

NATIONAL SCIENCE FOUNDATION
4201 Wilson Boulevard
ARLINGTON, VIRGINIA 22230



OFFICE OF
INSPECTOR GENERAL

MEMORANDUM

Date: JAN 31 2012

To: Mary F. Santonastasso, Director
Division of Institution and Award Support

Karen Tiplady, Director
Division of Grants and Agreements

From: Dr. Brett M. Baker 
Assistant Inspector General for Audit

Subject: Audit Report No. OIG-12-1-001
International Computer Science Institute

This memo transmits McBride Lock and Associate's audit of NSF Award Numbers IIS-0905647, CNS-0433702, CNS-0855125, IIS-0819984, and CNS-0722035 awarded to the International Computer Science Institute. The audit determines the allowability of NSF-funded costs claimed from October 1, 2004 to December 31, 2010, totaling \$5,274,875 in costs claimed and \$715,537 in cost share claimed for the awards.

Except for the \$451,189 of questioned NSF funded costs, the auditors determined that the costs and cost share claimed by the International Computer Science Institute under the NSF awards appear allowable, allocable and reasonable; compliant with laws, regulations and award terms; and properly accounted for and segregated. Additionally, the auditors found that the International Computer Science Institute had properly segregated the NSF American Reinvestment Recovery Act funds awarded for CNS-0855125 and IIS-0905647 in its accounting system and submitted accurate and timely quarterly reports.

The auditors questioned \$124,827 of claimed payroll, fringe benefit and indirect costs because the costs claimed were not adequately supported by timely or appropriately certified effort reports. The auditors also questioned \$6,638 in travel costs because the costs represented air travel on non-US flag carriers which are not allowable. In addition, the auditors questioned \$319,724 in subaward costs claimed because payroll costs were claimed without providing adequate detail to allow the Principal Investigator (PI) to adequately evaluate and monitor the reasonableness of the expenses claimed. Further, the subawardee had not implemented a labor effort certification process, compliant with the requirements of OMB Circular A-21, to support payroll charges to the NSF award.

The International Computer Science Institute's response, dated January 19, 2012, agreed with the conclusions of the findings and agreed to resolve the questioned costs. The International Computer Science Institute's response is described after the findings and recommendations and is included in its entirety in Appendix B.

Please coordinate with our office during the six month resolution period, as specified by OMB Circular A-50, to develop a mutually agreeable resolution of the audit findings. Also, the findings should not be closed until NSF determines that all recommendations have been adequately addressed and the proposed corrective actions have been satisfactorily implemented.

We are providing copies of this memorandum to the Assistant Director, Directorate for Computer and Information Science and Engineering within the Office of the Assistant Director; the Division Director of Computer and Network Systems (CISE/CNS), and, the Division Director of Information and Intelligent Systems (CISE/IIS). The responsibility for audit resolution rests with the Division of Institution and Award Support, Cost Analysis and Audit Resolution Branch (CAAR). Accordingly, we ask that no action be taken concerning the report's findings without first consulting CAAR at 703-292-8244.

OIG Oversight of Audit

To fulfill our responsibilities under Government Auditing Standards, the Office of Inspector General:

- Reviewed McBride Lock and Associates approach and planning of the audit;
- Evaluated the qualifications and independence of the auditors;
- Monitored the progress of the audit at key points;
- Coordinated periodic meetings with McBride Lock and Associates and NSF officials, as necessary, to discuss audit progress, findings, and recommendations;
- Reviewed the audit report, prepared by McBride Lock and Associates to ensure compliance with Government Auditing Standards; and
- Coordinated issuance of the audit report.

McBride Lock and Associates is responsible for the attached auditor's report on the International Computer Science Institute and the conclusions expressed in the report. We do not express any opinion on the Schedules of Award Costs, internal control, or conclusions on compliance with laws and regulations.

We thank your staff for the assistance that was extended to our auditors during this audit. If you have any questions regarding this report, please contact Jannifer Jenkins at 703-292-4996.

Attachment

cc: Farnam Jahanian, Assistant Director, CISE/OAD
Keith Marzullo, Division Director, CISE/CNS
Howard Wactlar, Division Director, CISE/IIS

**The International Computer
Science Institute**
1947 Center Street, Suite 600
Berkeley, CA 94704

Independent Auditors' Reports on
National Science Foundation
Award Numbers IIS-0905647,
CNS-0433702, CNS-0855125,
IIS-0819984, and CNS-0722035

For the period from October 1, 2004 to December 31, 2010

McBride, Lock & Associates
1111 Main Street
Suite 900
Kansas City, MO 64105

EXECUTIVE SUMMARY

The National Science Foundation (NSF), Office of Inspector General (OIG), engaged McBride, Lock & Associates to perform an audit on \$5,274,875 in costs claimed and \$715,537 in cost sharing claimed as reported on the December 31, 2010 Federal Financial Report (FFR) and cost sharing reports submitted to NSF by the International Computer Science Institute (ICSI) for NSF award numbers IIS-0905647, CNS-0433702, CNS-0855125, IIS-0819984, and CNS-0722035.

The International Computer Science Institute (ICSI) was selected for audit because of its potential weaknesses in internal control over its financial and grant administration of its NSF awards as indicated by findings in NSF's Booz Allen 2008 Desk Review. These findings were also referred to in ICSI's OMB Circular A-133 fiscal year 2008 Single Audit Report. ICSI also, as a recipient under the American Reinvestment Recovery Act of 2009 (ARRA) has additional requirements to account for, segregate and report its ARRA expenditures and activity.

The objectives of our audit engagement were to determine whether costs and cost share claimed by ICSI and its subgrantees for the NSF award audited appear fairly stated in the Schedule of Award Costs (Schedules A-1 to A-5) and to identify weaknesses in ICSI's internal control over financial reporting that could have a direct and material effect on ICSI's ability to properly administer, account for, and monitor its NSF awards. In addition, we were to determine and report whether ICSI provides accurate and timely ARRA quarterly reporting under ARRA for NSF Awards CNS-0855125 and IIS-0905647, determine whether ICSI adequately monitors its subgrantees, and ensure that previously identified recommendations identified in the NSF-OIG desk review conducted in 2008 have been satisfactorily addressed and implemented.

Except for \$451,189 in questioned NSF-funded costs, we determined that the costs and cost share claimed by ICSI for the NSF award appear fairly stated and are allowable, allocable, and reasonable. Specifically, we questioned \$124,827 of claimed payroll, fringe benefit and indirect costs because the costs claimed were not adequately supported by timely certified effort reports and other payroll-related issues. We questioned \$6,638 in travel costs because the costs represented air travel on non-US flag carriers which were therefore unallowable.

We questioned subaward costs claimed of \$319,724 because such costs represented payroll costs claimed without providing adequate detail to allow the Principal Investigator (PI) to adequately evaluate and monitor the reasonableness of the expenses claimed. Further, the subawardee had not implemented a labor effort certification process, compliant with the requirements of OMB Circular A-21, to support payroll charges to the NSF award.

We noted that, of the four findings and recommendations made in NSF's 2008 program site visit, all recommendations were substantially implemented and similar deficiencies were not identified during the current audit. Additionally, our procedures indicated that ICSI had properly segregated in its accounting system the NSF ARRA funds awarded for CNS-0855125 and IIS-0905647 and submitted accurate and timely quarterly reports.

We cited three compliance and internal control deficiencies in ICSI's financial management practice that contributed to these questioned costs and that, if not corrected, could impact current and future NSF awards. Specifically:

- ICSI does not have policies and procedures to ensure adequate fiscal monitoring of subaward costs charged to Federal awards. Specifically, during the award period the Institute did not have a documented plan for monitoring subawardees, and the PI on NSF award IIS-0819984 stated that he does not actively monitor subawardee billings. We observed that billings from a significant subawardee did not identify the faculty, staff or students whose time was being billed. We also identified payroll costs that were not properly certified in compliance with NSF and OMB requirements.
- ICSI policies do not establish criteria for assessing the timeliness of effort reporting certification. Our audit procedures identified effort reports that were not dated, not signed, not reviewed by someone with direct knowledge of the work performed, or reviewed and dated but not on a timely basis. We also identified an effort report that omitted compensation at UC-Berkeley in violation of laws, regulations, and ICSI's agreement with UC-Berkeley.
- ICSI's formal written policies, procedures and training programs do not adequately address foreign travel as appropriate to promote compliance with award terms and federal regulations. Periodic training in the areas of research award administration and federal requirements is provided, however, such training has been insufficient to ensure that PIs responsible for the administration of federal awards and other affected by the regulations are aware of the content and significance of restrictions on foreign travel.

