

**SCIENCENTRAL, INC. AND
CENTER FOR SCIENCE IN THE MEDIA INC
NEW YORK, NEW YORK**

**NATIONAL SCIENCE FOUNDATION
AWARD NUMBERS ESI-0201155
ISSUED TO SCIENCENTRAL AND
ESI-9904457 ISSUED TO
CENTER FOR SCIENCE IN THE MEDIA**

**FINANCIAL SCHEDULES AND
INDEPENDENT AUDITORS' REPORTS
For the period
September 1, 1999 – September 30, 2003**

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**ScienCentral Inc. and Center for Science in the Media Inc.
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EXECUTIVE SUMMARY



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EXECUTIVE SUMMARY

BACKGROUND

ScienCentral, Inc. (SCI) is a for-profit production company specializing in science and technology content for television, video and the web. SCI, as a National Science Foundation (NSF) awardee, is required to follow the cost principles specified by the Federal Acquisition Regulations (FAR), Part 31-*Contract Cost Principles and Procedures* and the Federal administrative requirements contained in OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*.

SCI is closely related to The Center for Science in the Media, Inc. (CSMI), a non-profit organization that conducts research and develops mass media approaches that bring science and technology news and information into the mainstream of everyday life. SCI and CSMI share the same office space and the cost of certain officers, employees, and other costs. As an NSF non-profit awardee, CSMI is governed by the cost principles specified by OMB Circular A-122, *Cost Principles for Nonprofit Organizations*, the Federal administrative requirements contained in OMB Circular A-110, and the audit requirements contained in OMB Circular A-133, *Audits for States, Local Governments and Non-profit Organizations*.

SCI/CSMI is very dependent on NSF funding. In FY 2002, SCI/CSMI generated approximately \$1.2 million of annual revenues mainly from the NSF grants and program income. Of the approximate \$1.2 million of annual revenues, Federal financial assistance and program income approximates \$0.9 million or 75 percent. NSF, which provides 100 percent of the Federal financial assistance to SCI/CSMI on an annual basis, is the cognizant Federal audit agency for both entities.

For the NSF awards included in this audit, SCI and CSMI produce and distribute weekly science and technology news videos for ABC-affiliated local commercial newscasts across the United States. Descriptions of the two grant awards audited are as follows:

NSF Award ESI-0201155 – The objective of this grant, titled “NOVA Minutes”, was to produce and distribute two-minute television science stories based on the NOVA PBS science

series. Each segment is produced using footage from the NOVA series as well as original and archival footage. ABC News distributes the NOVA Minutes to its local affiliates for use in newscasts. Under this agreement, NSF awarded SCI \$1,555,351 and SCI agreed to cost share \$1,152,000 for the grant period, March 1, 2002 to July 31, 2004. As of September 30, 2003, SCI claimed \$740,289 in NSF-funded costs and \$511,756 in cost sharing.

NSF Award ESI-9904457 – The objective of this grant, titled “Science News for Local TV and Spanish Stations” was to develop the Science and Technology News Network (STN2). STN2 produces 90-second video news stories for local television stations. Under this agreement, NSF awarded CSMI, with SCI as subawardee, \$2,006,169 and CSMI agreed to cost share \$1,930,000 for the grant period, September 1, 1999 to August 31, 2004. As of September 30, 2003, CSMI claimed \$1,979,250 in NSF-funded costs and \$2,089,235 in cost sharing.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

At the request of the NSF Office of Inspector General (OIG), Foxx & Company conducted an audit of two NSF awards granted to SCI and CSMI: ESI-0201155 and ESI-9904457, respectively.

The objectives of our audit engagement were to:

1. Determine whether the Schedules of Award Costs of SCI and CSMI present fairly, in all material respects, the costs claimed on the *Federal Cash Transaction Reports (FCTR) – Federal Share of Net Disbursements* and the costs claimed are in conformity with the terms and conditions of the NSF awards ESI-0201155 and ESI-9904457.
2. Identify matters concerning instances of noncompliance with laws, regulations, and the provisions of the award agreements pertaining to NSF awards and weaknesses in the SCI's and CSMI's internal control over financial reporting that could have a direct and material effect on the Schedule of Award Costs.

To accomplish the objectives of the audit, we:

- a. Prepared a survey and internal control audit plan that included the proposed audit program and sampling methodology for performing the audit survey, gaining an understanding of the grantee's policies and procedures and financial systems for administering NSF awards, identifying risks in the grantee's operations for effectively administering NSF awards, and testing the grantees' significant internal controls to determine whether those controls are operating effectively to mitigate the identified risk.
- b. Conducted an on-site survey and internal control assessment

- c. Prepared a survey and internal control assessment report that included a summary of the results of the on-site audit survey and testing of significant internal controls.
- d. Prepared a substantive audit testing planning document that included the proposed audit program including sections on tests of compliance with applicable laws and regulations, and substantive testing procedures to determine whether costs charged to the NSF award(s) by the awardee are allowable, allocable, and reasonable in accordance with the applicable Federal cost principles and award terms and conditions.

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, (1999 Revision) issued by the Comptroller General of the United States of America.

SUMMARY OF AUDIT RESULTS

The results of our audit on SCI and CSMI's Schedule of Award Costs are qualified to the extent that we were not able to determine whether material amounts of claimed costs SCI and CSMI charged to its two NSF awards were allowable, allocable, and reasonable in accordance with applicable federal cost principles and NSF award terms and conditions. In addition, SCI and CSMI did not maintain adequate internal controls to provide reasonable assurance of compliance with these requirements. As a result, we found a material non-compliance and questioned 34 percent, or \$921,489 of claimed costs (\$204,667 and \$716,822 under Award Numbers ESI-0201155 and ESI-9904457, respectively).

CSMI did not comply with OMB Circular A-133 that requires a single or program specific audit for entities that expend \$300,000¹ or more in a year in Federal awards. No such audit was performed even though CSMI had Federal expenditures of \$1,042,565 and \$774,553 in 2000 and 2001, respectively.

The financial management, cost-sharing, cash management, and personnel systems used by SCI and CSMI were inadequate to provide for segregation of key accounting duties, adequate documentation, cost segregation, or compliance with the terms of the award agreements. SCI/CSMI did not have an adequate segregation of key accounting duties. In particular, a consultant, without any independent oversight performed key accounting functions. In addition, 82 percent or \$2.1 million of claimed cost sharing was not initially verifiable from SCI/CSMI records and the annual required cost-sharing certification and reporting to NSF was not performed as required. Further, the accounting system did not provide for an adequate segregation between direct and indirect costs, invoices were not coded to specific projects, payroll billing rates were not documented in employee personnel files, and timesheets supporting claimed salary and wage costs were missing or inadequate. SCI/CSMI did not calculate its actual annual employee benefit costs resulting in the improper allocation of \$211,023 to the awards. Finally, SCI/CSMI did not submit annual indirect cost proposals to NSF to establish

¹ For fiscal years ending after December 31, 2003 the Single Audit Expenditures threshold is \$500,000.

final indirect cost rates or calculate its actual in-house film production costs resulting in \$298,554 and \$246,445, respectively, of costs questioned as unsupported.

As a result of these material control weaknesses, SCI and CSMI were unable to support 34 percent or \$921,489 of its claimed costs. The magnitude and pervasiveness of the financial management, cost sharing, cash management, and personnel compensation system deficiencies identified in this report suggest an overall control environment at SCI/CSMI that warrants immediate attention and corrective actions toward establishing good internal controls and compliance with Federal award terms and conditions. SCI/CSMI management should play a key role in providing leadership in this area, especially in setting and maintaining the organization's expectations and commitment to financial performance. However, the reliance on one individual to perform all key accounting functions, an overall lack of knowledge of Federal regulations evidenced by SCI/CSMI staff, and the inadequate systems to properly account for 34 percent of claimed costs indicate the need for SCI/CSMI management to recognize the seriousness of its grants management control deficiencies and to place a high priority on addressing these deficiencies. Until corrective action is taken, NSF has little or no assurance that SCI/CSMI will record, process, summarize, and report award costs and cost sharing in accordance with the award terms and conditions. The material weaknesses we identified in the control structure combined with a lack of management and staff awareness of Federal regulations places NSF's awards at a high risk that fraud and/or abuse could occur and not be detected.

Accordingly, we recommend that the NSF Directors of the Division of Grants and Agreements (DGA) and the Division of Institution and Award Support (DIAS) direct SCI/CSMI to develop and implement a financial management system and policies and control processes to effectively administer and monitor NSF funds, including (1) maintaining documentation supporting all award costs for the time period required by the NSF award provisions, (2) implementing an accounting system to separately identify, track, and report on NSF and shared costs, (3) ensuring all expenses are reviewed for allowability, allocability, reasonableness, and approved by an appropriate supervisor(s), and (4) training personnel to be knowledgeable of Federal grant regulations. We also recommend that the NSF Director of DIAS recognize SCI/CSMI as a high-risk awardee under its risk-management program and not grant new NSF awards to these organizations until SCI/CSMI has developed a corrective action plan and implemented actions to address its grants financial management and internal control deficiencies.

For a complete discussion of these findings, refer to the Independent Auditors' Report on Compliance with Laws and Regulations and Internal Control over Financial Reporting.

Summary of Auditee's Response

SCI/CSMI management stated that as an organization, both SCMI and CSMI evolved significantly over the grant periods, which covered a span of four years from 1999 to 2003. They believe that in general the audit report fails to note or address the relative improvements made from 2001 to the present. For example, since early 2002, SCI/CSMI stated it has added additional resources and more expertise managing its financial functions. In addition, since the audit by Foxx & Company, SCI/CSMI stated it has upgraded its accounting software, developed

a new chart of accounts, and has documented and developed indirect cost, fringe benefit and production cost pools for 1999-2003.

