Financial and Compliance Audit
of
Indirect Costs
For the Years Ended
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**Acronyms**

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<td>American Institute of Certified Public Accountants</td>
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<td>American Meteorological Society</td>
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<td>Division of Contract, Policy and Oversight</td>
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<td>DGA</td>
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<td>FCTR</td>
<td>Federal Cash Transactions Report</td>
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<tr>
<td>MTDC</td>
<td>Modified Total Direct Costs</td>
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<td>NSF</td>
<td>U.S. National Science Foundation</td>
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<td>OIG</td>
<td>Office of Inspector General</td>
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SECTION I

INTRODUCTION AND AUDIT RESULTS
SECTION I -
INTRODUCTION AND AUDIT RESULTS

BACKGROUND

The American Meteorological Society (AMS), founded in 1919, is a not-for-profit, tax exempt, scientific and professional society. Interdisciplinary in scope, AMS actively promotes the development and dissemination of information on the atmospheric and related oceanic and hydrological sciences. AMS has its headquarters in Boston, Massachusetts and also maintains an office in Washington, D. C., where most federal research occurs. AMS has more than 11,000 members from the United States, and currently publishes ten scientific journals. In addition, AMS organizes national and international meetings, specialized conferences, symposia, and workshops.

AMS generates approximately $11 million of annual revenues, mainly from journals, meetings and exhibits, federal financial assistance and other member services. Of about $11 million of annual revenues, federal financial assistance approximates $1.5 million. The National Science Foundation (NSF) provides the most significant portion of the federal financial assistance to AMS and is its cognizant federal audit agency.

OBJECTIVE AND SCOPE OF AUDIT

At the request of the NSF Office of the Inspector General (OIG), M. D. Oppenheim & Company, P.C. conducted a financial and compliance audit of the indirect cost proposals prepared by AMS for the years ended December 31, 1998, 1999, and 2000 to determine final indirect cost rates for those years. During the period of our audit there were ten NSF awards that included indirect costs based on a predetermined rate specified in the award letter and/or award budget. Our audit objectives were: (1) to determine whether AMS complied with federal requirements in computing its indirect cost proposals; (2) to determine whether AMS over or under-recovered indirect costs on each NSF award active during the audit period, based upon audit-determined indirect cost rates; and (3) to evaluate the adequacy of AMS's internal controls to administer, account for, and monitor indirect cost charges to federal awards.

To accomplish the objectives of the audit, we:

• Conducted an on-site audit survey with sufficient observations, interviews, and examinations of documents to make an initial determination whether predetermined rates were based on allowable indirect costs and whether controls to administer, account for, and monitor indirect costs are adequate to ensure compliance with federal cost principles and administrative requirements.

• Prepared an audit planning document for OIG review and approval. The planning document included a description of AMS's organizational structure and the process used to administer, account for, and monitor indirect cost charges to federally sponsored awards. As part of the planning process we performed an assessment of audit risk and obtained an understanding of AMS's control environment.
• Prepared an internal control audit planning document for OIG review and approval. The internal control planning document included the proposed audit programs/procedures for testing the significant internal controls necessary to accurately administer, account for, and charge indirect cost charges to federally sponsored awards. As part of the internal control process, we assessed the internal controls in the areas of control environment, risk assessment, information and communication, monitoring and control activities.

• Prepared a substantive audit testing planning document for OIG review and approval. The substantive planning document included the preliminary results of the internal control phase of the audit, including findings and recommendations, and the proposed audit program, which included tests on compliance with applicable laws and regulations and substantive testing procedures to be applied to the indirect cost pools and the direct cost base.

• Performed testing procedures to determine whether the indirect cost proposals and the resultant indirect cost rates comply with OMB Circulars A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations, and A-122, Cost Principles for Non-Profit Organizations.

We conducted our audit in accordance with AICPA auditing standards generally accepted in the United States of America, the Controller General’s Government Auditing Standards and the provisions of the NSF Grant Policy Manual, and included tests of the accounting records and other auditing procedures that we considered necessary to fully address the audit objectives.
SUMMARY OF AUDIT RESULTS

We noted compliance deficiencies and internal control weaknesses resulting in the over-recovery of indirect costs totaling $240,245, or 30 percent of total claimed indirect costs, on ten NSF awards over the three year period ending December 31, 2000. Some of these deficiencies and internal control weaknesses could affect future indirect cost rates as well. More specifically, we found five instances of non-compliance, four of which constituted material non-compliance and one which constituted non-material non-compliance:

Material Non-Compliance

• AMS misclassified $1.4 million of direct program costs as indirect costs. These direct costs consisted of AMS support for projects integral to its program mission to promote the "development and dissemination of information and education on the atmospheric and related oceanic and hydrologic sciences. . . ." The misclassification of costs occurred because staff who prepared the indirect cost rate proposals did not understand applicable federal cost principles.