These noncompliance and internal control weaknesses could have a significant impact on the Institute's ability to record, process, summarize and report financial data, and effectively and efficiently administer its NSF funds in a manner that is consistent with Federal and NSF requirements. If ICSI fails to address these compliance and internal control weaknesses, improper costs may continue to be charged on these awards, the other existing \$12.4 million of NSF awards, and on future NSF awards.

To address these compliance and internal control deficiencies, we recommend that NSF's Director of the Division of Institution and Award Support (DIAS) address and resolve the following recommendations made to ICSI to: (1) establish risk-based subawardee evaluation and monitoring procedures for ICSI's NSF-sponsored programs; require and train PIs to thoroughly review subawardee claims for reasonableness, allowability and consistency with the approved budget; resolve unsupported subawardee claims made on the NSF awards since inception; (2) develop and implement a policy mandating the timely certification and review of labor effort to support payroll costs claimed on Federal awards, and require PIs to certify at least annually their status with respect to providing services to any other institution or entity, and specifically including UC-Berkeley; and, (3) develop and implement written policies and procedures to address subaward management, effort reporting and travel restrictions, and implement methods to ensure adherence to the approved policies and procedures to ensure compliance with Federal requirements.

ICSI concurred with the findings and stated that it was implementing expanded and improved policies and procedures with respect to subawardee evaluation, acceptance and monitoring, including instituting the dual review of subawardee billings and providing additional training to appropriate ICSI personnel. Also, ICSI agreed to implement policies addressing the timely review and certification of effort reports and timesheets, develop procedures requiring personnel to disclose dual appointments with other institutions, expand its Accounting Policies Manual to discuss restrictions on foreign travel, and ensure ICSI personnel receive training in these areas.

ICSI's response is included in its entirety as Appendix B. ICSI's response to each finding is summarized in the text of the report following the auditors' recommendations. Our comments on ICSI's responses follow each response.

Our review of the previously identified audit recommendations revealed that most were adequately addressed. See Appendix A to this report for details.

The findings in this report should not be closed until NSF has determined that all the recommendations have been adequately addressed and the proposed corrective actions have been satisfactorily implemented.

For a complete discussion of these findings, refer to the *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance with Government Auditing Standards*.

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Acronyms

ARRA	American Reinvestment Recovery Act of 2009
ICSI	International Computer Science Institute
NSF	National Science Foundation
OIG	Office of Inspector General
OMB	Office of Management and Budget
PI	Principal Investigator

INTRODUCTION

BACKGROUND

We were engaged to audit the funds awarded by the National Science Foundation to the International Computer Science Institute (ICSI or Institute) under award numbers, CNS-0433702, IIS-0819984, CNS-0855125, IIS-0905647 and CNS-0722035, for the period of October 1, 2004 to December 31, 2010. The Institute, as a federal awardee, is required to follow the cost principles specified in 2 CFR Part 230 (OMB Circular A-122), *Cost Principles for Non-Profit Organizations* and the federal administrative requirements contained in 2 CFR Part 215 (OMB Circular A-110), *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*; and Federal audit requirements in OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The Institute is a non-profit corporation located in Berkeley, California. ICSI is a center for research in computer science and has maintained an affiliation with the University of California at Berkeley (UC-Berkeley). Several of ICSI's scientists hold joint faculty appointments at UC-Berkeley, teaching and supervising students who may pursue doctoral thesis research at ICSI. There are approximately 80 scientists in residence at ICSI, including principal investigators, postdoctoral Fellows, visiting researchers, and students. ICSI partners and collaborates with sponsoring partners from industry, government, and other public and private sector organizations worldwide.

As of December 31 2010, ICSI had 32 active NSF awards totaling over \$18.9 million that included two awards pursuant to the American Reinvestment Recovery Act (ARRA) of 2009 totaling over \$600,000. Four of the 32 active awards were funded at over \$1 million each.

The International Computer Science Institute (ICSI) was selected for audit because potential weaknesses in internal control over financial and grant administration of its NSF awards were indicated by findings in NSF's Booz Allen 2008 Desk Review. These findings were also referred to in ICSI's OMB Circular A-133 FY 2008 Single Audit Report. ICSI is also a recipient of federal funds under the American Reinvestment Recovery Act of 2009 (ARRA) and therefore has additional requirements to account for, segregate and report its ARRA expenditures and activity.

A description of the five NSF awards audited follows.

Grant Award CNS-0433702, Collaborative Proposal Cybertrust: Center for Internet Epidemiology and Defenses. The ICSI was awarded approximately \$3.7 million effective October 1, 2004 through March 31, 2012. The award is primarily for salaries, benefits and related indirect costs, and required \$720,000 in cost sharing by ICSI. Cumulative disbursements for award number CNS-0433702 reported to NSF for the audit period were \$3,178,289. Cost share claimed totaled \$715,537.

Grant Award IIS-0819984, HRI: Perceptually Situated Human-Robot Dialog Models. ICSI was awarded \$830,987 effective July 1, 2008 through July 31, 2012. In addition to salaries, benefits and related indirect costs, this award includes \$407,494 for subcontracts and \$81,320 for other direct costs (primarily participant support costs). Cumulative disbursements for award number IIS-0819984 reported to NSF for the audit period were \$741,597. No cost share was required.

ARRA Award CNS-0855125, II-EN: High Performance Network Monitoring Infrastructure for Research in a Large Scale Operational Environment. The ICSI was awarded approximately \$208,000 effective August 1, 2009 through July 31, 2011. The award is primarily to fund equipment. This award was funded by the American Reinvestment Recovery Act (ARRA) of 2009. Cumulative disbursements for award number CNS-0855125 reported to NSF for the audit period were \$181,887. No cost share was required.

ARRA Award IIS-0905647, HCC Medium: Collaborative Research, Computer Vision and Online Communities, A Symbiosis. The ICSI was awarded \$400,000 effective July 1, 2009 through June 30, 2013. The award is primarily for salaries, benefits and related indirect costs. This award was funded by the American Reinvestment Recovery Act (ARRA) of 2009. Cumulative disbursements for award number IIS-0905647 reported to NSF for the audit period were \$151,461. No cost share was required.

Grant Award CNS-0722035, NeTS-FIND, Architectural Support for Network Trouble Shooting. The ICSI was awarded approximately \$1.3 million effective September 1, 2007 through August 31, 2011. The award is primarily for salaries, benefits and related indirect costs. Cumulative disbursements for award number CNS-0722035 reported to NSF for the audit period were \$1,021,641. No cost share was required.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

At the request of the NSF Office of Inspector General (OIG), McBride, Lock & Associates conducted an audit of NSF award numbers IIS-0905647, CNS-0433702, CNS-0855125, IIS-0819984, and CNS-0722035 granted to the Institute.