SCI/CSMI agreed with several findings. Specifically, CSMI did not perform Single Audits for the years ended December 31, 2000, and December 31, 2001; the fringe benefits rates charged to the grants exceeded the rates that can be justified from its actual costs; the calculation to determine an hourly billing rate for employees was incorrectly based on 35 hours per week; SCI “double-billed” a monthly invoice from ScienCentral (as sub-awardee) to CSMI in May 2001, which resulted in \$44,458 in overcharges to ESI-9904457; and, SCI/CSMI agrees that there were issues with a few timesheets and billing hours as noted in Q77, Q78 and Q87 for a total of \$3,105.

However, SCI/CSMI believes that the remainder of the questioned costs can be justified under NSF and Federal grant guidelines and looks forward to discussing the remaining questioned costs with NSF/CAAR in the near future.

EXIT CONFERENCE

An end of fieldwork exit conference was held on December 18, 2003, at the SCI office in New York, New York.

Findings and recommendations contained in this report, as well as other observations were discussed with those attending:

Representing SCI and CSMI was:

Name	Title
[REDACTED]	[REDACTED]

Representing Foxx & Company were:

Name	Title
[REDACTED]	[REDACTED]

AUDIT FINDINGS AND RECOMMENDATIONS



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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL SCHEDULES

We have audited the costs claimed by ScienCentral, Inc. (SCI), and Center for Science in the Media, Inc. (CSMI) to the National Science Foundation (NSF) on the Federal Cash Transactions Reports (FCTR) – Federal Share of Net Disbursements for the NSF awards listed below. The FCTRs as presented in the Schedules of Award Costs (Schedules A-1 and A-2), are the responsibility of SCI and CSMI management.

Award Number	Award Period	Audit Period
ESI-0201155	March 1, 2002 to July 31, 2004	March 1, 2002 to September 30, 2003
ESI-9904457	September 1, 1999 to August 31, 2004	September 1, 1999 to September 30, 2003

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* (1999 Revision) issued by the Comptroller General of the United States of America, and the *National Science Foundation Audit Guide* (September 1996), as applicable. These standards and the *National Science Foundation Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed to the NSF as presented in the Schedules of Award Costs (A-1, A-2 and A-3) are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules of Award costs. An audit also includes assessing the accounting principles used and significant estimates made by SCI and CSMI management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying financial schedules were prepared to comply with the requirements of the *National Science Foundation Audit Guide* as described in the Notes to the Schedules, and are not intended to be a complete presentation of financial position in conformity with accounting principles generally accepted in the United States of America.

Schedules B-1 and B-2 present costs totaling \$921,489 that are questioned as to their allowability under the award agreements. Questioned costs are (1) costs for which there is documentation that the recorded costs were expended in violation of the law, regulations or specific conditions

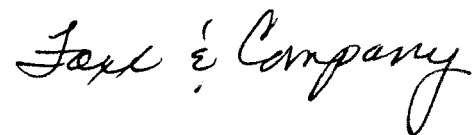
of the award, (2) costs that require additional support by the awardee, or (3) costs that require interpretation of allowability by the National Science Foundation – Division of Acquisition and Cost Support (DACCS). The National Science Foundation will make the final determination regarding whether such costs are allowable. The ultimate outcome of this determination cannot presently be determined. Accordingly, no adjustment has been made to costs claimed for any potential disallowance by NSF.

We used nonstatistical sampling to test the non-salaries and wages costs claimed by SCI and CSMI and to test for compliance with Federal award requirements. Based on this sampling plan, questioned costs in this report may not represent total costs that may have been questioned had all expenditures been tested. In addition, we made no attempt to project such costs to total costs claimed, based on the relationship of costs related to total costs.

In our opinion, except for the effects on questioned costs, if any, that may have been determined to be necessary if all salaries and wages costs claimed had been tested, the Schedules of Award Costs (Schedules A-1 and A-2) referred to above present fairly, in all material respects, the costs claimed on the Federal Cash Transactions Reports – Federal Share of Net Disbursements for the period September 30, 1999 to September 30, 2003 in conformity with the *National Science Foundation Audit Guide*, *NSF Grant Policy Manual*, terms and conditions of the NSF award requirements, and on the basis of accounting described in the Notes to the Financial Schedules.

In accordance with *Government Auditing Standards* and the provisions of the *National Science Foundation Audit Guide*, we have also issued a report dated December 18, 2003 on tests of SCI and CSMI's compliance with certain provisions of laws, regulations and the NSF award agreement, and our consideration of SCI and CSMI's internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of SCI and CSMI's management, the National Science Foundation, the Office of Management and Budget, and the Congress of the United States and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Foxx & Company".

Foxx & Company
December 18, 2003



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

We have audited the Schedules of Award Costs as presented in Schedules A-1 and A-2, which summarize the financial reports submitted by ScienCentral, Inc. (SCI) and Center for Science in the Media, Inc. (CSMI) to the National Science Foundation (NSF) for the awards listed below and have issued a qualified report thereon dated December 18, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* (1999 Revision) issued by the Comptroller General of the United States of America, and the *National Science Foundation Audit Guide* (September 1996), as applicable.

COMPLIANCE WITH LAWS AND REGULATIONS

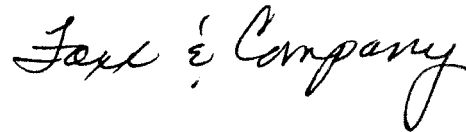
As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatement, we performed tests of SCI's and CSMI's compliance with certain provisions of laws, regulations, and the NSF award terms and conditions, noncompliance with which could have a direct and material effect on the financial schedules. However, providing an opinion on overall compliance with such provisions was not an objective of our audit of the financial schedules. Accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance, which is required to be reported under *Government Auditing Standards*. *See Finding I below.*

INTERNAL CONTROLS OVER FINANCIAL REPORTING

In planning and performing our audit of Schedules of Award Costs (Schedules A-1 and A-2), we considered SCI's and CSMI's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on the internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in

which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted several matters involving internal control and its operation that we consider to be material weaknesses as defined above. *See Findings II through IV below.*

This report is intended solely for the information and use of SCI and CSMI's management, the National Science Foundation, the Office of Management and Budget, and the Congress of the United States and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Foxx & Company". The signature is written in black ink and is positioned to the right of the typed company name.

Foxx & Company
December 18, 2003

FINDINGS AND RECOMMENDATIONS

I. OMB Circular A-133 Audit Requirement Not Met

NSF's GC-1, Section 23.e, in part, states that awardees that are non-profit organizations shall arrange for the conduct of audits, as required by OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. It further states that the Awardee shall provide copies of the reports of these audits to the cognizant Federal audit agency. OMB Circular A-133, Subpart B states, "Non-Federal entities that expend \$300,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part."

For the years ended December 31, 2000 and 2001, CSMI, a non-profit organization, had Federal expenditures of \$1,042,565 and \$774,553, respectively, under Award Number ESI-9904457. Because the expenditures for these years exceeded the \$300,000 audit threshold, a Single Audit was required. However, CSMI did not obtain the required single audits.

One objective of the Single Audit is to, through repeated exposures to a structured audit process; promote strong financial management, including effective internal controls, with respect to Federal awards administered by non-Federal entities. This objective, however, was not met. Our audit of award ESI-9904457 identified \$716,822 of award costs that were unallowable, not supported by adequate documentation, or were not supported by cost allocation plans that were approved by NSF, the awardees' cognizant Federal agency (see Schedule A-2). Additionally, SCI/CSMI did not have adequate financial management, cost sharing, or personnel compensation systems to record, process, summarize, and report financial information or to ensure the NSF awards were administered in compliance with the awards' terms and conditions. If the required Single Audits had been obtained, the deficiencies disclosed in this audit could have been identified and corrective actions implemented on a timelier basis. Discussions with SCI/CSMI senior management personnel found that they were not aware of the NSF grant conditions and the OMB A-133 requirement to obtain a Single Audit.

The OMB Circular A-133 audit requirement is a basic requirement applicable to all Federal agencies and awards made to states, local governments, and non-profit organizations. The awardees' lack of awareness with this basic requirement raises very serious concerns about its familiarity with other equally important NSF award requirements. Therefore, until corrective action is taken and awardee staff receives training in the cost principles and administrative requirements applicable to NSF and other Federal awards, NSF has little or no assurance that SCI/CSMI will have the knowledge to establish and maintain adequate financial and administrative systems to properly administer its NSF awards.

Recommendation No. 1 – We recommend that the NSF Directors of DGA and DIAS, prior to making new awards, ensure that:

- a. CSMI comply with the requirements of the OMB Circular A-133 by obtaining the required audits for the years ended December 31, 2000 and 2001; and,

- b. CSMI management and appropriate staff personnel obtain training in the Federal cost principles and administrative requirements.

Auditee's Response

CSMI agrees that it did not perform single audits of its financial records and federal grant documentation for the years ended December 31, 2000 and December 31, 2001. If the NSF directs CSMI to perform the audits at this time, it is willing to do so, but notes that Foxx & Company has already examined the Company rigorously during the course of the audit. However, to ensure compliance in the future we have developed a corrective action plan.