• AMS does not have an adequate system to track, document, and certify the labor effort of staff who allocate time to both direct and indirect activities. The organization proposed as indirect costs unsupported salaries of $806,180, 10 percent of total proposed indirect costs over the three-year period under audit. AMS did not properly document these labor costs because it did not believe that the dollar amount was significant.

• AMS maintains an office in Washington, D.C., for federal research, in addition to its headquarters in Boston. However, AMS has never calculated a separate indirect cost rate for the D.C. office. A single indirect cost rate for organizations that have more than one physical location may be inappropriate, because the direct activities performed at other locations may not incur indirect costs at the same rate as they do at the headquarters.

• AMS did not submit its indirect cost proposal to NSF for the year ended December 31, 1999. Instead, it submitted its proposals on a biennial basis. AMS stated that NSF orally approved its biennial submission practice.

Non-Material Non-Compliance

• AMS included unallowable costs for alcoholic beverages in its indirect cost pool because its accounting staff overlooked specific federal regulations stating that such costs can not be charged to the federal government.

We also found two immaterial instances of internal control weakness:
Immaterial Internal Control Weaknesses

- AMS does not have an accounting system that could provide a complete and current disclosure of the financial results of its federal awards. Although the system captures non-personnel costs by NSF awards, it does not capture personnel costs by awards. However, AMS does track personnel expenses, segregated by NSF awards, in an off-line spreadsheet. Because it thought such a system was sufficient, AMS then combines both on-line and off-line accounts, an error-prone process, in order to report quarterly expenditures to NSF.

- AMS did not maintain vendor invoices (i.e. hotel or banquet bills, restaurant receipts, or airline or train tickets) to support credit card receipts totaling $371,668. Further, AMS does not require its accounting department to match the credit card charge to an actual vendor invoice prior to initiating a payment to verify the validity, accuracy, and allowability of the costs, because it thought credit card receipts sufficed.

To address the compliance deficiencies and internal control weaknesses, we recommended that the Directors of NSF's Division of Contract, Policy and Oversight (CPO) and the Division of Grants and Agreements (DGA) require that AMS (1) develop and implement written policies and procedures for the classification of direct and indirect costs, and ensure that AMS's future indirect cost rate proposals do not include mission-related costs in their indirect cost pools; (2) establish a process to track, document, and certify monthly labor distributions reports for direct and indirect cost activities, (3) develop a separate indirect cost rate for its Washington, D.C. location, (4) submit indirect cost proposals to NSF on an annual rather than biennial basis, (5) ensure that its accounting staff understands and complies with federal requirements regarding the unallowability of certain costs, (6) segregates all costs by line item and federal award without the use of off-line spreadsheets, and (7) require that corporate credit card receipts submitted to the accounting department be supported by actual vendor invoices related to the charges.

Summary of Auditee's Responses

With respect to the compliance issues presented in the report, AMS has indicated their disagreement with the finding regarding the misclassification of $1.4 million of direct program costs as indirect costs. They indicate that these costs are neither significant nor necessary to AMS's mission, and, therefore, should be included in the indirect cost pool. Regarding the adequacy of their timekeeping system, AMS believes they maintain adequate time records and allocation schedules to support the distribution of labor between direct and indirect costs. The Auditee is willing, if required by NSF, to establish an off-site indirect cost rate, but would prefer to discuss this issue further with NSF prior to calculating this rate.

AMS agrees with the findings pertaining to non-submission of their indirect cost proposal on an annual basis and the need to separately track alcoholic beverages costs.

With respect to the internal control weaknesses presented in the report, AMS believes their current system adequately records and tracks grant costs. Regarding the lack of documentation for credit card charges, AMS now requires the underlying vendor invoices be provided to support credit card charges.
Summary of Auditors' Responses to Auditee's Responses

With respect to the Auditee's responses pertaining to the compliance issues presented in the report, we disagree with AMS's comments regarding the misclassification of the $1.4 million of direct program costs as indirect costs and the adequacy of their timekeeping system. We believe that AMS has missed the point on both of these issues and has offered erroneous explanations of their positions on both of these findings. Regarding the remaining three compliance issues, we understand their positions and do not take exception to their plans for corrective action indicated in their responses.

With respect to the Auditee's responses pertaining to the internal control weaknesses presented in the report, we disagree with AMS's comment regarding their belief that their current system adequately records and tracks grant costs. Salaries and consulting costs constitute the largest percentage of AMS grant costs, and these costs are not separately identified by grant in the AMS general ledger, only on Excel worksheets. Regarding their response to the lack of documentation for credit cards finding, their stated policy requiring vendor invoices is adequate.
EXIT CONFERENCE

An exit conference was held on January 25, 2002 at the Auditee's office located at 45 Beacon Street, Boston, Massachusetts. The findings on compliance and internal control along with the adjustments and eliminations related to the indirect cost proposals were discussed by the following individuals.