The objectives of our audit were to:

1. Determine whether ICSI's system of internal control over administering its NSF awards is adequate to account for and ensure compliance with applicable OMB Circular and NSF award requirements.
2. Identify and report instances of noncompliance with laws, regulations, and the provisions of the award agreement(s) and weaknesses in ICSI's internal controls over compliance and financial reporting that could have a direct and material effect on the Schedules of Award Costs (Schedules A-1 to A-5) and ICSI's ability to properly administer, account for, and manage its NSF awards.
3. Determine and report on whether ICSI adequately monitors its sub-awards.
4. Follow-up on recommendations identified in NSF's 2008 Desk Review to determine if they were satisfactorily addressed and implemented.
5. Determine and report on whether ICSI's Schedules of Award Costs present fairly, in all material respects, the costs claimed on the Federal Cash Transactions Reports/Federal Financial Reports and cost share in conformity with NSF-OIG's *Financial Audit Guide* and the terms and conditions of the NSF awards.
6. Determine whether ICSI properly accounts for and segregates its ARRA funded awards from its non-ARRA funded awards in its accounting system.
7. Determine whether ICSI provided accurate and timely ARRA quarterly reporting under NSF ARRA for NSF Award Nos. CNS-0855125 and IIS-0905647.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the *Government Auditing Standards* (2007 revision) issued by the Comptroller General of the United States, and the guidance provided in the *National Science Foundation OIG Audit Guide, August 2007*, as applicable. Those standards and the *National Science Foundation OIG Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed to the National Science Foundation as presented in the Schedules of Award Costs (Schedules A-1 to A-5), 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 (Schedules A-1 to A-5). An audit also includes assessing the accounting principles used and significant estimates made by the International Computer Science Institute, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinions.

INDEPENDENT AUDITORS' REPORT ON FINANCIAL SCHEDULES

National Science Foundation
Office of Inspector General
4201 Wilson Boulevard
Arlington, Virginia 22230

We have audited the costs claimed by the International Computer Science Institute to the National Science Foundation (NSF) on the Federal Cash Transactions Reports/Federal Financial Reports (FCTR/FFRs) for the NSF awards listed below. In addition, we audited the amount of cost sharing claimed on award number CNS-0433702. The FCTR/FFRs, as presented in the Schedules of Award Costs (Schedules A-1 through A-5) are the responsibility of the International Computer Science Institute's management. Our responsibility is to express an opinion on the Schedules of Award Costs (Schedules A-1 through A-5) based on our audit.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
CNS-0433702	10/01/04 to 03/31/12	10/01/04 to 12/31/10
IIS-0819984	07/01/08 to 07/31/12	07/01/08 to 12/31/10
CNS-0855125	08/01/09 to 07/31/11	08/01/09 to 12/31/10
IIS-0905647	07/01/09 to 06/30/13	07/01/09 to 12/31/10
CNS-0722035	09/01/07 to 08/31/11	09/01/07 to 12/31/10

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* (2007 revision) issued by the Comptroller General of the United States, and the guidance provided in the *National Science Foundation OIG Audit Guide* (August 2007), as applicable. Those standards and the *National Science Foundation OIG Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed to the National Science Foundation as presented in the Schedules of Award Costs (Schedules A-1 through A-5) 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 (Schedules A-1 through A-5). An audit also includes assessing the accounting principles used and the significant estimates made by the International Computer Science Institute's management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinions.

The Schedules of Questioned Costs (Schedules B-1 through B-5) explain the \$451,189 of claimed NSF-funded costs (8.6 percent of total claimed costs) that we questioned for allowability under the NSF award agreements. These questioned costs represent unallowable, unsupported, unallocable and unreasonable payments to ICSI's subawardees. Questioned costs are (1) costs for which there is documentation that the recorded costs were expended in violation of the laws, regulations or specific award conditions, (2) costs that require additional support by the awardee or (3) costs that require interpretation of allowability by NSF's Division of Institution and Award Support. The final determination as to whether such costs are allowable will be made by NSF. 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.

In our opinion, except for the \$451,189 of questioned NSF-funded costs, the Schedules of Award Costs (Schedules A-1 through A-5) referred to above present fairly, in all material respects, the costs claimed on the FCTR/FFRs and cost sharing claimed, for the period of October 1, 2004 through December 31, 2010, in conformity with the provisions of the *National Science Foundation OIG Audit Guide*, *NSF Grant Policy Manual*, terms and conditions of the NSF award and on the basis of accounting described in the Notes to the Financial Schedules, which is a comprehensive basis of accounting other than generally accepted accounting principles. These schedules are not intended to be a complete presentation of financial position of ICSI in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* and the provisions of the *National Science Foundation OIG Audit Guide*, we have also issued our report dated January 10, 2012, on our consideration of ICSI's internal control over financial reporting and our tests of ICSI's compliance with certain provisions of laws, regulations, and NSF award terms and conditions and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the Schedules of Award Costs (Schedules A-1 through A-5). The accompanying Schedules of Questioned Costs (Schedules B-1 through B-5 and Summary of Questioned and Unsupported Costs by Finding (Schedule C) are presented for purposes of additional analysis, as required by the *National Science Foundation OIG Audit Guide*. Such information has been subjected to the auditing procedures applied in the audit of the Schedules of Award Costs and, in our opinion, is fairly stated, in all material respects, in relation to the Schedules of Award Costs.

This report is intended solely for the information and use of the International Computer Science Institute's management, the National Science Foundation, the Institute's cognizant federal audit agency, 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.

McBride, Lock & Associates
January 10, 2012

**REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

National Science Foundation
Office of Inspector General
4201 Wilson Boulevard
Arlington, Virginia 22230

We have audited the costs claimed as presented in the Schedules of Award Costs (Schedules A-1 through A-5), which summarize the financial reports submitted by the International Computer Science Institute to the National Science Foundation (NSF), for the awards and periods listed below and the claimed cost sharing for award number CNS-0433702, and have issued our report thereon dated January 10, 2012.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
CNS-0433702	10/01/04 to 03/31/12	10/01/04 to 12/31/10
IIS-0819984	07/01/08 to 07/31/12	07/01/08 to 12/31/10
CNS-0855125	08/01/09 to 07/31/11	08/01/09 to 12/31/10
IIS-0905647	07/01/09 to 06/30/13	07/01/09 to 12/31/10
CNS-0722035	09/01/07 to 08/31/11	09/01/07 to 12/31/10

We conducted our audit of the Schedules of Award Costs as presented in Schedules A-1 through A-5 in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards (2007 Revision)*, issued by the Comptroller General of the United States; and the guidance provided in the *National Science Foundation OIG Audit Guide* (August 2007), as applicable.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the Schedules of Award Costs (Schedule A-1 through A-5) for the period October 1, 2004 to December 31, 2010, we considered the International Computer Science Institute's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the International Computer Science Institute's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the International Computer Science Institute's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, as discussed in Finding Nos. 1, 2 and 3 in the Schedule of Findings and Recommendations below, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the International Computer Science Institute's financial schedules are free of material misstatement, we performed tests of the Institute's compliance with certain provisions of applicable laws, regulations, and NSF award terms and conditions, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed certain instances of noncompliance that are required to be reported under *Government Auditing Standards* and the *National Science Foundation OIG Audit Guide* and are described as Finding Nos. 1, 2 and 3 in the Schedule of Findings and Recommendations below.

The International Computer Science Institute responses to the findings identified in our audit are described after each finding and recommendation in the accompanying Schedule of Findings and Responses presented below and are included in their entirety in Appendix B. We did not audit the International Computer Science Institute's response and, accordingly, we express no opinion on it.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Finding No. 1: Lack of Adequate Fiscal Monitoring of Subawardee

Beginning in September 2008, Stanford University was funded as a subawardee under NSF award IIS-0819984, HRI: Perceptually Situated Human-Robot Dialog Models. For the period from inception through December 31, 2010, Stanford billed award costs of \$333,560, or 45%, of the \$741,597 award dollars expended. As an organization, ICSI has very few subawardees, although they are in the process of finalizing agreements for two additional subawardees.

During the period of the subaward to Stanford University and at the time of our audit, ICSI did not have policies and procedures to ensure adequate fiscal monitoring of subaward costs or subawardee cost share charged to the Federal award. The PI on NSF award IIS-0819984 stated that he does not actively monitor subawardee billings, and we observed that billings from Stanford University do not identify the faculty, staff or students whose time was being billed. We also identified payroll costs that were not properly certified in compliance with NSF and OMB requirements.