Corrective Action Plan

1. SCI engaged [REDACTED], the world's [REDACTED] accounting firm, which specializes in performing OMB Circular A-133 and grant audits, to review SCI/CSMI accounting and reporting systems and suggest improvements.
2. SCI is training and will continue to train its staff on all changes and new written procedures, in addition to the ones already in place, to ensure staff compliance.
3. Audits in accordance with OMB Circular A-133 will be performed for future periods.

Auditor's Response to Auditee's Response

CSMI did not comply with the requirements of OMB Circular A-133 and our recommendation remains unchanged.

II. Systemic Issues

SCI/CSMI did not have an adequate financial management, cost sharing, cash management, or personnel and payroll systems and internal controls with adequate checks and balances in place to properly administer NSF awards. As a result, SCI/CSMI was unable to properly account for 34 percent of its claimed costs. The following sections describe the results of our audit in these areas.

A. The Financial Management System is Inadequate

OMB Circular A-110, requires a financial management system that provides for accurate, current, and complete disclosure of the financial results of each Federal award; records that adequately identify the source and application of funds; effective control over and accountability for all funds, assuring that all funds are used solely for authorized purposes; comparison of outlays with budget amounts for each award in accordance with the provisions of the applicable Federal and NSF award requirements, and accounting records including cost accounting records that are supported by source documentation. The Circular also requires that grantees maintain

written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.

SCI and CSMI used a small business accounting software package to record financial transactions, print checks and generate a general ledger. The software, intended for use by small commercial businesses, did not readily and separately track the results of each Federal award. Therefore, to accomplish this separate tracking requirement, the CFO manually entered financial data for each award from the accounting system into off-line electronic spreadsheets. The CFO prepared these spreadsheets each quarter, based on general ledger and payroll reports, timesheets, and allocations of direct costs documented on original invoices. The CFO then used the spreadsheets as the basis to report quarterly grant expenditures to NSF on the *Federal Cash Transaction Reports* (FCTR). The CFO was solely responsible for inputting data into the accounting system, preparing the electronic grant tracking spreadsheets, and reporting grant expenditures to NSF.

Accordingly, while SCI/CSMI maintained an accounting system to track costs of NSF awards, we found that overall that it did not have an adequate financial management system and internal controls with adequate checks and balances in place to properly administer NSF awards. Specifically:

- SCI/CSMI did not have adequate segregation of key accounting duties. For example, at SCI/CSMI, the CFO approved invoices for payment, recorded the transactions in the accounting system, prepared the financial reports, and prepared bank reconciliations, all without independent supervisory review to ensure that transactions were incurred for authorized purposes. In testing a sample of claimed costs, we found 37 items where SCI/CSMI could not provide source documentation resulting in \$47,924 of questioned costs. We were unable to determine whether the costs were reasonable, allowable and allocable to the NSF awards. Without adequate segregation of key accounting duties, the risk remains that errors or irregularities could occur and not be detected by management.
- In testing a sample of reported expenditures, we found one instance where the same costs were claimed twice. This error was not discovered by the CFO because he did not reconcile the electronic grant spreadsheets to the general ledger to ensure the spreadsheets were reliable as a basis to prepare the FCTR. As a result, we questioned \$44,458 of costs claimed under ESI-9904457 (See Schedule B-2, Note 2.6).
- SCI/CSMI used interim billing rates rather than actual annual employee benefit rates to calculate charges to the NSF awards resulting in the disproportionate allocation of \$211,023 to the NSF awards; did not submit annual indirect cost proposals to NSF to establish final indirect cost rates resulting in \$298,554 of unsupported cost; and, used industry standard rates rather than actual rates to calculate in-house film production charges to the NSF awards resulting in \$246,445 of unsupported costs. Overall, the improper and unsupported allocation of employee benefit, indirect, and production costs to the NSF awards resulted in total questioned costs of \$756,022, or 28 percent of total claimed costs.

- In testing a sample of other direct costs, we found 15 items where SCI/CSMI could not provide adequate documentation to support \$13,243 of claimed costs. As a result, we could not determine whether the costs were allowable, allocable, and reasonable.
- The accounting system did not segregate direct and indirect costs. Costs that appeared to be indirect in nature such as telephone service, web-site hosting, internet service, and legal fees were incorrectly direct charged to the NSF awards resulting in \$21,072 of questioned costs (See Schedule B-1, Note 3 and Schedule B-2, Note 2.4.)
- SCI/CSMI did not maintain adequate written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the terms and conditions of its NSF awards.

B. Grantee did not Maintain Adequate Cost Sharing Documentation

OMB Circular A-110, requires that all contributions, including cash and third party in-kind, shall be accepted as part of the recipient's cost sharing when such contributions meet all of the following criteria: are verifiable from the recipient's records; are not paid by the Federal Government under another award, except where authorized by Federal statute to be used for cost sharing, and are allowable under the applicable Federal cost principles. It further states that if the awardee's cost participation includes in-kind contributions, the basis for determining the valuation for services and materials must be documented.

Additionally, NSF's GC-1, Section 21.d, states that in cases where the cost-sharing requirements of the award are \$500,000 or more, the amount of cost-sharing must be documented (on an annual and final basis), certified by the authorized organizational representative and reported to the NSF program officer.

SCI and CSMI were required to provide cost sharing of \$1,152,000 and \$1,930,000 under Award No. ESI-0201155 and Award No. ESI-9904457, respectively. The proposed cost sharing consisted of the following: network support from [REDACTED] Television Network, donated footage from [REDACTED] and others, and other in-kind costs, such as advertisements, shipping costs, footage licenses, research, contributed videos and in-house production costs. To track and monitor cost sharing, SCI and CSMI used a database to record the sources and minutes of video footage used and a spreadsheet to assign value to the minutes. For donated goods and services, except for donated footage and services donated by [REDACTED], SCI maintained an "in-kind contribution form" which detailed the goods and services received and their value.

During the audit period, we found that SCI/CSMI did not always follow their procedures to maintain "in-kind contribution forms" documenting the contributions received from [REDACTED] News and other sources of support. For example, SCI/CSMI relied on a pre-award contractual agreement with [REDACTED] News to document the services to be provided, estimate their value, and claim costs for our audit. However, the services and their values claimed during the audit differed substantially from those documented in the agreement. In addition, SCI/CSMI claimed the cost of video footage from other federally-funded sources such as the [REDACTED] public television

station and the National Aeronautics and Space Administration without verifying that the footage was not paid by the Federal Government under another award; claimed program income earned from the sale of items funded by the NSF awards as cost sharing; and did not document, certify, and report its actual cost sharing contributions annually to NSF. As a result of these deficiencies, we initially questioned \$2.1 million or 82 percent of the total \$2.6 million claimed cost sharing because the claimed amounts were not verifiable from SCI/CSMI's records.

However, in August 2004, in response to a discussion draft of this report, SCI/CSMI obtained letters from its major sources of donated services including [REDACTED] News attesting to the revised valuations of the donated footage and services claimed during the audit period. Accordingly, we reduced the amount of questioned cost sharing from \$2.1 million to \$58,250, which represents program income earned from the sale of items funded by the NSF awards.

While SCI/CSMI was ultimately able to demonstrate that it met its cost-sharing obligations under the awards, it needs to improve how it documents, certifies, and reports cost sharing to ensure that its cost-sharing system provides accurate, current, and complete disclosure of its actual cost sharing contributions by award in a timely manner.

C. Inadequate Documentation to Support Salaries and Wages

SCI/CSMI did not have an adequate system to ensure salary and wage costs claimed were documented, allowable and allocable to the grant awards. Because of inadequacies in SCI/CSMI accounting records related to reporting salaries and wage costs, we questioned \$109,234 or forty-four percent of the \$232,331 in salaries and wages tested in the audit.

OMB Circular A-110 and the FAR require that grantees maintain accounting records including cost accounting records that are supported by source documentation to demonstrate that costs have been incurred and are allocable and allowable to a particular Federal award. In addition, the NSF GC-1 requires documentation of reviews and approvals for each expenditure or action affecting this award. The organizational reviews are intended to help assure that expenditures are allowable, necessary and reasonable for the conduct of the project.

Personnel Compensation. When a staff position is vacant, or a new position is established, the CEO and CFO orally authorize the hiring manager to fill the position and provide the accepted rate of pay. When an offer is made, the hiring manager orally communicates the accepted rate of pay to the employee. All new hires are provided the standard packet of forms (i.e., W-4, I-9, etc.) and an employee personnel file is established. Salary and hourly rates are recorded in the payroll system. In addition, all employees are eligible for an annual pay raise each October. Annually, the CFO creates a worksheet listing the old and recommended pay rates and submits it to the CEO for review and approval. The CEO's approval is communicated back to the CFO orally and salary raises are communicated to each employee orally.

Timekeeping. Prior to January 12, 2003, each employee recorded his or her hours worked on an Excel worksheet each day. At the end of the week the employees would print and sign their weekly timesheet and submit it to their supervisor for approval. Effective January 12,

2003, SCI implemented [REDACTED], an online timekeeper. Daily, employees sign-in, enter the work activities, and sign-out. The hours worked are calculated by [REDACTED]. For payroll and/or billing purposes, the employee's supervisor opens [REDACTED] and reviews each employee's hours and activities. If the hours and activities charged are correct, the supervisor sends an e-mail approval notification to the CFO who then prints the timesheet. The total hours on the printed timesheets are transmitted to a payroll service to generate paychecks.