For American Meteorological Society:

For M.D. Oppenheim & Company, P.C.:
SECTION II

FINDINGS AND RECOMMENDATIONS
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND INTERNAL CONTROL

We have audited the summary schedule of over (under) recovered indirect costs (Schedule A) and the schedules of indirect/direct costs (B-I to B-3) which summarize the indirect cost proposals prepared by the American Meteorological Society for the years ended December 31, 1998, 1999 and 2000, and have issued our report thereon dated January 25, 2002. 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 issued by the Comptroller General of the United States and the National Science Foundation Audit Guide (September 1996).

Compliance

As part of obtaining reasonable assurance about whether the American Meteorological Society's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and policies, noncompliance with which could have a direct and material effect on the determination of the financial schedules 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 disclosed instances of material noncompliance, as reported in the accompanying Findings and Recommendations on Compliance and the adjustments and eliminations noted in Schedules C-1 to C-6, that are required to be reported under Government Auditing Standards and the National Science Foundation Audit Guide.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the American Meteorological Society's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial schedules and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the American Meteorological Society's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial schedules. The reportable conditions noted are
described in the accompanying Finding and Recommendation on Internal Control.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions described in our Internal Control findings are not material weaknesses.

This report is intended solely for the information and use of the American Meteorological Society and the National Science Foundation and is not intended to be and should not be used by anyone other than these specified parties.

January 25, 2002
AMERICAN METEOROLOGICAL SOCIETY
Findings and Recommendations on Compliance
For the years ended December 31, 1998, 1999, and 2000

Material Deficiencies

1. Misclassification of Direct Costs as Indirect Costs

OMB Circular A-122 states that "direct costs are those that can be identified specifically with a particular final cost objective, i.e., a particular award, project, service, or other direct activity of an organization." In a broader sense, direct costs are those that can be specifically identified with an organization's mission. AMS's mission is to promote the "development and dissemination of information and education on the atmospheric and related oceanic and hydrologic sciences." Therefore, all costs specifically identifiable with these activities should be classified as direct costs. In addition, OMB Circular A-122 states that "the costs of activities performed primarily as a service to members, clients, or the general public when significant and necessary to the organization's mission must be treated as direct costs whether or not allowable...."

For the three years under audit, AMS erroneously included mission-related costs totaling $1,439,117 or 17 percent of proposed indirect costs, in the indirect cost pool. The costs consisted of what AMS refers to as "Baseline Funding" and "Education and Special Initiatives." "Baseline Funding" is funding authorized by the AMS Board of Directors to utilize up to $100,000 per year from its general operating budget to support education-related projects. "Education and Special Initiatives" are various projects and programs funded by AMS investment income to expand and enhance AMS's mission. More specifically, AMS incurred these costs for various programs and projects to expand its mission, supplement federal awards (e.g., mandatory cost sharing on NSF awards), and for other program operations such as credit card collection/processing charges incurred for meeting registration fees, membership dues, and publications purchases, which benefited members.

As a result of the inclusion of direct costs and unallowable or unsupported costs in the indirect cost pool,2 AMS over-recovered indirect costs totaling $240,245, or 30 percent of total claimed indirect costs, on ten NSF awards over the three year period ending December 31, 2000. The specific over-recovery of indirect costs was a result of the audited rates being lower than the proposed rates, as follows:3

<table>
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<tr>
<th>Year Audited</th>
<th>Proposed Rate</th>
<th>Audited Rate</th>
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<tr>
<td>1998</td>
<td>34.41%</td>
<td>29.05%</td>
</tr>
<tr>
<td>1999</td>
<td>33.57%</td>
<td>26.87%</td>
</tr>
<tr>
<td>2000</td>
<td>36.16%</td>
<td>23.79%</td>
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</table>

However, since the award letters specified a predetermined indirect cost rate, which is not subject to adjustment, NSF may not recover its costs. Thus, the primary value of this finding is to provide NSF with guidance on AMS's future indirect cost rates. For example, if

1 These bank charges total $127,491 for all three years.
2 See Schedules C-1 to C-5 for the adjustments and eliminations of direct costs, and unallowable and unsupported costs that were incorrectly included in the indirect cost pool.
3 The indirect cost proposals prepared by AMS for the years ended December 31, 1998, 1999, and 2000 are summarized in Schedule A.
AMS's subsequent indirect cost proposals exclude direct costs from the indirect cost pool, NSF might conclude that the continuation of a predetermined indirect cost rate is warranted. Alternatively, since AMS's audited rates for years 1998-2000 have fluctuated from 29.05 percent to 23.79 percent, as shown above, NSF might conclude that a predetermined rate is inappropriate and should be replaced by a maximum provisional rate.  

AMS misclassified direct costs as indirect costs because the staff who prepared the indirect cost rate proposals did not understand federal regulations and mistakenly assumed that only costs associated with awards and its revenue-generating activities were direct costs.