2 CFR 215, Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations (OMB Circular A-110) requires prime recipients of sponsored awards to establish a system of internal controls to ensure that subawardees use federal funds in accordance with laws, regulations and contract/grant agreements. 2 CFR 215, Subpart C, §215.51, Monitoring and Reporting Program Performance, states that:

“(a) Recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award. Recipients shall monitor subawards to ensure subawardees have met the audit requirements as delineated in Section .26.”

Further, OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, Subpart D 400 (d) prescribes certain procedures that a pass-through entity (the Institute) must perform with respect to its subawardees, including the following:

“(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.”

The NSF Grant Policy Manual, Section 301, also specifies that grantees are responsible for managing and monitoring subaward performance and exercising prudent management of all expenditures and actions affecting the grant.

The Institute does not have policies or procedures for subawardee selection and acceptance to ensure that subawardees selected have adequate financial grant management practices. The ICSI Chief Financial Officer stated that such documentation will be developed and implemented for use in the future. ICSI represented that it had obtained a copy of the Stanford OMB Circular A-133 audit report at the time the subaward was initiated, and reviewed for the existence of findings which could impact the approval of the institution as a subawardee.

Monitoring of the subawardee on NSF IIS-0819984 was left to the PI, who approved the Stanford University billings. However, the PI on NSF award IIS-0819984 stated that he does not actively monitor subawardee billings or the detail behind them because he believes subawardee PIs should be left to accomplish their portion of the project as they see fit, and, accordingly, he monitors program results rather than the specifics of the costs incurred.

Stanford University billings do not identify the faculty, staff or students whose time is being billed. The lack of detail for award charges hinders the ability of the PI or other personnel to evaluate the reasonableness of those charges in relation to the subaward budget and progress on the award.

In order to determine whose time at Stanford University was charged to the NSF award and evaluate the propriety of those charges, we requested that ICSI obtain from Stanford University detailed transactional information for all subawardee billings. From the Monthly Transaction Reports subsequently furnished by Stanford University, we selected specific payroll transactions charged to the award and asked ICSI to request the certified labor effort reports that should support these charges.

Labor effort reports illustrate the total of all compensated labor effort for each employee charged to a federal award, and the percent of effort allocated to each award or other activity. Effort reporting is required for universities receiving federal funding, including Stanford University, by OMB Circular A-21, *Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements with Educational Institutions*, which outlines the regulations governing time and effort reporting and the verification of salary distributions. Specifically, OMB Circular A-21, Section J10.b(2) requires:

1. A payroll system that accounts for and reports 100 percent of employees' activities (instructional, research, administrative, and other institutional), including those not charged to federal awards.
2. A payroll system that allows confirmation of activity allocable to each sponsored agreement *and* each of the categories of activity needed to identify F&A costs and the functions to which they are allocable.
3. A payroll system that provides for after-the-fact confirmation of employee activity by a responsible person with "suitable means of verification that the work was performed".

We were informed that Stanford University does not participate in effort reporting. The Director of Stanford University's Post Award Research Administration division stated, in an email transmission to the ICSI Chief Financial Officer that "we do not do effort reporting but we do certify all expenditures quarterly." However, these quarterly expenditure certifications are merely certifications regarding the accumulated costs charged, on a project by project basis, and do not purport to include 100% of all compensation for those individuals whose labor is proportionally charged to the project, nor do they include both sponsored and all other activities on an integrated basis as required by OMB Circular A-21. As the Director stated, at Stanford University they "do not do effort reporting".

As set forth in its policy entitled "Stewardship and Compliance for Stanford PIs, Stanford University views the above certification as the principal evidence that labor effort was charged appropriately. This policy states:

"The Principal Investigator's certification of project expenditures is a key piece of documentation supporting the allowability, allocability and reasonableness of project costs. Particularly for **salary costs**, this certification is the **primary evidence** that the salary being charged was supported by a corresponding degree of effort devoted to the project."

The quarterly expenditure certifications, to the extent that they are intended to represent effort reporting certifications in compliance with OMB Circular A-21, are incomplete because only the specific award-funded activities are included. All other employee activities, whether funded by another award or by the University, are not included as required by federal regulations. As previously noted, OMB Circular A-21 requires that effort reports "reasonably reflect the activity for

which the employee is compensated by the institution; and encompass both sponsored and all other activities on an *integrated basis*. . .”

The absence of labor effort reports and the reliance on quarterly expenditure certifications is problematic because errors that may occur in current quarter and prior quarter(s) labor distributions are presented on the certified quarterly expenditure reports without correction. We identified errors in the last quarter of calendar year 2009 and the first quarter of calendar year 2010, and noted that the PI had incorrectly certified the Quarter 4 2009 and Quarter 1 2010 reports with a statement reading “salaries and wages charged to this project are appropriate in relation to work performed on this project.”

In fact, the Quarter 4 2009 report omitted 2 months of charges for the only scientist on the project other than the PI. These costs, amounting to [REDACTED] were subsequently charged to the ICSI subaward although the costs were omitted from the quarterly report certified as correct by the PI. In the following quarter these costs were included as costs of Quarter 1 of 2010, even though the detailed supporting information discloses that those costs do not pertain to Quarter 1, the quarter in which they were certified as having occurred. Accordingly, the veracity and reliability of the costs certified on the Stanford University Quarterly Expenditure Reports is not substantiated.

Based on the absence of labor effort certifications, the lack of approval by the federal cognizant agency to forego labor effort certifications and inaccuracies noted in the certified quarterly expenditure reports, Stanford University’s payroll distribution system is not in compliance with federal requirements and does not adequately support the payroll and related indirect costs charged to NSF award IIS-0819984. Subawardee billings for payroll and related indirect costs amounted to \$319,724 during the audit period, and these costs have been questioned.

Lack of adequate subaward management procedures can allow noncompliance with federal and NSF requirements to remain undetected. Incomplete or insufficiently detailed subawardee billings may preclude an effective evaluation of the reasonableness of costs billed to federal awards, and may allow such costs to be billed without proper substantiation.

This area of subawardee noncompliance with federal labor effort reporting requirements was not detected by ICSI through its subawardee monitoring process because these processes do not include requesting effort reports or the details supporting labor charges to subawards.

Recommendation No. 1

We recommend that NSF’s Director of the Division of Institution and Award Support (DIAS) address and resolve the following recommendation that ICSI:

- a. Develop formal and comprehensive risk-based policies or procedures for subawardee evaluation and acceptance to ensure that subawardees selected have adequate financial grant management practices.

- b. Develop subawardee fiscal monitoring procedures to ensure that subaward costs are reasonable, allowable, and allocable to the NSF award. These procedures should require that ICSI:
- Obtain certification that required A-133 audits and audits by other regulatory agencies, if any, have or have not been conducted,
 - Obtain and review all audit reports for pertinent findings and ascertain with subawardee that timely and appropriate corrective action was taken if findings were indicated, and evaluate impact of audit findings on ICSI,
 - If subawardee is required to but fails to have an A-133 audit performed or does not correct the findings, take appropriate sanction action,
 - Assess the effect of subawardee actions on the Institute's ability to comply with federal laws and regulations, and
 - Document the results of the assessment.
- c. Ensure that the procedures include clearly defined monitoring responsibilities from pre-award through the award completion stages, including analysis of subawardee billing statements, desk reviews, site visits, and other monitoring steps, as necessary.
- d. Provide training to administrative personnel and PIs in the policies and procedures necessary for adequate monitoring of subawardees.
- e. Resolve the \$319,724 of unsupported labor costs charged to NSF award IIS-0819984 amounting to [REDACTED] in salaries and wages, [REDACTED] in employee benefits and [REDACTED] in indirect costs.
- f. Submit documentation in sufficient detail to demonstrate that corrective action taken or proposed is sufficient to resolve the control deficiencies noted.