Despite these requirements, we identified questioned costs and weaknesses in SCI/CSMI processes to ensure that payroll costs charged to NSF awards are properly authorized and documented. In testing a sample of salaries and wages, SCI did not provide 21 of 96 timesheets for our review resulting in \$40,232 of unsupported cost questioned (see Schedule B-2, Note 2.1). Further, on 38 of the 75 timesheets provided, the number of hours charged to the awards was less than the hours documented on the timesheets as directly attributable to an NSF award. As a result, we questioned costs of \$58,820 (see Schedule B-2, Note 2.1) and \$8,001 (see Schedule B-1, Note 1) under Award No. ESI-9904457 and Award No. ESI-0201155, respectively. Finally, SCI miscalculated the billing rates used to allocate payroll costs to Award No. ESI-0201155, resulting in the improper allocation of \$2,181 (see Schedule B-1, Note 1). The improper allocation occurred because SCI calculated the hourly billing rates using a 35-hour workweek rather than the required 37.5 hour workweek and did not document annual salary amounts or hourly billing rates in employee personnel files. Overall, these errors indicate that SCI/CSMI's timesheet review procedures and payroll allocation and documentation practices were not effective in preventing or timely detecting errors.

D. SCI Maintained Excess Cash Balances

OMB Circular A-110 states that cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. Further, the timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs. The Circular also requires recipients to maintain advances of Federal funds in an interest bearing account, remit annually interest earned on advances, and have written procedures documenting its cash advance procedures. NSF Grant General Conditions 1.b.1 states that NSF has determined that OMB Circular A-110 standards are also applicable to commercial organizations. Therefore, this finding relates to both awards.

The CFO prepared and submitted weekly cash draws for the NSF awards through NSF's online FastLane system. The draws consisted of reimbursement for vendor and internal usage costs and cash advances for payroll costs. Each week, the CFO prepared the draw using time and effort reports, check registers, invoices, and internally generated cost worksheets. The information was entered into a "Grant Reimbursement Worksheet" and totaled to calculate the expenses for the week. The CFO entered this amount into FastLane and the cash was transferred into SCI/CSMI's checking account.

These procedures, however, did not minimize the time elapsing between the cash advances related to payroll costs and the actual disbursement of these funds by SCI/CSMI. Although cash was received weekly to cover payroll costs, SCI/CSMI only paid its employees monthly.

As a result, SCI/CSMI had approximately \$25,000 to \$75,000 excess cash on hand for one to three weeks each month during the audit period and did not maintain the cash in an interest bearing account. While these amounts are not material to the U.S. Treasury as a whole, advances of cash that are not timed to minimize the excess cash balances have an impact on the U.S. Treasury's financing costs and the level of the public debt. As such, SCI/CSMI should limit its cash advances for payroll costs to once a month and be timed as closely as possible to coincide with the actual disbursement of paychecks to employees.

Overall Effect of the Systemic Internal Control Weaknesses

The magnitude and pervasiveness of the financial management, cost sharing, cash management, and personnel compensation system deficiencies identified in this report suggest an overall control environment at SCI/CSMI that warrants immediate attention and corrective actions toward establishing good internal controls and compliance with federal award terms and conditions. SCI/CSMI management should play a key role in providing leadership in this area, especially in setting and maintaining the organization's expectations and commitment to competent performance. However, the reliance on one individual to perform all key accounting functions, an overall lack of knowledge of Federal regulations evidenced by SCI/CSMI staff, and the inadequate systems to properly account for 34 percent of claimed costs indicate the need for SCI/CSMI management to recognize the seriousness of its grants management control deficiencies and to place a high priority on addressing these deficiencies. Until corrective action is taken, NSF has little or no assurance that SCI/CSMI will record, process, summarize, and report award costs and cost sharing in accordance with the award terms and conditions. The material weaknesses we identified in the control structure combined with a lack of management and staff awareness of Federal regulations places NSF's awards at a high risk that fraud and/or abuse could occur and not be detected.

Recommendation No. 2:

We recommend that the NSF Directors of DGA and DIAS require that SCI/CSMI develop and implement written policies and procedures to:

- a. Provide an accounting system that separately identifies, tracks, and reports on NSF and shared costs by individual award;
- b. Ensure adequate segregation of key accounting duties between the authorization, custody, recording, and reconciliation of accounting transactions;
- c. Implement a system to ensure that in-kind contributions received are properly valued, documented, and reported in accordance with Federal regulations;

- d. Obtain cash advances for payroll and other costs as close as administratively feasible to the actual disbursements; and,
- e. Strengthen its procedures related to the documentation, review, and allocation of salary and wage costs charged to Federal awards.

Auditee's Response

- a. On April 1, 2004, ScienCentral implemented a new accounting system [REDACTED] designed for organizations managing multiple grants. SCI developed a new chart of accounts that allows for the segregation of grants by account, and segregates indirect, direct and production cost pools.
- b. SCI/CSMI agrees it did not have proper segregation of all accounting duties in the past and the accounting system did not allow for tracking of individual grants. It is the opinion of SCI/CSMI management that it has made significant improvements over the past few years and the future plan of action will mitigate any further risks.
- c. SCI/CSMI agrees that it did not provide cost sharing certification through FASTLANE in the years mentioned in the report; however it did provide its NSF program officer with annual reports that included the cost-sharing amounts.
- d. With the new accounting system implemented in April 2004, SCI/CSMI was able to develop a new procedure for timing payroll reimbursements closer to the monthly payroll disbursement.
- e. SCI/CSMI agrees that merit increases were communicated orally in the past, but this policy has been changed whereby the increases are communicated in writing and retained in the personnel files.

SCI/CSMI believes that the majority of the \$109,234 in questioned salary costs can be justified by documentation supplied already to Foxx & Company. The auditee disagrees with the findings on \$107,053 of the questioned salary costs.

Auditor's Response to Auditee's Response

With respect to recommendations 2.a., and 2.d., the proposed corrective actions address the identified deficiencies. We recommend that Director's of NSF's DGA and DIAS require that SCI/CSMI provide NSF with documentation that its new systems and policies and procedures have been revised and implemented.

With respect to recommendation 2.b., 2.c., and 2.e., SCI/CSMI should provide to NSF additional details on the corrective actions to (1) mitigate the risk associated with the lack of segregation of duties, (2) implement a system to ensure that in-kind contributions received are properly valued, documented, and reported in accordance with

Federal regulations, and (3) strengthen its procedures related to the documentation, review, and allocation of salary and wage costs charged to NSF awards.

The auditee disagrees with the majority of the questioned salary costs. The auditee's responses address evidence that the costs were incurred; however, it does not provide conclusive evidence that the incurred costs were allocable to the grants. The costs remain questioned. *(See Schedules B-1 and B-2)*

III. Allocation Issues

SCI/CSMI did not calculate its actual annual employee benefit costs resulting in the improper allocation of \$211,023 to the awards; did not submit annual indirect cost proposals to NSF to establish final indirect cost rates resulting in \$298,554 of unsupported cost; and, did not calculate its actual in-house film production and equipment maintenance and update costs resulting in \$246,445 of unsupported costs. Overall, the improper and unsupported allocation of employee benefit, indirect, and production costs to the awards resulted in total questioned costs of \$756,022, or 28 percent of total claimed costs. The following sections describe in detail the results of our audit in these areas.

A. Claimed Employee Benefit Costs Exceed Actual Costs

In accordance with OMB Circular A-122 and the FAR, fringe benefit costs are allowable provided the charges are reasonable, equitably distributed, and granted in accordance with the awardee's established written policies and procedures. Further, A-122 states that the Federal agency with the largest dollar value of awards with an awardee will be responsible for the negotiation and approval of the indirect cost rates and, where necessary, other rates such as fringe benefit rates.

To charge the employee benefit costs to the awards, SCI/CSMI used interim rates:

- On ESI-9904457, CSMI applied 36.86 percent to its direct salaries and wages. SCI used a rate of 31.91 percent under the subaward from CSMI;
- On ESI-0201155, SCI applied 35.08 percent to direct salaries and wages.

SCI/CSMI did not calculate its actual annual employee benefit costs to determine whether its interim rates were reasonable as a basis to charge employee benefit costs to the NSF awards. Therefore, we initially questioned all claimed employee benefit costs as unsupported. However, in response to our Discussion Draft report, SCI calculated its actual employee benefit rates from 1999 to CY 2003 as noted in the table below:

Calendar Year	SCI	CSMI
1999	16.1%	
2000	16.1%	
2001	11.0%	
2002	-	23.1%
2003	-	12.6%

We reviewed SCI's proposed employee benefit calculations for overall reasonableness and other than the 23.1 percent calculated for calendar year 2002, the proposed rates appear reasonable.² Therefore, we used the proposed rates as the basis for determining allowable and reasonable employee benefit costs under the two awards. Because the proposed actual employee benefit rates were significantly less than the interim rates used to claim these costs, we questioned costs of \$49,473 (See Schedule B-1, Note 2) and \$161,550 (see Schedule B-2, Note 1 and Note 2.2), under awards ESI-0201155 and ESI-9904457, respectively.

B. Indirect Cost Proposals Not Prepared and Submitted Annually

OMB Circular A-122 states "organizations that have previously established indirect cost rates must submit a new indirect cost proposal to the cognizant agency within six months after the close of each fiscal year." NSF is SCI/CSMI's cognizant agency because NSF provides SCI/CSMI with all its Federal funding. In addition, the FAR states that indirect costs should be accumulated to permit distribution of the costs on the basis of the relative benefits received by multiple cost centers.