**Recommendation**

We recommend that the Directors of NSF's Divisions of CPO and DGA require AMS to develop and submit for NSF approval written policies and procedures in conformance with OMB Circular A-122 for the classification of direct and indirect costs; and ensure that AMS's future indirect cost rate proposals do not include mission-related costs in their indirect cost pools.

**Auditee's Response**

You have taken costs totaling $1,439,117 over three years, the majority of which we feel were properly classified as indirect costs, for Baseline Funding and Education and Special Initiatives, and reclassified these costs as direct. While we would agree that "Baseline Funding" and "Education and Special Initiatives" do expand and enhance AMS's mission, AMS does feel strongly that these expenditures are certainly NOT "significant and necessary" to our organization's mission. Several years ago our membership felt the Society's reserves were sufficient and adequate, and that earnings on those reserves be expended on "nice, but not necessary" projects. Most anything an organization does would "expand" its mission but that expansion for these particular programs is quite minimal to AMS's overall goals. These expenditures are fairly unique to stated A-122 guidelines for classification of direct and indirect costs. We request that NSF closely review these expenses and allow them to be included as indirect costs.

We take exception to comment on page 3 that the misclassification of costs occurred because the staff who prepared the indirect cost rate proposals did not understand applicable federal cost principles. We feel that the comment made about our understanding of the applicable federal principles is not appropriate and should be removed. We point out that in 1995, when we submitted our indirect cost proposal, which was reviewed and accepted by NSF and a predetermined indirect cost rate was awarded, the salary allocation between direct and indirect Baseline Funding and Education and Special Initiatives was reviewed and accepted as well as the allocation for rent for our Washington, D.C. office. These costs are now classified 100% direct costs. The situation and circumstances for these have not changed significantly since 1995.

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4 A predetermined indirect cost rate is generally used when indirect cost rates are fairly consistent from year to year.
5 Once negotiated, predetermined indirect cost rates are not subject to adjustment; however, maximum provisional rates are subject to downward adjustment.
In summary, it is our belief that these costs were classified properly as indirect costs and should not be classified as direct costs and, as a result, this is not a material non-compliance.

Your last sentence in the second paragraph (page 9) seems to associate credit card collection charges with "Baseline Funding" and "Special Initiatives". Naturally, this is a separate issue, not funded from investment income. This amount ($127,491) cannot be readily identified as a specific charge to a particular final cost objective. Breaking the credit card charge out to applicable program operation would be onerous. This seems to AMS to be a valid indirect cost. OMB Circular A-122 states that "any direct cost for minor amounts may be treated as an indirect cost for reasons of practicability applied where the accounting treatment for such costs is consistently applied to all final cost objectives". American Meteorological Society would incur a significant amount of additional labor cost to breakdown each Master Card or Visa fee to allocate between direct and indirect costs. The total charges each year are approximately 1/2 percent (.5%) of the total direct costs and would change the indirect cost rate by less than 1%. American Meteorological Society feels that the cost of reviewing each Master Card fee and matching it to specific program cost, is an unnecessary task and would create an added burden on the accounting staff, which is already at its maximum level of production. This was not the intent of OMB Circular A-122 and it clearly states that.

Our position, depending on NSF disposition, would increase the audited rate and reduce over-recovery amount. Additionally, we strongly feel the development of written policies and procedures is not necessary. We have already addressed most compliance related issues while those still open relate to issues of interpretation of OMB A-122.

**Auditors' Response to Auditee's Response**

We disagree with AMS's contention that the direct costs for Baseline Funding are "fairly unique" for classification between direct and indirect. These expenditures are definitely for direct costs and not indirect costs. Because, "Baseline Funding" is utilized to support AMS education related projects and "Education and Special Initiatives" are projects and programs funded by AMS to enhance and expand their mission, and by definition are direct costs. Therefore, it would not be appropriate to classify them as indirect costs. In addition, placing blame for this error on NSF (since NSF reviewed AMS's indirect cost proposals) is not correct. NSF only performed a "desk review" of the indirect cost proposals and not an on-site audit as we performed. NSF would not have been able to discern this error on their desk review. In any event, this would not mitigate AMS's responsibility to understand OMB requirements and follow those requirements when preparing the indirect cost proposal.

Regarding the tracking of credit card charges we believe AMS is missing the point as to the identification ". . . as a specific charge to a particular final cost objective". All of the bank charges for credit card processing are for membership dues, meetings and conferences, or publications purchases. Therefore, these bank charges are directly attributable to those respective AMS departments/functions and should be treated as direct costs in their indirect cost proposals, regardless of the amount.
AMS's contention that breaking out the credit card charges would be "onerous" is not true. AMS already segregates the credit card charges in a separate account in their general ledger. Therefore, due to the nature of these bank charges, as discussed in the finding, they should be off-set against the applicable revenue source (meeting registrations, membership dues, or publications purchases).