Awardee's Comments

ICSI concurs with this finding and agrees that monitoring of subawards is important and necessary. Beginning in late May'2011 ICSI has a dual review of subaward invoices. Accounting and PI review and sign off on the invoices. In addition, ICSI will do the following:

- Develop formal and comprehensive risk-based policies or procedures for subawardee evaluation and acceptance to ensure that subawardees selected have adequate financial grant management practices.
- Prepare written policy and procedures for obtaining and reviewing subawardee A-133 audits.
- Ensure that the procedures include clearly defined monitoring responsibilities from pre-award through the award completion stages, including analysis of subawardee billing statements, desk reviews, site visits, and other monitoring steps, as necessary.
- Provide training to administrative personnel and PIs in the policies and procedures necessary for adequate monitoring of subawardees.
- Resolve the \$319,724 of unsupported labor costs charged to NSF award IIS-0819984 amounting to \$160,156 in salaries and wages, \$42,302 in employee benefits and \$117,266 in indirect costs.

- Submit documentation in sufficient detail to demonstrate that corrective action taken or proposed is sufficient to resolve the control deficiencies noted.

Auditors' Response

Each of ICSI's comments is responsive to the finding and recommendation.

Finding 2 – Inadequate Effort Reporting

The ICSI policies and procedures regarding effort reporting have been expanded and strengthened in recent years. However, the periods of the NSF awards and, accordingly, our audit tests extend to earlier years. Audit testwork identified effort reports representing the early years of the awards that were not dated, not signed, not reviewed by someone with direct knowledge of the work performed, or reviewed and dated but not on a timely basis. Our audit also disclosed that existing ICSI policy does not establish criteria for assessing the timeliness of effort reporting certification. We also identified an effort report that omitted compensation for an ICSI PI who was also employed and paid by UC-Berkeley, in violation of laws, regulations, and ICSI's agreement with UC-Berkeley. As a result, we questioned a total of \$124,827 in payroll costs.

To be eligible for federal reimbursement personnel costs of nonprofit organizations are subject to the provisions of 2 CFR, Part 230 (OMB Circular A-122). Attachment B, Section 8.m.(1) of this circular states:

(1) Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph (2), except when a substitute system has been approved in writing by the cognizant agency.

2 CFR, Part 230 (OMB Circular A-122), Attachment B, Section 8.m.(2) discusses effort reporting and notes that:

(c) The reports must be signed by the individual employee, or by a responsible supervisory official having first-hand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.

(d) The reports must be prepared at least monthly and must coincide with one or more pay periods.

The Institute has no specific time frame in which the PI or group leader must review the effort report and certify it. Of the 28 effort reports selected for testing, 1 was not dated, 1 was not dated and also not signed, 5 were dated more than 2 months beyond the date of the effort report, and 1 was not signed by the PI or by someone with direct knowledge of the work performed. The latter condition was due to the Chief Operations Officer signing effort reports when the PI was not available. The reports were discussed with the PI and transmitted to him for viewing electronically. As the PI reviewed and agreed with the certifications and authorized the signing of the effort reports, we are not questioning the payroll-related costs associated with this practice. We were informed that this practice has ended, and this statement is consistent with the results of our audit tests.

With respect to the dating of effort reports, we expanded our audit procedures by viewing several additional effort reports beyond those included in our sample, and we found that many such reports had not been dated. These effort reports indicate untimely review and approval which provides a less reliable certification. We also noted an instance in which 4 months of payroll charges for one employee was transferred to an award because the charges were improper and the related labor report had not been reviewed on a timely basis. The sampled effort reports with exceptions amounted to \$56,276 of charges to NSF awards, or 39% of the \$142,475 tested. Fringe benefit and indirect costs associated with the \$56,276 of salaries amounted to \$11,887 and \$54,190, respectively, for a total of \$122,353 in questioned payroll-related costs.

Personnel at ICSI who are partially funded by contracts, as distinguished from federal awards, prepare and submit timesheets in lieu of effort reports. The examination of one PI's timesheet revealed that the PI charges and certifies his time to within 1/100th of an hour, with the hours certified representing the exact amount that would be calculated by allocating the total initial estimate of labor effort for the payroll period to each day within the reporting period. For example, his July 2010 timesheet reported that the PI spent and charged .46 of an hour each day of the month to NSF award IIS-0819984, and 1.07 hours each day to NSF award IIS-0905647. The recording of time charges in this manner calls into question the veracity of the report, particularly considering that the overall timesheet was in error and, in fact, the hours recorded totaled 8 hours less than noted by the PI. This amount was detected by ICSI administrative personnel and was initially charged to vacation and subsequently moved to another project. The inaccurate timesheet did not impact the final resulting charges to NSF awards.

This same PI stated to the auditors that he devoted approximately 2 hours a day plus preparation time in connection with unpaid teaching responsibilities at UC-Berkeley. This effort is not reported on the PI's time sheet. Upon inquiry, the PI informed the auditors that he was not compensated for his services to UC-Berkeley and had no compensation for services outside of ICSI.

Upon further investigation with UC-Berkeley, we learned that the same PI was compensated for efforts at UC-Berkeley during calendar year 2009 in the amount of [REDACTED]. Failure to include UC-Berkeley effort on ICSI effort reports (or time sheets which serve as effort reports), is a violation of federal regulations. It is also a violation of the *Agreement of Affiliation Between ICSI and UC-Berkeley* which requires that dual appointments at both ICSI and UC-Berkeley be subjected to a formalized process of disclosure between the parties and effort reporting. The effort reporting states that the "Combined Professional Effort in any period of time, as reported, cannot exceed 100%". By reporting 100% of his effort as ICSI activities, and excluding his UC-Berkeley activities, the PI is in violation of this requirement.

The effect of the omission of activities and related payroll charges on effort reports is to overstate the percent of effort devoted to the reported activities. The omitted compensation by the PI who failed to report UC-Berkeley compensation represents approximately 16% of the PI's total compensation during calendar year 2009. Accordingly, we are questioning 16% of the PI's charges to NSF awards, amounting to \$2,474, of which \$878 were charges to award IIS-0819984 and \$1,596 were charges to NSF award IIS-0905647. The exceptions due to delinquent or improperly certified effort reports amounted to \$122,353 of charges to NSF awards. As a result of these two matters, we are questioning \$124,827 of payroll-related charges to Federal awards.

Timely certifications of reports that include all 100% of employees' activities are mandated by applicable federal regulations and are important to ensure the reliability of the documentation supporting payroll and related indirect cost charges to federal awards.

ICSI's efforts to enhance its policies and procedures have been largely effective in minimizing the areas of potential noncompliance with federal requirements. Focusing efforts and refining and expanding its policies and procedures in the key area of effort reporting should reduce the risk of noncompliance relative to this function.

Recommendation No. 2

We recommend that NSF's Director of the Division of Institution and Award Support (DIAS) address and resolve the following recommendation that ICSI:

- a. Develop, adopt and implement a policy providing for the timely review and certification of effort reports and timesheets.
- b. Develop procedures to require that personnel disclose dual appointments with other institutions, including the level of committed effort and related compensation,
- c. Provide training to ICSI personnel with respect to the proper and accurate reporting of time, including time expended on UC-Berkeley commitments.
- d. Submit documentation in sufficient detail to demonstrate that corrective action taken or proposed is sufficient to resolve the control deficiencies noted.

Awardee's Comments

ICSI agrees with this finding and will do the following:

- Develop, adopt and implement a policy providing for the timely review and certification of effort reports and timesheets.
- Develop procedures to require that personnel disclose dual appointments with other institutions, including the level of committed effort and related compensation.
- Provide training to ICSI personnel with respect to the proper and accurate reporting of time, including time expended on UC-Berkeley commitments.
- Submit documentation in sufficient detail to demonstrate that corrective action taken or proposed is sufficient to resolve the control deficiencies noted.

Auditors' Response

Each of ICSI's comments is responsive to the finding and recommendation.

Finding 3 – Inadequate Policies, Procedures and Training of Personnel Responsible for Compliance with Foreign Travel Requirements.

The Institute’s formal written policies, procedures and training programs do not adequately address federal requirements associated with foreign travel, as appropriate to promote compliance with award terms and federal regulations. Periodic training in the areas of research award administration and federal requirements is provided, however, such training has been insufficient to ensure that PIs and other affected personnel are aware of the content and significance of applicable compliance requirements pertaining to foreign travel.