Under award ESI-9904457, NSF established a maximum provisional indirect cost rate (MPR) of 21 percent of modified total direct costs for CSMI. An MPR "is a temporary rate established for an award to permit funding and reporting of indirect costs pending establishment of a final rate (the rate determined at the end of an accounting period using "actual" direct and indirect cost data). This type of rate limits indirect cost recoveries to the lower of the maximum provisional rate established at the time of award, or the final rate established at the end of an accounting period. Grantees awarded maximum provisional rates are required to submit indirect cost proposals to the NSF...within six months after the close of each fiscal year during which the award is active."³ Further, as a subawardee under this NSF award, SCI used a rate of 18 percent applied to direct costs less subcontracts to allocate indirect costs to the subaward.

However, CSMI did not submit annual indirect cost rate proposals to NSF for the years ended December 31, 1999, 2000, 2001, or 2002. The annual submission of an indirect cost proposal for multi-year awards is critical because conditions often occur that affect these rates from one year to the next. In particular, MPRs are temporary rates subject to downward adjustment only and therefore, when NSF establishes final rates, CSMI is vulnerable to an over-recovery of indirect costs if the final rates are lower than the maximum provisional rates (MPR). During our audit, we found that CSMI did not prepare and submit indirect cost proposals. Additionally, SCI, as a subawardee, did not prepare annual indirect costs plans for the same fiscal years 1999 to 2002. As a result, we questioned all indirect cost claimed under Award No.

² For purposes of this audit, the proposed actual rates were used, except for calendar year 2002. For 2002, the 2003 rate was used which approximated the rate calculated in our reasonableness review. The proposals for all years are subject to negotiation and final approval by NSF.

³ NSF's Grant Policy Manual, Section 630.

ESI-9904457 and its subaward, totaling \$9,016 (See Schedule B-2, Note 1) and \$289,538, (See Schedule B-2, Note 2.7), respectively.⁴

C. Rates Used to Allocate In-House Production Costs to the Awards are Unsupported

OMB Circular A-110 and the FAR require that awardees maintain accounting records including cost accounting records that are supported by source documentation to demonstrate that costs have been incurred and are allocable and allowable to a particular Federal award. In addition, NSF's GC-1 requires documentation of supervisory reviews and approvals for expenditures or actions affecting NSF awards. These organizational reviews are intended to help assure that expenditures are allowable, necessary and reasonable for the conduct of the project. Further, OMB Circular A-122 states that the costs of specialized service facilities must be charged directly to particular awards based on the actual usage of the services and using a schedule of standard rates or an established methodology that is designed to recover only the total cost (direct and indirect) of the service. Finally, to avoid subsequent disallowance or dispute based on unreasonableness of costs, OMB also recommends that awardees' seek a written agreement with the awarding agency in advance of the incurrence of special or unusual costs.

To recover its in-house production costs (editing, dubbing and sound facilities, camera equipment, and archived footage costs), SCI/CSMI charged the awards using industry standard rates. SCI/CSMI maintained manual logs to record and summarize actual facilities and archive video footage used for and charged to the NSF awards.

While SCI/CSMI maintained manual logs to document the actual usage of its in-house production facilities for the benefit of NSF awards, it did not maintain a schedule of rates or have an established methodology for calculating production rates to ensure that it only recovered the aggregate cost of the in-house services. Rather, SCI/CSMI recovered its in-house production costs using industry standard rates. However, industry standard rates are likely to be different than SCI/CSMI's actual costs. Because documentation was not presented to support actual rates, we were not able to analyze the actual rate (cost data) with the industry standard rate and determine if the rates (costs) were allowable and reasonable. As a result, we questioned all the in-house production costs of \$25,154 (See Schedule B-2, Note 2.5) and \$133,013 (see Schedule B-1, Note 4) under Award Numbers ESI-9904457 and ESI-0201155, respectively.

In addition, SCI charged equipment updates and maintenance costs directly to the subaward under award ESI-9904457. The costs incurred for updates and maintenance, however, were already included and recovered via the use of the in-house production rates and therefore, the costs should not be charged directly to NSF. Further, these types of costs are typically recovered through an indirect cost rate. As a result, we questioned the entire \$88,278 of costs for equipment updates and maintenance. (See Schedule B-2, Note 2.5)

⁴ Subsequent to our audit fieldwork but before we issued our report, SCI provided us with summary indirect cost rate calculations for fiscal years 1999, 2000, and 2001. The audit of these proposals was not included in the scope of this audit. These proposals are to be submitted to NSF for review and possible audit.

Overall Cause and Effect of the Allocation Issues

The above problems occurred primarily because SCI/CSMI management was unaware that they were required to prepare and provide NSF with annual indirect cost rate proposals, fringe benefit proposals or document their methodology to support in-house production rates used to allocate costs to the NSF awards. Further, SCI indicated that NSF officials had approved the use of standard industry rates to assign costs to the awards; however, they were not able to provide any documentation of such approval.

The annual submission of an indirect cost, fringe benefit, or specialized service facility cost proposals for multi-year awards is critical because conditions often occur that affect these rates from one year to the next. In particular, these rates are generally temporary rates subject to adjustment based on the awardee's actual cost experience and therefore, when final rates are established, an awardee is vulnerable to an over-recovery of costs if the final rates are lower than the claimed rates. Further, as OMB recommends, awardees should seek a written agreement with the awarding Federal agency in advance of the incurrence of special or unusual costs. Therefore, while not specifically required, we believe that SCI/CSMI should prepare and submit fringe benefit and in-house production rate cost proposals for NSF's review and approval to establish final rates.

Recommendation No. 3:

We recommend that the NSF Directors of DGA and DIAS require that:

- a. SCI/CSMI develop and implement written policies and procedures that provide for preparing and submitting to the cognizant Federal agency annual indirect cost, fringe benefit, and production rate cost proposals.
- b. For fiscal years 1999 to 2003, SCI/CSMI prepare and/or submit indirect cost, fringe benefit, and production rate cost proposals to NSF for its review and approval.

Auditee's Response

SCI/CSMI states that it has documented and developed indirect, fringe benefit and production cost pools for 1999-2003, and can now segregate direct vs. indirect costs from the accounting system. SCI and CSMI further states that it has used [REDACTED] from the time of an NSF OIG pre-award Audit in 1999 and, the system and its Chart of Accounts were deemed acceptable at that time. However, after the current audit, SCI/CSMI understood more clearly many of the deficiencies in its financial management processes and has now changed the process, including its accounting software and chart of accounts.

Corrective Action Plan

- a. SCI/CSMI will submit indirect cost, fringe benefit, and production rate cost proposals to the NSF, as CAAR directs.
- b. SCI redesigned the Chart of Accounts within a new accounting system to segregate direct expenses by grant and to code other expenses for inclusion in the production pool, the indirect cost pool, or non-pool overhead (unallowable expenses).

Auditor's Response to Auditee's Response

The auditee's response appropriately addresses the preparation of the indirect, fringe benefit, and production rate cost proposals to NSF for its review and approval. For future periods, we continue to recommend that SCI/CSMI develop and implement written policies and procedures that provide for preparing and submitting to the cognizant Federal agency annual indirect, fringe benefit, and production rate cost proposals

IV. Other Documentation Issues

SCI/CSMI did not have adequate documentation to support the costs for CFO services and certain other direct costs claimed under NSF awards. As a result, SCI/CSMI was unable to support \$30,008 and \$11,999 for NSF awards ESI-9904457 and ESI-0201155, respectively, for a total of \$42,007 in other direct costs claimed. The following sections describe in detail the results of our audit in these areas.

A. Documentation for Certain Other Direct Costs Claimed is Not Available

OMB Circular A-110 and the FAR require that grantees maintain accounting records including cost accounting records that are supported by source documentation to demonstrate that costs have been incurred and are allocable and allowable to a particular Federal award.

However, under the Award No. ESI-9904457 subaward to SCI, SCI could either (1) not locate vouchers, purchase orders, invoices and other similar source documents or (2) the documentation provided did not always contain sufficient information to determine how the cost benefited the NSF awards. As a result, we questioned \$20,935 of other direct costs claimed, because the allowability and allocability of the charges to the NSF awards could not be determined. (See Schedule B-2, Note 2.3.)

B. Indirect Type Costs are Charged Directly to the Awards

OMB Circular A-122 and the FAR states that indirect costs are those that have been incurred for common or joint objectives (activities or operations) and cannot be readily identified with a particular activity or operation, such as payroll, and accounting services. It further states that a cost may not be allocated to an award as an indirect cost if any other costs incurred for the same purpose, in like circumstances, have been assigned to an award as a direct cost.

SCI had an approved fixed indirect cost rate for Award No. ESI-0201155; however, SCI charged CFO services directly to the award. Additionally, CSMI did not have an approved indirect cost rate nor did it have an indirect cost proposal for Award No. ESI-9904457. Therefore, we are unable to determine whether certain other direct costs charged to the award were included in SCI and/or CSMI's indirect cost rate.

Specifically, certain CFO billings totaling \$11,999, including travel costs for conferences, conference fees, annual membership fees, cost for business cards, and legal fees, that were directly charged to Award No. ESI-9904457 and ESI-0201155 do not appear to be allocable to the NSF projects as direct costs. The CFO billings totaling \$11,999 and \$9,073 claimed as other direct costs appear to be more appropriately identified as indirect costs that benefit multiple cost objectives. Indirect costs should be recovered through an indirect cost rate. Because SCI did not calculate an indirect cost rate based on actual costs or provide documentation supporting the items included as indirect cost, it was not possible to determine if these costs were over recovered, once as direct costs and again as indirect costs.