2. **Timekeeping System Inadequate**

OMB Circular A-122 specifies that salaries and wages chargeable to an award must be supported by personnel activity reports. In addition, the Circular states that to support the allocation of indirect costs to federal awards, activity reports must be maintained for employees who split their time between both direct and indirect cost activities. In either case, the reports must reflect "an after-the-fact determination of the actual activity of each employee," be signed by the employee or the employee's supervisor, and be prepared at least monthly.

AMS did not have an adequate system to track, document, and certify the labor effort of staff who allocated their time to both direct and indirect activities. We found that AMS could not support its allocation of indirect salary and wages costs amounting to $806,180, and 10 percent of total proposed indirect costs for the three-year period under audit. Instead of documenting these indirect salary allocations using monthly reports, AMS arbitrarily determined the allocation of these amounts once a year when it prepared its annual indirect cost allocation plan. Further, when asked to provide evidence for these indirect salary allocations, AMS provided a spreadsheet and stated there was no other written documentation. Without the reliability of proper documentation or the establishment of a reasonable allocation policy, AMS's direct cost base and indirect cost pool in proposals submitted to NSF may be misstated resulting in an improper calculation of the indirect cost rate for each of the three years.

**Recommendation**

We recommend that NSF Directors of CPO and DGA require AMS to establish for NSF's review and approval a process to track, document, and certify monthly labor distribution reports documenting the time its employees spend on both its direct and indirect cost activities.

**Auditee's Response**

We had difficulty determining who you included in the $806,180 of indirect staff labor you say we cannot support. It has been assumed this does not include staff whose time is clearly 100% indirect (controller, mail center personnel, IS staff, etc.). It does appear that you have disallowed a portion of an accounting staff member's time (25%) which is clearly an indirect cost. It is also assumed it included some staff working in grants, Special Initiatives, Baseline Funding, and those in senior management (working in a program area), all of whom have had some of their time allocated to indirect salaries.
We provided you with schedules which showed the amount of time spent for staff working in Baseline Funding and Education with applicable back-up time sheets. We also provided you with what we feel was a reasonable estimate of the time spent by senior management for their direct and indirect labor efforts. The indirect portion of their time was related to their administrative duties, all staff meetings, senior staff meetings, policy meetings/decisions, and travel, meetings, and time spent in volunteerism to sister/business related societies. We feel the arbitrary 10% allocation (20% in one case) of their time to indirect cost pool to be reasonable and fair. We also feel it would be unproductive to require senior managers to provide time sheets in pursuit of a specific determination of a minimal number of indirect labor hours.

**Auditors' Response to Auditee's Response**

The statement by AMS that "we feel the arbitrary 10% allocation .... to be reasonable and fair .... and unproductive to require senior managers to provide time sheets" does not mitigate the OMB Circular A-122 requirement. The critical word in the OMB (Attachment B, Section 7, m, (2)) is "must." That means that AMS must maintain reports that reflect after-the-fact documentation of the time apportioned between indirect and direct. There is no leeway in this requirement. In addition, the allocation percentage during the three years audited was not only 10% as AMS has stated. The percentage allocated by some employees was 30%, 40%, 50% and 75%.

In response to the question of how the $806,180 was computed, the following provides that information. (The information was obtained from the AMS "Salary Allocation Worksheet" submitted as part of the indirect cost proposal for each of the three years).

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Employees Allocated</th>
<th>Allocated Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>18</td>
<td>$304,620</td>
</tr>
<tr>
<td>1999</td>
<td>21</td>
<td>314,467</td>
</tr>
<tr>
<td>2000</td>
<td>16</td>
<td>187,093</td>
</tr>
</tbody>
</table>

$806,180

AMS's comments regarding "Baseline Funding and Education" staff timesheets are erroneous. As previously discussed in finding number 1, these costs are essentially direct costs. Therefore, the allocation of these staff to the indirect cost pool only includes those staff in management positions as indicated on AMS's "Salary Allocation Worksheet" indicated above. Timesheets did not indicate this indirect allocation of actual time spent.

3. **No Off-site Indirect Cost Rate**

OMB Circular A-122 recommends that organizations with off-site locations develop a separate rate(s) during the course of their normal allocation or proposal preparation process, and if the separate rate(s) differs significantly from the primary indirect cost rate, the separate rate should also be used. In addition, NSF's Grant Policy Manual requires that organizations consider establishing both on- and off-site indirect cost rates when awards involve both on- and off-site activities.
AMS has never developed an off-site indirect cost rate for its Washington, D.C., location, although this location serves as the Society's primary site to carry out its mission related to federal grant operations. Therefore, the work in the D.C. office is significantly different from AMS's member-focused support activities in Boston. In addition, not all administrative, financial, and building operations costs occurring at the Boston headquarters are allocable to federal research awards at the D.C. location. Consequently, AMS's indirect cost rate may be over or understated depending on whether the D.C. office should have a lower indirect cost rate than the Boston office, or whether the D.C. office's rate should be higher than Boston's. AMS should consider establishing both on- and off-site indirect cost rates for use with NSF awards and submitting the rates to NSF for approval.