OMB Circular A-110, Subpart C, Section .21(b), paragraph (6) requires awardees to 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.”

The NSF’s Award and Administration Guide states that “Grantees should ensure that costs claimed under NSF grants are necessary, reasonable, allocable, and allowable under the applicable cost principles, NSF policy, and/or the program solicitation.”

This audit identified exceptions to certain NSF and federal requirements in the area of foreign travel. ICSI representatives, upon being informed of the exceptions, have agreed to promptly implement corrective action. This action should include new or expanded policies, procedures and training to include the subject of foreign travel.

The ICSI policies and procedures do not address the federal requirements pertaining to flying United States air carriers whenever practical. Federal regulations, specifically 49 U.S.C. 40118, commonly referred to as the “Fly America Act,” require personnel to use U.S. flag air carrier service for all air travel funded by the U.S. Government, with certain exceptions. Existing ICSI documented policies do not refer to this regulation and, during our testwork, we identified 2 trips, out of 26 travel expense charges, that included foreign travel on non-U.S. flag air carriers. In both cases, the travelers flew on Air New Zealand which is not a US flag carrier. We were informed by the ICSI Chief Financial Officer that the use of non-U.S. flag air carriers is not standard protocol and is not an accepted practice at ICSI. She advised us that expense reports have now been revised to highlight the requirements with respect to the use of U.S. flag air carriers. The Chief Financial Officer also stated that the two employees involved would be contacted, as would the staff that approved this travel, to ensure that further violations of the Fly America Act would not occur. Travel charges representing flights on non-U.S. flag air carriers amounted to \$6,638 or 15% of the total dollar amount tested and these costs have been questioned.

Policies and procedures that promote compliance with laws, regulations, grantor requirements and institutional goals, when coupled with adequate training of personnel affected by them, provides assurance to funding agencies and management alike of effective, compliant fiscal management.

ICSI has developed and adopted a broad set of accounting and financial management policies and procedures which are codified in its *Accounting Policies Manual*. Expanding this manual to include the area of foreign travel will assist ICSI in its efforts to ensure compliance with federal laws and regulations.

Recommendation No. 3

We recommend that NSF's Director of the Division of Institution and Award Support address and resolve the following recommendation that ICSI:

- a. Develop and implement written policies and procedures to address travel restrictions. While policy statements may be brief, procedural guidance should be sufficient to allow ICSI to meet the NSF requirement that "Grantees should ensure that costs claimed under NSF grants are necessary, reasonable, allocable, and allowable under the applicable cost principles, NSF policy, and/or the program solicitation."
- b. Develop and implement an effective mechanism to communicate the policy and procedural changes to all affected ICSI staff and provide training as considered appropriate.
- c. Submit documentation in sufficient detail to demonstrate that corrective action taken or proposed is sufficient to resolve the control deficiencies noted.

Awardee's Comments

ICSI agrees with the audit findings and has already implemented changes indicated in the auditors' report. Our travel expense forms now have travel "tips" included on the back of the form as well as our travel policy on the front of the expense report form. Discussions were held with all of the PI's regarding the "Fly America Act". Additionally, ICSI will also

- Hold mandatory training sessions on travel policy and procedures.
- Expand the Accounting Policies Manual to include additional information on foreign travel.
- Submit documentation in sufficient detail to demonstrate that corrective action taken or proposed is sufficient to resolve the control deficiencies noted.

Auditor's Response

Each of ICSI's comments is responsive to the finding and recommendation.

These findings should not be closed until NSF determines that the recommendations have been adequately addressed and the proposed corrective actions have been satisfactorily implemented.

This report is intended solely for the information and use of the International Computer Science Institute's management, NSF, the Institute's cognizant Federal audit agency, 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.

McBride, Lock & Associates
January 10, 2012

FINANCIAL SCHEDULES AND SUPPLEMENTAL INFORMATION

The International Computer Science Institute
National Science Foundation Award No. CNS-0433702
Schedule of Award Costs
Award Period: October 1, 2004 – March 31, 2012
Audit Period: October 1, 2004 – December 31, 2010
Interim

Cost Category	(A) Approved Budget	(B) Claimed Costs	Adjustments	Claimed Costs After Adjustments	Questioned Costs Schedule B-1
Direct Costs:					
Salaries and wages	\$ 1,473,363	\$ 1,295,005	\$ -	\$ 1,295,005	\$ 45,093
Fringe benefits	326,101	277,738	-	277,738	9,650
Equipment	108,297	99,347	-	99,347	-
Travel	113,500	100,551	-	100,551	3,472
Participant support	-	-	-	-	-
Other direct costs:					
Materials and supplies	-	680	-	680	-
Publication costs	-	-	-	-	-
Consultant services	-	-	-	-	-
Computer services	-	-	-	-	-
Subcontracts	-	-	-	-	-
Other	152,861	54,626	-	54,626	-
Total Direct Costs	2,174,122	1,827,947	-	1,827,947	58,215
Indirect Costs	[REDACTED]				
Total	\$	[REDACTED]			
Cost sharing	\$ 720,000	\$ 715,537	\$ -	\$ 715,537	\$ -

(A) The Award Budget amounts are for the period from October 1, 2004 through March 31, 2012, while the Claimed Costs are for the period from October 1, 2004 through December 31, 2010.

(B) The total claimed costs agree with the total expenditures reported by ICSI on the Federal Financial Report – Federal Share of Net Disbursements as of the quarter ended December 31, 2010. Claimed costs reported above are taken directly from ICSI’s books of accounts.

See Accompanying Notes to the Financial Schedules

The International Computer Science Institute
National Science Foundation Award No. IIS-0819984
Schedule of Award Costs
Award Period: July 1, 2008 – July 31, 2012
Audit Period: July 1, 2008 – December 31, 2010
Interim

Cost Category	Approved Budget	(A) Claimed Costs	Adjustments	Claimed Costs After Adjustments	Questioned Costs Schedule B-2
Direct Costs:					
Salaries and wages	\$ 138,314	\$ 168,897	\$ -	\$ 168,897	\$ 357
Fringe benefits	25,398	38,557	-	38,557	132
Equipment	-	2,453	-	2,453	-
Travel	18,000	10,834	-	10,834	-
Participant support	16,000	6,925	-	6,925	-
Other direct costs:					
Materials and supplies	-	-	-	-	-
Publication costs	-	-	-	-	-
Consultant services	-	-	-	-	-
Computer services	-	-	-	-	-
Subcontracts	407,494	333,560	-	333,560	319,724
Other	81,320	4,292	-	4,292	-
Total Direct Costs	686,526	565,518	-	565,518	320,213
Indirect Costs	[REDACTED]				
Total	\$ [REDACTED]				

(A) The Award Budget amounts are for the period from July 1, 2008 through July 31, 2012, while the Claimed Costs are for the period from July 1, 2008 through December 31, 2010.

(B) The total claimed costs agree with the total expenditures reported by ICSI on the Federal Financial Report – Federal Share of Net Disbursements as of the quarter ended December 31, 2010. Claimed costs reported above are taken directly from ICSI’s books of accounts.

See Accompanying Notes to the Financial Schedules

The International Computer Science Institute
National Science Foundation Award No. CNS-0855125
Schedule of Award Costs
Award Period: August 1, 2009 – July 31, 2011
Audit Period: August 1, 2009 – December 31, 2010
Interim

Cost Category	(A) Approved Budget	(B) Claimed Costs	Adjustments	Claimed Costs After Adjustments	Questioned Costs Schedule B-3
Direct Costs:					
Salaries and wages	\$ 4,800	\$ 1,590	\$ -	\$ 1,590	\$ -
Fringe benefits	576	125	-	125	-
Equipment	198,292	171,202	-	171,202	-
Travel	-	-	-	-	-
Participant support	-	-	-	-	-
Other direct costs:					
Materials and supplies	-	-	-	-	-
Publication costs	-	-	-	-	-
Consultant services	-	-	-	-	-
Computer services	-	-	-	-	-
Subcontracts	-	-	-	-	-
Other	-	4,238	-	4,238	-
Total Direct Costs	203,668	177,155	-	177,155	-
Indirect Costs					-
Total	\$				\$

(A) The Award Budget amounts are for the period from August 1, 2009 through July 31, 2011, while the Claimed Costs are for the period from August 1, 2009 through December 31, 2010.