As a result, we questioned other direct costs claimed under ESI-0201155 totaling \$11,999 and under ESI-9904457 and its subaward to SCI totaling \$9,073 because SCI/CSMI did not calculate indirect rates based on actual costs incurred or provide documentation supporting the items included in the indirect cost rates. Therefore, it was not possible to determine if these costs were being claimed twice, as both direct and indirect costs (see Schedule B-1, Note 3 and Schedule B-2, Note 2.4.)

Recommendation No. 4:

We recommend that NSF Directors of DGA and DIAS require SCI/CSMI to develop accounting procedures and/or systems that:

- a. Ensure reasonableness, allocability, and allowability of all costs claimed in accordance with NSF and Federal requirements as costs are incurred
- b. Properly maintain all supporting documentation; and properly segregate direct and indirect charges.

Auditee's Response

- a. SCI/CSMI indicates that it has written procedures for determining the reasonableness, allocability and allowability of costs. There is a section of its Policy & Procedures Manual that provides written guidelines.

- b. SCI/CSMI stated that it was unable to provide all documents during the auditors' fieldwork, especially for ESI-9904457. It was mentioned to the auditors that documents were misplaced either during the company relocation from Stamford to NY City or after the floods in the Manhattan facility in April 2000 and then in 2003, which caused months of disruptions. However, when given a list of the missing documents during the fieldwork, SCI/CSMI stated that it promptly began to reconstruct the documentation and all of the missing invoices have since been found and have been provided to Foxx & Company.

Auditor's Response to Auditee's Response

- a. Based on the significant questioned costs identified by the audit, the existing written procedures do not appear adequate to ensure the allocability and allowability of all costs claimed in accordance with NSF and Federal requirements as costs are incurred. The recommendation under 4.a. remains unchanged.
- b. The subsequent documentation provided by the auditee was reviewed. To the extent that the documentation supported the allocability and allowability of the claimed costs, the costs were accepted. The report questions costs where the allocability and allowability could not be determined from the documentation provided.

SCIENCENTRAL, INC.
NEW YORK, NEW YORK

NATIONAL SCIENCE FOUNDATION AWARD NUMBER ESI-0201155

SCHEDULE OF AWARD COSTS

For the period March 1, 2002 to September 30, 2003
INTERIM

Cost Category	Approved Budget	Claimed Costs	Questioned Costs	Schedule B Note Reference
Direct costs:				
Salaries and wages	██████████	██████████	\$10,182	1
Fringe Benefits	██████████	██████████	49,473	2
Other direct costs				
Material and supplies		██████████	-	
Consultant services		██████████	11,999	3
Subawards	██████████	██████████	-	
Other costs		██████████	133,013	4
Total direct costs	1,345,204	625,758	204,667	
Indirect Costs	210,147	114,531	-	
Total Costs	<u>\$1,555,351</u>	<u>\$740,289</u>	<u>\$204,667</u>	
Cost Sharing	<u>\$1,152,000</u>	<u>\$511,756</u>		

(A) The total claimed costs reconcile with the total expenditures reported by SCI on the Federal Cash Transaction Report – Federal Share of Net Disbursements as of the quarter ended September 30, 2003. Claimed costs reported were taken from Excel spreadsheet prepared from the books of accounts and invoices.

See accompanying notes to this financial schedule.

SCIENCENTRAL, INC.
NEW YORK, NEW YORK

NATIONAL SCIENCE FOUNDATION AWARD NO. ESI-0201155

SCHEDULE OF QUESTIONED COSTS

For the period March 1, 2002 to September 30, 2003
INTERIM

Note 1 - Salaries and Wages

The questioned salaries and wages of \$10,182 represents:

Hours charged to the grant exceed timesheet hours	\$ 8,001 (A)
Hourly rate charged to the grant based on erroneous calculation	<u>2,181 (B)</u>
Total	<u>\$10,182</u>

See Finding II.D. for more details.

(A) - There were eight of 22 timesheets tested in which the number of hours charged to the NSF award were greater than the number of hours detailed on the timesheets as attributable to the award. The difference on these eight timesheets totaled \$8,001 in questioned unallocable costs.

(B) - The auditee-calculated hourly rates used to determine the amount charged to the NSF award is different from the amount paid to the employees. SCI calculated the hourly rate using 35 hours per week rather than the 37.5 hours the employee is required to work and is paid. As a result, \$2,181 is questioned as unallocable costs.

Auditee's Response

(A) The auditee generally disagreed that there are differences between hours billed and timesheets. In general, the auditee believes that all hours on the timesheet should be allocable to the grant, not just the hours coded to the grant.

(B) The auditee agrees that the hourly billing for employees was incorrectly based on 35 hours per week. The auditee indicated that it has changed its methodology for calculating the employees' hourly rates.

Auditor's Response to Auditee's Response

(A) The employee timesheets provided reflected the employees' allocation of his/her time to the grants. No additional documentation was provided to support that all hours on the timesheet should have been charged to the grant. The questioned costs remain.

(B) We concur with the auditee's decision to revise (reduce) its hourly rate to reflect the employees' actual hours schedules.

Note 2 - Fringe Benefits

The \$49,473 questioned represents fringe benefits cost claimed by SCI in excess of the allocable fringe benefits based on the fringe benefit rate proposals provided by SCI. (See Finding III.A.):

	2002	9 months ended 09/30/03	Total
Total salaries and wages claimed			\$214,379
Questioned salaries and wages	(10,182)		(10,182)
Net salaries and wages			\$204,197
Fringe Benefit Rate per proposal (a)	12.6%	12.6%	
Calculated Fringe Benefit Costs	14,166	11,563	25,729
Fringe Benefit Costs Claimed	42,912	32,290	75,202
Questioned Fringe Benefit Costs	\$28,746	\$20,727	\$49,473

(a) The proposal for 2002 reflected a rate of 23.1%; however, based on an overall reasonableness review of the 2002 proposal and the 2003 proposal rate of 12.6%, a rate of 12.6% has been used for the purposes of this audit.

Auditee's Response

The auditee concurred that the fringe benefits rates used to charge costs to the grants were not supported by actual costs. The auditee has subsequently developed fringe benefit cost proposals.

Auditor's Response to Auditee's Response

The report's questioned costs are based on cost proposals submitted by the auditee in response to the discussion draft of the audit report. Foxx reviewed these proposals; however, these proposals should be submitted to NSF for its review and approval.

Note 3 - Consultant Services

The \$11,999 questioned represents CFO charges appear to be more appropriately identified as indirect costs that benefited multiple cost objectives and should therefore be recovered through an indirect cost pool. Because SCI did not have indirect costs proposals available for review, it could not be determined if the cost for the CFO was being claimed twice, once as a direct cost and again in the indirect cost recovery. (See Finding IV.B.)

Auditee's Response

The auditee believes it provided adequate documentation. It indicated that it would provide the rationale for allocability and allowability to NSF/CAAR during Audit Resolution

Auditor's Response to Auditee's Response

Because the indirect costs proposals were not available for review, the questioned costs remain.

Note 4 - Other

The \$133,013 questioned represents all of the in-house production costs identified on the NSF reimbursement requests. The rates used for determining the in-house production costs for use of the editing facilities, dubbing facilities, sound facilities (voiceovers) and archived footage, could not be reconciled with SCI's actual production costs. Audit procedures could not be completed to assess if SCI recovered more from NSF than the actual in-house production costs incurred for the NSF projects because SCI could not account for the "cost ownership" for these costs. (See Finding IV.C.)

Auditee's Response

SCI/CSMI believes that the in-house production expenses charged are reasonable, allowable, and allocable. It indicated that it would share the production cost analyses with NSF/CAAR during Audit Resolution.

Auditor's Response to Auditee's Response

Without the indirect cost and production cost proposals, a determination of the allowability and allocability of the costs cannot be made. The questioned costs remain.

CENTER FOR SCIENCE IN THE MEDIA, INC.
NEW YORK, NEW YORK

NATIONAL SCIENCE FOUNDATION AWARD NUMBER ESI-9904457

SCHEDULE OF AWARD COSTS

For the period September 1, 1999 to September 30, 2003
INTERIM

Cost Category	Approved Budget	Claimed Costs	Questioned Costs	Schedule B Note Reference
Direct costs:				
Salaries and wages	[REDACTED]	[REDACTED]	\$ -	
Fringe benefits	[REDACTED]	[REDACTED]	6,910	1
Travel	[REDACTED]	-	-	
Other direct costs:				
Publication costs	[REDACTED]	[REDACTED]	-	
Consultant services	[REDACTED]	-	-	-
Subawards	[REDACTED]	[REDACTED]	700,896	2
Other costs	[REDACTED]	[REDACTED]	-	-
Total direct costs	1,981,550	1,970,234	707,806	
Indirect Costs	24,619	9,016	9,016	3
Total Costs	<u>\$2,006,169</u>	<u>\$1,979,250</u>	<u>\$ 716,822</u>	
Cost Sharing	<u>\$1,930,000</u>	<u>\$2,089,235</u>	<u>-</u>	

A. The total claimed costs reconcile with the total expenditures reported by SCMI on the Federal Cash Transaction Report – Federal Share of Net Disbursements as of the quarter ended September 30, 2003. Claimed costs reported were taken from Excel spreadsheet prepared from the books of accounts and invoices.

See accompanying notes to this financial schedule.