**Recommendation**

We recommend that the Directors of NSF's CPO and DGA require AMS to develop an off-site rate for its Washington D.C. office to determine if the indirect cost activities at the Washington D.C. office differ significantly from those activities at the Boston headquarters.

**Auditee's Response**

This would be an extremely difficult task to accomplish and maybe not a meaningful one. AMS is prepared to attempt this but naturally would rather not. Additional discussion is needed. We will await a decision from NSF before moving forward with this project.

**Auditors' Response to Auditee's Response**

We do not disagree with AMS's statement that the computation of an off-site indirect cost rate is "an extremely difficult task," however; the computation, we believe, has to be performed. This is based upon our statement in the finding that the Washington, D.C. location is the primary site to carry out its mission related to federal grant operations, and therefore, would provide the basis for a fair allocation of overhead costs.

**4. Indirect Cost Proposal Not Submitted Annually**

OMB Circular A-122 specifies "[o]rganizations 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 AMS's cognizant agency because it provides the Society with the largest dollar volume of awards among all federal agencies providing research and/or education related funding.

However, AMS did not submit its indirect cost proposal to NSF for the year ended December 31, 1999. Further, AMS did not submit the proposal for the year ended December 31, 1998, to NSF until June 1, 2000, almost one year overdue. AMS's next most recent indirect cost proposal submission was sometime in 1996 for the year ended December 31, 1995. Therefore, until our audit, NSF has not reviewed AMS's actual cost information for five years (1996 to 2000). AMS stated that its standard practice was to submit indirect cost proposals to NSF every other year.
The annual preparation and submission of an indirect cost proposal for multi-year awards is critical because conditions often occur that affect the final proposed rate from one year to the next. For example, AMS’s decision to utilize its own funds for mission-related activities increased the direct cost base but kept the indirect cost pool relatively constant, thereby reducing the actual indirect cost rate significantly and contributing to over-recovery of indirect costs on NSF awards. If NSF had been provided with actual cost information on an annual basis, however, it could have taken more timely action to reduce AMS’s indirect cost recoveries. AMS stated that the reason it did not submit annual indirect cost proposals is that NSF's Cost Analysis and Audit Resolution Branch approved its biennial submission practice orally, but not in writing.  

**Recommendation**

We recommend that the Directors of CPO and DGA ensure that AMS submits indirect cost proposals annually.

**Auditee's Response**

AMS has been lax in the preparation and submission of our indirect cost proposal on a timely basis. We will correct this immediately by preparing the report and submitting it to NSF annually, within the six-month time requirement.

Two additional points of clarification:

1. Our 2001 proposal has been prepared but submission will be approximately two months late as we attempt to further analyze audit findings and incorporate same where possible.

2. Audit refers to "Biennial Approval" process as if it were a "permanent" agreement with NSF. This happened twice and was directly related to situations where cost proposals had not been submitted for a two-year period. Permission was requested (and verbally approved) to submit just the most recent year's proposal.

**Auditors’ Response to Auditee's Response**

Since AMS concurs with the finding and recommendation a response is not deemed necessary.

---

6 NSF's Cost Analysis and Audit Resolution Branch does not recall approving this practice orally or in writing.
1. **Unallowable Costs Included in the Indirect Cost Pool**

   OMB Circular A-122 states that the costs of alcoholic beverages are unallowable. However, AMS included $2,058 of such costs in its indirect cost pool. AMS included these costs in its indirect cost pool because its accounting staff overlooked the federal provisions that stated that these costs are unallowable.

   **Recommendation**

   We recommend that the Directors of NSF's CPO and DGA ensure that AMS complies with all provisions in OMB Circular A-122 regarding the unallowability of specific cost categories.

   **Auditee's Response**

   The amount of money spent on alcoholic beverages by the Society is extremely small. Certainly, no Grant funds are spent on alcohol. Identifying and tracking a separate line item on our financial statements that equates to about .0002 per cent of annual expenses would have little effect on our indirect cost rate. In fact, if alcohol expenditures were removed from our direct cost pool, the indirect cost rate would increase.

   We have started to track and separately book the cost of alcoholic beverages. This was not done for the 2001 fiscal year. Not doing so actually results in a lower indirect cost rate but we will await NSF direction on this matter for 2001 rate proposal.

   **Auditors' Response to Auditee's Response**

   Even though the amount is not material, AMS should not include alcoholic beverages in any direct or indirect billing to a governmental entity. The commencement of the tracking by AMS will satisfy this requirement.
Immaterial Weaknesses

1. **Accounting System Does Not Separately Identify Costs per Award**

OMB Circular A-110 requires that awardees have a financial management system that identifies the source and application of funds for federal activities and that provides accurate, current and complete disclosure of the financial results of each federal award.