(B) The total claimed costs agree with the total expenditures reported by ICSI on the Federal Financial Report – Federal Share of Net Disbursements as of the quarter ended December 31, 2010. Claimed costs reported above are taken directly from ICSI's books of accounts.

See Accompanying Notes to the Financial Schedules

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The International Computer Science Institute
National Science Foundation Award No. IIS-0905647
Schedule of Award Costs
Award Period: July 1, 2009 – June 30, 2013
Audit Period: July 1, 2009 – December 31, 2010
Interim

Cost Category	(A) Approved Budget	(B) Claimed Costs	Adjustments	Claimed Costs After Adjustments	Questioned Costs Schedule B-4
Direct Costs:					
Salaries and wages	\$ 116,862	\$ 63,832	\$ -	\$ 63,832	\$ 649
Fringe benefits	19,618	14,009	-	14,009	240
Equipment	4,982	-	-	-	-
Travel	20,000	3,348	-	3,348	-
Participant support	-	-	-	-	-
Other direct costs:					
Materials and supplies	-	-	-	-	-
Publication costs	-	-	-	-	-
Consultant services	-	-	-	-	-
Computer services	-	-	-	-	-
Subcontracts	-	-	-	-	-
Other	114,136	5,727	-	5,727	-
Total Direct Costs	275,598	86,916	-	86,916	889
Indirect Costs					
Total	\$				

(A) The Award Budget amounts are for the period from July 1, 2009 through June 30, 2013, while the Claimed Costs are for the period from July 1, 2009 through December 31, 2010.

(B) The total claimed costs agree with the total expenditures reported by ICSI on the Federal Financial Report – Federal Share of Net Disbursements as of the quarter ended December 31, 2010. Claimed costs reported above are taken directly from ICSI's books of accounts.

See Accompanying Notes to the Financial Schedules

The International Computer Science Institute
National Science Foundation Award No. CNS-0722035
Schedule of Award Costs
Award Period: September 1, 2007 – August 31, 2011
Audit Period: September 1, 2007 – December 31, 2010
Interim

Cost Category	(A) Approved Budget	(B) Claimed Costs	Adjustments	Claimed Costs After Adjustments	Questioned Costs Schedule B-5
Direct Costs:					
Salaries and wages	\$ 520,733	\$ 440,621	\$ -	\$ 440,621	\$ 11,183
Fringe benefits	140,049	88,217	-	88,217	2,237
Equipment	-	-	-	-	-
Travel	33,950	31,421	-	31,421	3,166
Participant support	36,000	-	-	-	-
Other direct costs:					
Materials and supplies	-	-	-	-	-
Publication costs	-	-	-	-	-
Consultant services	-	-	-	-	-
Computer services	-	-	-	-	-
Subcontracts	-	-	-	-	-
Other	1,500	13,394	-	13,394	-
Total Direct Costs	732,232	573,653	-	573,653	16,586
Indirect Costs					
Total	\$				

(A) The Award Budget amounts are for the period from September 1, 2007 through August 31, 2011, while the Claimed Costs are for the period from September 1, 2007 through December 31, 2010.

(B) The total claimed costs agree with the total expenditures reported by ICSI on the Federal Financial Report – Federal Share of Net Disbursements as of the quarter ended December 31, 2010. Claimed costs reported above are taken directly from ICSI's books of accounts.

See Accompanying Notes to the Financial Schedules

**The International Computer Science Institute
National Science Foundation Award No. CNS-0433702
Schedule of Questioned Costs
From October 1, 2004 to December 31, 2010**

1. Salaries and Wages – Questioned Costs of \$45,093

We are questioning \$45,093 of salaries and wages representing effort reports which were not certified on a timely basis or were not signed by an individual possessing suitable means of verification as required by Federal regulation. (See Finding and Recommendation No. 2 in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.*)

2. Fringe Benefits – Questioned Costs of \$ [REDACTED]

ICSI claimed fringe benefit costs to NSF pursuant to negotiated rate agreements at rates averaging [REDACTED] of claimed salaries and wages. As a result of questioning the above salaries and wages, we are questioning [REDACTED] (See Finding and Recommendation No. 2 in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.*)

3. Travel – Questioned Costs of \$3,472

We are questioning \$3,472 of travel representing 2 airline flights on non-US flag carriers, when US flag carriers were available. (See Finding and Recommendation No. 3 in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.*)

4. Indirect Costs - Questioned Costs of [REDACTED]

ICSI claimed indirect costs to NSF based on applying a rate of [REDACTED] against claimed Modified Total Direct Costs (MTDC) in years prior to 2010, and [REDACTED] in 2010. As a result, based upon questioning of \$45,093 of salaries and wages and \$9,650 of fringe benefits, we are questioning [REDACTED] of indirect costs. (See Finding and Recommendation No. 2 in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.*)

**The International Computer Science Institute
National Science Foundation Award No. IIS-0819984
Schedule of Questioned Costs
From July 1, 2008 to December 31, 2010**

1. Salaries and Wages – Questioned Costs of \$357

We are questioning \$357 of salaries and wages representing effort reports which were not certified on a timely basis or were not signed by an individual possessing suitable means of verification as required by Federal regulation. (See Finding and Recommendation No. 2 in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.*)

2. Fringe Benefits – Questioned Costs of [REDACTED]

ICSI claimed fringe benefit costs to NSF pursuant to negotiated rate agreements at rates averaging [REDACTED] of claimed salaries and wages. As a result of questioning the above salaries and wages, we are questioning [REDACTED]. (See Finding and Recommendation No. 2 in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.*)

3. Subcontracts – Questioned Costs of \$319,724

We are questioning \$319,724 of subcontract costs representing labor and related fringe benefits and indirect costs that were not supported by certified labor effort reports. (See Finding and Recommendation No. 1 in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.*)

4. Indirect Costs - Questioned Costs of [REDACTED]

ICSI claimed indirect costs to NSF based on applying a rate of [REDACTED] against claimed Modified Total Direct Costs (MTDC) in years prior to 2010, and [REDACTED] in 2010. As a result, based upon questioning of \$357 of salaries and wages and \$132 of fringe benefits, we are questioning [REDACTED] of indirect costs. (See Finding and Recommendation No. 2 in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.*)

**The International Computer Science Institute
National Science Foundation Award No. CNS-0855125
Schedule of Questioned Costs
From August 1, 2009 to December 31, 2010**

There were no questioned costs associated with National Science Foundation Award No. CNS-0855125.

**The International Computer Science Institute
National Science Foundation Award No. IIS-0905647
Schedule of Questioned Costs
From July 1, 2009 to December 31, 2010**

1. Salaries and Wages – Questioned Costs of \$649

We are questioning \$649 of salaries and wages representing effort reports which were not certified on a timely basis or were not signed by an individual possessing suitable means of verification as required by Federal regulation. (See Finding and Recommendation No. 2 in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.*)

2. Fringe Benefits – Questioned Costs of [REDACTED]

ICSI claimed fringe benefit costs to NSF pursuant to negotiated rate agreements at rates averaging [REDACTED] of claimed salaries and wages. As a result of questioning the above salaries and wages, we are questioning [REDACTED] (See Finding and Recommendation No. 2 in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.*)

3. Indirect Costs - Questioned Costs of [REDACTED]

ICSI claimed indirect costs to NSF based on applying a rate of [REDACTED] against claimed Modified Total Direct Costs (MTDC) in years prior to 2010, and [REDACTED] in 2010. As a result, based upon questioning of \$649 of salaries and wages and \$ [REDACTED] of indirect costs. (See Finding and Recommendation No. 2 in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.*)

**The International Computer Science Institute
National Science Foundation Award No. CNS-0722035
Schedule of Questioned Costs
From September 1, 2007 to December 31, 2010**