**CENTER FOR SCIENCE IN THE MEDIA, INC.
NEW YORK, NEW YORK**

**NATIONAL SCIENCE FOUNDATION AWARD NUMBER ESI-9904457
SCHEDULE OF QUESTIONED COSTS**

**For the period September 1, 1999 to September 30, 2003
INTERIM**

Note 1 - Fringe Benefits

The \$6,910 questioned represents fringe benefits cost claimed by CSMI in excess of the allocable fringe benefits based on the fringe benefit rate proposals provided by CSMI:

	1999
Total salaries and wages claimed	██████████
Fringe Benefit Rate per proposal	12.8%
Calculated Fringe Benefit Costs	3,677
Fringe Benefit Costs Claimed	10,587
Questioned Fringe Benefit Costs	\$6,910

Auditee's Response

The auditee concurred that the fringe benefits rates used to charge costs to the grants were not supported by actual costs. The auditee has subsequently developed fringe benefit cost proposals.

Auditor's Response to Auditee's Response

The report's questioned costs are based on cost proposals submitted by the auditee in response to the discussion draft of the audit report. Foxx reviewed these proposals; however, these proposals should be submitted to NSF for its review and approval.

SCHEDULE B-2
(continued)

Note 2 - Subawards

The following represents subaward costs questioned by category:

<u>Cost Category</u>	<u>Approved Budget</u>	<u>Claimed Costs</u>	<u>Questioned Costs</u>	<u>Sub-Note References</u>
Direct costs:				
Salaries and wages	████████	████████	\$ 99,052	1
			26,146	6
Fringe benefits	████████	████████	154,640	2
Travel	██████	██████	3,666	3
			2,498	4
			203	6
Other direct costs:				
Material and supplies	██████	██████	509	3
			59	6
Publication costs	████████	████████	3,531	3
			1,725	4
			455	6
Consultant services	████████	████████	10,853	3
			3,719	4
			1,200	6
Other costs	████████	████████	2,376	3
			1,131	4
			113,432	5
			200	6
Total direct costs	<u>1,505,529</u>	<u>1,634,044</u>	<u>425,395</u>	
Indirect costs	<u>262,176</u>	<u>289,538</u>	<u>289,538</u>	7
Total direct and indirect Costs	<u>1,767,705</u>	<u>1,923,582</u>	<u>714,933</u>	
Less costs not billed	<u>-</u>	<u>(14,037)</u>	<u>(14,037)</u>	
Total Costs	<u>\$1,767,705</u>	<u>\$1,909,545</u>	<u>\$ 700,896</u>	

SCHEDULE B-2
(continued)

2.1. Salaries and Wages

No supporting documentation for hours worked	\$ 40,232	(a)
Hours charged to the grant exceed timesheet hours	<u>58,820</u>	(b)
	<u>\$ 99,052</u>	

See Finding II.D. for more details.

(a) There were 21 missing timesheets. SCI is unable to provide documentation to support the salaries and wages charged to the grant, resulting in \$40,232 in questioned unsupported costs.

(b) There were 30 timesheets in which the percentage of employee hours charged to the NSF award was greater than the percentage of hours detailed on the timesheets as attributable to the award, resulting in \$58,820 in questioned costs.

Auditee's Response

- (a) The auditee acknowledged that the timesheets were not available. The auditee indicated the costs should be acceptable because timesheet data for the prior and subsequent periods charged time to the grants. However, they believe that because the costs were incurred that they should be allowable
- (b) The auditee generally disagreed that there are differences between hours billed and timesheets. In general, the auditee believes that all hours on the timesheet should be allocable to the grant, not just the hours coded to the grant.

Auditor's Response to Auditee's Response

- (a) To be support the allocability of the salary costs, documentation for the selected costs should be available for audit. The questioned costs remain.
- (b) The employee timesheets provided reflected the employees' allocation of his/her time to the grants. No additional documentation was provided to support that all hours on the timesheet should have been charged to the grant. The questioned costs remain.

2.2. Fringe Benefits

The \$154,640 questioned represents fringe benefits cost claimed by SCI in excess of the allocable fringe benefits based on the fringe benefit rate proposals provided by SCI. (See Finding III.A.):

	1999	2000	2001	Total
Total salaries and wages claimed	████████	████████	████████	\$771,254
Questioned salaries and wages		(125,198)		(125,198)
Net salaries and wages	████████	████████	████████	646,056
Fringe Benefit Rate per proposal	16.1%	16.1%	11.0%	
Calculated Fringe Benefit Costs	16,974	47,511	27,008	91,493
Fringe Benefit Costs Claimed	37,953	128,925	79,255	246,133
Questioned Fringe Benefit Costs	\$20,979	\$81,414	\$52,247	\$154,640

Auditee's Response

The auditee concurred that the fringe benefits rates used to charge costs to the grants were not supported by actual costs. The auditee has subsequently developed fringe benefit cost proposals.

Auditor's Response to Auditee's Response

The report's questioned costs are based on cost proposals submitted by the auditee in response to the discussion draft of the audit report. Foxx reviewed these proposals; however, these proposals should be submitted to NSF for its review and approval.

2.3. Other Direct Costs – Inadequate Support Documentation

Travel	\$ 3,666	(a)
Material and Supplies	509	(b)
Publication Costs	3,531	(c)
Consultant Services	10,853	(d)
Other Direct Costs	2,376	(e)
Total	<u>\$20,935</u>	

(a) The \$3,666 questioned represents invoices/expense reports that were not available to support costs claimed by SCI. It could not be determined if the costs claimed were allowable, allocable and reasonable for the NSF award.

(b) The \$509 questioned represents \$495 of invoices that were not available to support costs claimed by SCI. The remaining \$14 questioned costs relate to direct costs charged to the award that do not appear allocable as a direct cost. It could not be determined if the costs claimed were allowable, allocable and reasonable for the NSF award. (See Finding IV.A.)

(c) The \$3,531 questioned represents invoices that were not available to support costs claimed by SCI. It could not be determined if the costs claimed were allowable, allocable and reasonable for the NSF award. (See Finding IV.A.)

(d) The \$10,853 questioned represents invoices that did not provide sufficient documentation to support that the costs were allocable to the NSF grant. It could not be determined if the costs claimed were allowable, allocable and reasonable for the NSF award. (See Finding IV.A.)

(e) Invoices totaling \$2,376 did not provide sufficient documentation to support that the costs were allocable to the NSF grant were not available to support costs claimed by SCI. It could not be determined if the costs claimed were allowable, allocable and reasonable for the NSF award. (See Finding IV.A.)

Auditee's Response

The auditee believes all of the originally missing invoices were found and provided to the auditors.

Auditor's Response to Auditee's Response

In response to the discussion draft, the auditee provided additional supporting documents that resolved some questioned costs. The remaining questioned costs are the result of inadequate documentation provided to support the allowability or allocability of the costs. The questioned costs remain.

2.4. Other Direct Costs – Appear to be Indirect in Nature

Travel	\$2,498	(a)
Publication Costs	1,725	(b)
Consultant Services	3,719	(c)
Other Direct Costs	1,131	(d)
Total	<u>\$9,073</u>	

(a) The \$2,498 questioned relates to direct costs charged to the award that do not appear allocable as direct costs to the award. Of the \$2,498 questioned, \$1,984 related to travel costs for the [REDACTED]. These costs claimed appear to be more appropriately identified as indirect costs that benefit multiple cost objectives. Indirect costs are to be recovered through an indirect cost pool. Because SCI did not have an indirect cost proposal or documentation supporting the items

included in the indirect cost pool, it was not possible to determine if these costs were being claimed twice, once as direct costs and again as part of the indirect costs. (See Finding IV.B.)

(b) The \$1,725 questioned relates to direct costs charged to the award that do not appear allocable as direct costs to the award. This amount specifically related to the following: 1) attendance fees for the [REDACTED], 2) annual membership to the [REDACTED], 3) expenses associated with the [REDACTED] and 4) business cards for the Executive Director. These costs claimed appear to be more appropriately identified as indirect costs that benefit multiple cost objectives. Indirect costs are to be recovered through an indirect cost rate. Because SCI did not have an indirect cost proposal or documentation supporting the items included in the indirect cost rate, it was not possible to determine if these costs were being claimed twice, once as direct costs and again as part of the indirect costs. (See Finding IV.B.)

(c) The \$3,719 questioned relates to direct costs charged to the award that do not appear allocable as direct costs to the award. Of the \$3,719 questioned, \$3,150 related to a payment to a consultant for hours that did not appear to relate to the NSF grant. These costs claimed appear to be more appropriately identified as indirect costs that benefit multiple cost objectives. Indirect costs are to be recovered through an indirect cost rate. Because SCI did not have an indirect cost proposal or documentation supporting the items included in the indirect cost rate, it was not possible to determine if these costs were being claimed twice, once as direct costs and again as part of the indirect costs. (See Finding IV.B.)

(d) Amounts that appear to be indirect costs benefiting multiple cost objectives were charged as direct costs to the award. Costs, totaling \$1,131, specifically related to magazine subscriptions, an Internet service, telephone service, and cell phone service were charged as direct costs to the award. These costs claimed appear to be more appropriately identified as indirect costs that benefit multiple cost objectives. Indirect costs are to be recovered through an indirect cost rate. Because SCI did not have an indirect cost proposal or documentation supporting the items included in the indirect cost rate, it was not possible to determine if these costs were being claimed twice, once as direct costs and again as part of the indirect costs. (See Finding IV.B.)

Auditee's Response

In general, the auditee believes that there was a basis for justifying all of the expenses as direct expense under the respective grants.

Auditor's Response to Auditee's Response

Absent an indirect cost proposal, an evaluation of the allocability of the costs as direct expenses cannot be determined. The questioned costs remain.