The AMS accounting system does not provide a current or complete disclosure of the financial results of its federal awards. Specifically, the system captures non-personnel related (OTPS) costs, such as equipment, travel, and supplies, by NSF award, but records salary expenses in the general ledger in a single account with no delineation by federal award or AMS program. Since AMS does not capture segregated salary costs in its accounting system, it uses both an on-line accounting system and off-line spreadsheets to report award expenditures to NSF. Thus, to arrive at total quarterly costs per award for the draw down of federal funds, AMS accountants manually add OTPS costs from the accounting system to personnel costs from the off-line spreadsheets. AMS prepares these spreadsheets each quarter, based on monthly time sheets. We also could not determine the amount of direct program cost sharing erroneously included in the indirect cost pool, because the accounting system does not segregate cost sharing costs either.

AMS believes that its current system adequately serves the organization's recording and reporting purposes. However, because AMS must proceed through a cumbersome process using on-line and off-line records, errors are more likely to occur. In addition, AMS is unable to use its accounting system to readily and separately identify the costs associated with specific programs by expense account, budget category or in total by federal award.

**Recommendation**

We recommend that the Directors of NSF’s CPO and DGA ensure that AMS uses its current ledger system so that all costs, including salary, OSTP, and cost-sharing costs, are segregated by line item and federal award, thus eliminating the need for offline spreadsheets, except as supporting documentation for journal entries.

**Auditee’s Response**

AMS has a computerized general leader system which adequately tracks all grant costs, excluding salaries and consulting. We utilize an Excel program to keep track of these costs by award. Labor constraints and cost of software upgrade will exceed the benefit, if any, that can be derived from this comment. System is working properly and our outside auditors have not had a problem with it. AMS does not feel the system is cumbersome. Section 21: Standards for financial management systems, (b) (7) states financial management systems

* AMS used baseline finding for its cost sharing, and we have previously recommended eliminating baseline funding from the indirect cost pool.
shall provide "accounting records including cost accounting records that are supported by source documentation" which we assume would include our Excel schedules.

**Auditors' Response to Auditee's Response**

Salaries and consulting constitute the largest percentage of AMS grant costs. Therefore, AMS's general ledger system is not adequately tracking all grant costs, as stated in their response. In addition, Excel schedules are not considered source documentation for audit purposes. The statement by AMS that their system for accounting for grant is not cumbersome is interesting, in light of the fact that various records, schedules and workpapers need to be utilized to determine the costs incurred on an individual grant. In addition, offline schedules are not an integral part of the organization's official books of account (general ledger), which contain inherent safeguards as part of the organization's internal controls.

2. **Lack of Documentation for Credit Card Charges**

OMB Circular A-110 requires that award recipients have a financial management system that provides accounting records supported by source documentation. However, AMS did not support $371,668 credit card charges with invoice documentation. In addition, it did not require its accounting department to match credit card charges with associated invoices prior to approving payment. As a result, we could not determine if the credit card charges were valid, accurate, or allowable. AMS did not keep invoices to support credit card charges because it mistakenly thought charge receipts were sufficient.

**Recommendation**

We recommend that the Directors of CPO and DGA require AMS for those persons who submit credit card charges should also provide the underlying vendor invoices for those charges.

**Auditee's Response**

AMS now requires that underlying vendor invoices be provided to support credit card charges. Several points, some covered in other sections, need to be made as concerns this finding:

a. Many of these invoices were kept, but not included as back-up for the credit card bill payment. Documentation/actual detailed bill sometimes filed with applicable program cost (meeting, journal, special initiative etc.). Our DC office was also in the middle of a move to a new location and document search was difficult. Some invoices may also have been misfiled after our audits.

b. Scope of audit/time spent on pulling required documentation made it difficult time-wise to do a complete search for missing documentation.

c. Your scope was 100% of all credit card expenditures. Many were found and they had been all properly coded. Disallowing those without original receipt eliminates a significant amount of valid indirect costs.
d. To remove these charges from our indirect cost pool and then include that differential in an "over-recovery" figure and a lower "audited indirect cost rate" is extremely misleading and projects a less than fair impression.

Auditors' Response to Auditee's Response

Since AMS "now requires that underlying invoices be provided to support credit card charges" a response is not deemed necessary.
SECTION III

FINANCIAL SCHEDULES
INDEPENDENT AUDITORS' REPORT

We have audited the indirect cost proposals, the American Meteorological Society has proposed as applicable to the National Science Foundation and other federal awards for the years ended December 31, 1998, 1999 and 2000. These indirect cost proposals, as presented in the schedules of indirect/direct costs (Schedules B-1 to B-3) and the schedule of over/(under) recovered indirect costs (Schedule A) are the responsibility of the American Meteorological Society's management. Our responsibility is to express an opinion on Schedules A and B-1 to B-3 based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Government Auditing Standards issued by the Comptroller General of the United States, and the National Science Foundation Audit Guide (September 1996). Those standards and the National Science Foundation Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The accompanying financial schedules were prepared for the purpose of complying with the requirements of the National Science Foundation Audit Guide as described in Note 1, 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.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the indirect cost proposals (Schedules B-1 to B-3) and the resultant over/(under) recovered indirect costs (Schedule A) for the years ended December 31, 1998, 1999 and 2000, in conformity with the National Science Foundation Audit Guide, NSF Grant Policy Manual, and on the basis of accounting described in Note 1.
In accordance with Government Auditing Standards, we have also issued our report dated January 25, 2002 on our consideration of the American Meteorological Society’s internal control over financial reporting and on our tests of its compliance with laws and regulations. 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.