1. Salaries and Wages – Questioned Costs of \$11,183

We are questioning \$11,183 of salaries and wages representing effort reports which were not certified on a timely basis or were not signed by an individual possessing suitable means of verification as required by Federal regulation. (See Finding and Recommendation No. 2 in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.*)

2. Fringe Benefits – Questioned Costs of [REDACTED]

ICSI claimed fringe benefit costs to NSF pursuant to negotiated rate agreements at rates averaging 20% of claimed salaries and wages. As a result of questioning the above salaries and wages, we are questioning [REDACTED] (See Finding and Recommendation No. 2 in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.*)

3. Travel – Questioned Costs of \$3,166

We are questioning \$3,166 of travel representing 2 airline flights on non-US flag carriers, when US flag carriers were available. (See Finding and Recommendation No. 3 in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.*)

4. Indirect Costs - Questioned Costs of [REDACTED]

ICSI claimed indirect costs to NSF based on applying a rate of [REDACTED] % against claimed Modified Total Direct Costs (MTDC) in years prior to 2010, and [REDACTED] in 2010. As a result, based upon questioning of \$11,183 of salaries and wages and [REDACTED] indirect costs. (See Finding and Recommendation No. 2 in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.*)

The International Computer Science Institute
 National Science Foundation
 Award Number CNS-0433702, IIS-0819984, CNS-0855125,
 IIS-0905647 and CNS-0722035

Summary of Questioned and Unsupported Costs by Finding

Period from October 1, 2004 through December 31, 2010

Finding	Non-Compliance and/or Internal Control	Material, Significant or Other?	(A) Amount of Questioned Costs	Amount of Unsupported Costs Questioned	Amount of Claimed Costs Affected
1. Lack of adequate fiscal monitoring of subawardee	Non-compliance and Internal Control	Significant Deficiency	\$ 319,724	\$319,724	\$ 333,560
2. Inadequate effort reporting	Non-compliance and Internal Control	Significant Deficiency	\$124,827	\$124,827	\$4,252,988
3. Inadequate policies, procedures and training of Personnel Responsible for Compliance with Foreign Travel Requirements	Non-compliance and Internal Control	Significant Deficiency	\$ 6,638	\$ -	\$ 146,154

The International Computer Science Institute
Notes to the Financial Schedules
Awards IIS-0905647, CNS-0433702, CNS-0855125, IIS-0819984, and CNS-0722035
From October 1, 2004 to December 31, 2010

Note 1: Summary of Significant Accounting Policies

Accounting Basis

The accompanying financial schedules have been prepared in conformity with National Science Foundation (NSF) instructions, which are based on a comprehensive basis of accounting other than generally accepted accounting principles. Schedules A-1 to A-5 have been prepared by the International Computer Science Institute from the Federal Financial Reports submitted to NSF and ICSI's accounting records. The basis of accounting utilized in preparation of these reports differs from accounting principles generally accepted in the United States of America. The following information summarizes these differences:

- A. Equity - Under the terms of the awards, all funds not expended according to the award agreements and budgets at the end of the award periods are to be returned to NSF. Therefore, the awardee does not retain equity in the award and any excess cash received from NSF over final expenditures is due back to NSF.

- B. Equipment - Equipment is charged to expense in the period during which it is purchased instead of being recognized as an asset and depreciated over its useful life. As a result, the expenses reflected in the Schedules of Award Costs include the cost of equipment purchased during the period rather than a provision for depreciation.

Except for awards with nonstandard terms and conditions, title to equipment under NSF awards vests in the recipient, for use in the project or program for which it was acquired, as long as it is needed. The recipient may not encumber the property without approval of the federal awarding agency, but may use the equipment for its other federally sponsored activities, when it is no longer needed for the original project.

- C. 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.

- D. Income Taxes - The Institute is a nonprofit organization and is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and from California Franchise and/or Income taxes under the Revenue and Taxation Code, Section 23701(d).

The departures from generally accepted accounting principles allow NSF to properly monitor and track actual expenditures incurred by the awardee. The departures do not constitute material weaknesses in internal controls.

The International Computer Science Institute
Notes to the Financial Schedules
From August 1, 2002 to December 31, 2010

Note 2: NSF Cost Sharing and Matching

The Institute is required by the terms of award CNS-0433702 to provide cost share amounting to \$120,000 per year for 6 years, or \$720,000 in total. Below is a summary of the cost share requirements through the first five (5) years of the award (year ended March 31, 2010), and the actual cost share as of December 31, 2010:

Number CNS- 0433702	Cost Share Required	Cost Share Claimed	Unallowable Cost Share	Net Cost Share	Share Over/(Under) Required
Total	\$ 600,000	\$ 715,537	\$ -	\$ 715,537	\$ 115,537

Note 3: Indirect Cost Rates

The Institute's indirect cost rate is a provisional rate negotiated with the Defense Contract Audit Agency and applied to modified total direct costs. The indirect cost rates applied to the awards were as follows:

<u>Year</u>	<u>Rate</u>
FY 05	
FY 06	
FY 07	
FY 08	
FY 09	
FY 10	

**APPENDIX A – STATUS OF PRIOR REVIEW
FINDINGS**

Status of Prior Review Findings

In September 2008, Booz, Allen & Hamilton conducted a desk review of International Computer Science Institute, (ICSI) on behalf of the National Science Foundation. The review included an assessment of ICSI’s award-related management practices, a review of the accounting and financial systems, and a reconciliation of one quarter’s financial FCTR information for award number CNS-0433702 with ICSI’s corresponding accounting records. The National Science Foundation issued their report in October 2008 citing concerns about ICSI’s management practices and accounting and financial systems. The findings, recommendations and current status are set forth in the following table.

<u>Finding</u>	<u>Recommendation</u>	<u>Status</u>
<p>ICSI’s time and effort reporting form does not appear to comply with the Office of Management and Budget (OMB) A-122 standards in that it only delineates the percentage distribution of effort spent on various activities; it does not delineate the number of hours for each activity or the total hours for the reporting period.</p>	<p>PAR or time reports showing the number of hours on each activity and the total hours for the reporting period should be used for all federal awards.</p>	<p>Effective January 1, 2009, ICSI implemented a revised PAR form which shows the hours worked for all government grant awards by each employee.</p>
<p>The written policies and procedures related to expenditure monitoring were drafted for the purpose of the review and are not official, documented policies. In addition, ICSI does not appear to have procedures in place to ensure that awards are effectively monitored so as to preclude incurring obligations in excess of approved award budgets.</p>	<p>The Institute should adopt procedures to ensure that awards are effectively monitored and should ensure that written policies and procedures related to expenditure monitoring are communicated and adhered to by all ICSI personnel.</p>	<p>ICSI utilizes a Monthly Project Report which records the monthly and cumulative project costs, in addition to the project budget. This report provides a tool for monitoring project costs to ensure budgets are not exceeded. Management of ICSI has written official policies and procedures covering the monitoring of all externally-funded costs. However, our audit identified weaknesses in ICSI’s subaward monitoring which indicate that written policies and procedures should be expanded in this area.</p>
<p>Comingling of direct and indirect costs when preparing the indirect cost rate proposal.</p>		<p>No comingling of direct and indirect costs was identified by the audit procedures performed.</p>
<p>Inadequate chart of accounts</p>		<p>The Institute’s chart of accounts is adequate to provide accountability for federal awards</p>

**APPENDIX B – AWARDEE’S COMMENTS
TO REPORT**

APPENDIX C – EXIT CONFERENCE

Exit Conference

An exit conference was held on May 26, 2011 at the ICSI offices, with Mr. Billy McCain participating via teleconference. Preliminary findings and recommendations were discussed. It was explained that the preliminary findings and recommendations were subject to final review by NSF and that report may include additional findings, recommendations, and/or omit certain items discussed.

Attendees:

████████████████████ International Computer Science Institute

Billy McCain, Audit Manager, National Science Foundation

████████████████████, McBride, Lock & Associates

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