2.5. Other Direct Costs

The rates used for determining the in-house production costs identified on the NSF reimbursement requests. The rates used for determining the in-house production costs for use of the editing facilities, dubbing facilities, sound facilities (voiceovers) and archived footage, could not be reconciled with SCI's actual production costs. Audit procedures could not be completed to assess if SCI recovered more from NSF than the actual in-house production costs incurred for the NSF projects because SCI could not account for the "cost ownership" for these costs. As a result, all of the in-house production costs, \$113,432 (\$88,278 Editing/Dubbing; \$25,154 Other), identified on the NSF reimbursement request is questioned. (See Finding III.C.)

Auditee's Response

SCI/CSMI believes that the in-house production expenses charged are reasonable, allowable, and allocable. It indicated that it would share the production cost analyses with NSF/CAAR during Audit Resolution.

Auditor's Response to Auditee's Response

Without the indirect cost and production cost proposals, a determination of the allowability and allocability of the costs cannot be made. The questioned costs remain.

2.6. Duplicate Costs Claimed

The auditee claimed costs for the period 05/01/01 - 05/31/01 on both Invoices # 24 and #27, resulting in the following questioned costs:

Salaries and Wages	\$26,146
Travel	203
Materials and Supplies	59
Publications	455
Consultants	1,200
Other	<u>200</u>
Total	<u>\$28,263</u>

The duplicate invoice that totaled \$44,458 also included \$9,413 in Fringe Benefits and \$6,782 in indirect costs. These costs have been questioned in Notes 2 and 7.

Auditee's Response

SCI/CSMI agrees that \$44,458 was claimed twice. An adjustment to Grant ESI-9904457 is necessary for the double charge.

Auditor's Response to Auditee's Response

The adjustment discussed by the grantee is appropriate. We recommend that the subsequent claim be reviewed to ensure the adjustment was properly reported.

2.7. Indirect Costs

The \$289,538 represents the entire amount of indirect costs claimed by SCI as subawardee. SCI did not prepare annual indirect cost plans to support the rate used to claim indirect costs under the subaward. (See Finding III.B.)

Auditee's Response

SCI/CSMI agrees that it did not submit Indirect Cost proposals every year. However, it believes the costs charged as indirect expenses are justifiable. SCI/CSMI indicated that it has prepared cost pool analyses for the given years that it will share with NSF/CAAR during the Audit Resolution process.

Auditor's Response to Auditee's Response

Because indirect cost proposals were not available, the allowability and allocability of the indirect costs claimed could not be determined. The questioned costs remain.

Note 3 - Indirect Costs

The \$9,016 questioned represents the entire amount of indirect costs claimed by CSMI. CSMI did not prepare annual indirect cost plans to support the rate used to claim indirect costs under the award. (See Finding III.B.)

Auditee's Response

SCI/CSMI agrees that it did not submit Indirect Cost proposals every year. However, it believes the costs charged as indirect expenses are justifiable. SCI/CSMI indicated that it has prepared cost pool analyses for the given years that it will share with NSF/CAAR during the Audit Resolution process.

Auditor's Response to Auditee's Response

Because indirect cost proposals were not available, the allowability and allocability of the indirect costs claimed could not be determined. The questioned costs remain.

SCHEDULE C-1

**SCIENCENTRAL, INC. AND
CENTER FOR SCIENCE IN THE MEDIA, INC
NEW YORK, NEW YORK**

SUMMARY SCHEDULES OF AWARDS AUDITED AND AUDIT RESULTS

For the period September 1, 1999 to September 30, 2003

Summary of Awards Audited

Award Number	Award Period	Audit Period
ESI-0201155	March 1, 2002 to July 31, 2004	March 1, 2002 to September 30, 2003
ESI-9904457	September 1, 1999 to August 31, 2004	September 1, 1999 to September 30, 2003

NSF Award Number	Type of Award	Award Description
ESI-0201155	Grant	Nova Minutes
ESI-9904457	Grant	Science News for Local TV and Spanish Stations

Summary of Questioned and Unresolved Costs by Award

NSF Award Number	Award Budget	Claimed Costs	Questioned Costs
ESI-0201155	\$1,555,351	\$ 740,289	\$ 204,667
ESI-9904457	2,006,169	1,979,250	716,822
Total	\$3,561,520	\$2,719,539	\$ 921,489

Summary of Questioned Cost by Explanation

Condition	ESI-0201155	ESI-9904457 (CSMI)	ESI-9904457 (SCI) Subaward	Questioned Cost Amount	Internal Control Weaknesses	Non-Compliance
Salaries & wages overcharged/unsupported	\$ 10,182	-	\$125,198	\$135,380	Yes	Yes
Fringe benefit rates unsupported	49,473	6,910	154,640	211,023	Yes	Yes
Indirect cost proposals not prepared	-	9,016	289,538	298,554	Yes	Yes
Inadequate support for other costs claimed	145,012		145,557	290,569	Yes	Yes
Costs not claimed			(14,037)	(14,037)		
Total	\$204,667	\$15,926	\$700,896	\$921,489		

SCHEDULE C-1
(continued)

**SCIENCENTRAL, INC. AND
CENTER FOR SCIENCE IN THE MEDIA, INC
NEW YORK, NEW YORK**

SUMMARY SCHEDULES OF AWARDS AUDITED AND AUDIT RESULTS

For the period September 1, 1999 to September 30, 2003

Summary of Internal Control Weaknesses and Non-Compliance Issues

Condition	Non-Compliance or Internal Control?	Material Reportable or Other?
OMB A-133 audit requirement not met	Non-Compliance	Material
Salaries & wages overcharged/unsupported	Internal Control and Non-Compliance	Material
Fringe benefit rates unsupported	Internal Control and Non-Compliance	Material
Indirect cost proposals not prepared	Internal Control and Non-Compliance	Material
Inadequate financial accounting systems	Internal Control and Non-Compliance	Material
Inadequate support for other costs claimed	Internal Control and Non-Compliance	Material
Cost sharing reporting requirements not timely met	Non-Compliance	Material

**SCIENCENTRAL, INC. AND
CENTER FOR SCIENCE IN THE MEDIA, INC
NEW YORK, NEW YORK**

NOTES TO THE FINANCIAL SCHEDULES

September 1, 1999 to September 30, 2003

Note 1: Summary of Significant Accounting Policies

Accounting Basis

The accompanying financial schedules have been prepared in conformity with National Science Foundation (NSF) instructions. Schedules A-1 and A-2 have been prepared from the reports submitted to NSF and information obtained from the accounting records maintained for the grant awards to SCI and CSMI. The basis of accounting utilized in preparation of these reports differs from generally accepted accounting principles. The following information summarizes these differences:

A. Equity

Under the terms of the award, all funds not expended according to the award agreement and budget at the end of the award period are to be returned to NSF. Therefore, the awardee does not maintain any equity in the award and any excess cash received from NSF over final expenditures is due back to NSF.

B. Inventory

Minor materials and supplies are charged to expense during the period of purchase. As a result, no inventory is recognized for these items in the financial schedules.

**SCIENCENTRAL, INC. AND
CENTER FOR SCIENCE IN THE MEDIA, INC
NEW YORK, NEW YORK**

NOTES TO THE FINANCIAL SCHEDULES

September 1, 1999 to September 30, 2003

Note 2: Cost Sharing

The following represents the cost share requirements and actual cost share as of September 30, 2003:

Award No.	Cost Share Budget	Actual Cost Share Claimed	Unsupported Cost Share	Unallowable Cost Share	Actual Supported Cost Share	Actual Cost Share Over/(Under) Budget
SCI- 0201155						
Year 1 & 2	\$1,152,000	\$511,756	\$ -	\$ -	\$511,756	(a)
Total	<u>\$1,152,000</u>	<u>\$511,756</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$511,756</u>	<u>(a)</u>

(a) Year 2 of the awards ends on July 31, 2004; therefore, the awardee has ten months remaining to meet the balance of the cost share budget.

Award No.	Cost Share Budget	Actual Cost Share Claimed	Unsupported Cost Share	Unallowable Cost Share	Actual Supported Cost Share (b)	Actual Cost Share Over/(Under) Budget
CSMI- 9904457						
Year 1	\$300,000	\$ 436,707	\$	\$	\$	\$
Year 2	660,000	788,928				
Year 3	660,000	765,225				
Year 4	<u>310,000</u>	<u>98,375</u>				
Total	<u>\$1,930,000</u>	<u>\$2,089,235</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,930,000</u>	<u>\$ -</u>

(b) Documentation for cost sharing was only provided in total for the audit period.

Note 3: Indirect Cost Rates

Award Number	Indirect Cost Rate	Base
ESI-0201155	23%	NSF Share of Actual Direct Costs
ESI-9904457	21%	NSF Share of Actual Direct Costs

The indirect cost rates were not supported by cost proposals. (See Systemic Issues – Cost Sharing System Finding)

AWARDEES' COMMENTS

**ScienCentral, Inc.
and The Center for Science and the Media, Inc.**

**Response
to Draft of**

**SCIENCENTRAL, INC. AND
CENTER FOR SCIENCE IN THE MEDIA INC
NEW YORK, NEW YORK
NATIONAL SCIENCE FOUNDATION
AWARD NUMBERS ESI-0201155 ISSUED TO SCIENCENTRAL AND
ESI-9904457 ISSUED TO CENTER FOR SCIENCE IN THE MEDIA
FINANCIAL SCHEDULES AND
INDEPENDENT AUDITORS' REPORTS**

**For the period
September 1, 1999 – September 30, 2003**

Attachments 1, 2, and 3 have been
redacted in their entirety

