related to NAFSA member subscriptions that contravene the provisions of OMB Circular A-122.

^b NAFSA's proposed indirect costs for the fiscal year ended 2004 included \$1,150.10 for personal use gifts and alcoholic beverages that contravene the provisions of OMB Circular A-122.