Schedules C-1 to C-4 contain indirect costs in the amount of $1,659,862 that are reductions to the indirect costs proposed and $1,286,845 that are additions to the direct costs proposed for the years ended December 31, 1998, 1999 and 2000. The final determination, as to whether such costs are allowable or unallowable, will be made by the National Science Foundation. The ultimate outcome of this determination cannot presently be determined.

This report is intended solely for the information and use of the American Meteorological Society and the National Science Foundation and is not intended to be and should not be used by anyone other than these specified parties.
<table>
<thead>
<tr>
<th>Year</th>
<th>MTDC</th>
<th>Over Recovered</th>
<th>Under Recovered</th>
</tr>
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<tbody>
<tr>
<td>1998</td>
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<td>1999</td>
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<tr>
<td>2000</td>
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</table>

**Comments/Notes:**

MTDC = Modified total direct costs. (Total direct program costs less equipment and participant support costs).

(A) The amount over recovered may not be recovered by NSF because the award includes a predetermined rate.

(B) The total direct and indirect costs reflected in AMS's books of account exceeds the total maximum award budget by $1,124.

See accompanying notes to these financial schedules.
AMERICAN METEOROLOGICAL SOCIETY
Schedule of Indirect Costs
For the year ended December 31, 1998

See accompanying notes to these financial schedules.

(A) The amounts agree with the indirect cost rate proposal prepared by the American Meteorological Society (AMS). The total costs before auditors' adjustments and eliminations agree with AMS's books of account.
(A) The amounts agree with the indirect cost rate proposal prepared by the American Meteorological Society (AMS). The total costs before auditors' adjustments and eliminations agree with AMS's books of account.
The amounts agree with the indirect cost rate proposal prepared by the American Meteorological Society (AMS). The total costs before auditors' adjustments and eliminations agree with AMS's books of account.

See accompanying notes to these financial schedules.
AMERICAN METEOROLOGICAL SOCIETY
Schedule of Direct Costs
For the year ended December 31, 1999

(A) The amounts agree with the indirect cost rate proposal prepared by the American Meteorological Society (AMS). The total costs before auditors' adjustments and eliminations agree with AMS's books of account.
The amounts agree with the indirect cost rate proposal prepared by the American Meteorological Society (AMS). The total costs before auditors’ adjustments and eliminations agree with AMS's books of account.

See accompanying notes to these financial schedules.
AMERICAN METEOROLOGICAL SOCIETY
Schedule of Indirect Costs
For the year ended December 31, 2000

(A) The amounts agree with the indirect cost rate proposal prepared by the American Meteorological Society (AMS). The total costs before auditors' adjustments and eliminations agree with AMS's books of account.

See accompanying notes to these financial schedules.
The amounts as proposed by AMS in their indirect cost proposals for the years ended December 31, 1998, 1999 and 2000 (Schedules B-1 to B-3) required various adjustments and eliminations to the indirect cost or direct cost pools. These adjustments and/or eliminations are presented in Schedules B-1 to B-3. On the following pages in Schedules C-1 to C-6 these adjustments and/or eliminations are detailed. Presented below is a brief summary of the type of adjustment and/or elimination along with the relevant criteria.

<table>
<thead>
<tr>
<th>Adjustment and/or Elimination</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct program costs included in the indirect cost pool for &quot;Baseline Funding&quot; and &quot;Education and Special Initiatives,&quot; which are direct programs of AMS.</td>
<td>OMB Circular A-122, Attachment A, Part B (1) states that direct costs are those that can be identified specifically with a particular cost objective. In addition, OMB Circular A-122, Attachment A, Part C (1) states indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective.</td>
</tr>
<tr>
<td>Bank charges for processing credit card charges, erroneously included in the indirect cost pool. These bank charges are specifically related to meetings registration fees, membership dues and publications, which are direct programs of AMS.</td>
<td>OMB Circular A-122, Attachment A, Part B (1) states that direct costs are those that can be identified specifically with a particular cost objective. In addition, OMB Circular A-122, Attachment A, Part C (1) states indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective.</td>
</tr>
<tr>
<td>Inadequate source documentation in the form of a credit card receipt. The credit card receipt was the only documentation available, with no actual vendor invoice; therefore, determination of the allowability of the cost cannot be determined.</td>
<td>OMB Circular A-110, Subpart C, paragraph 21 (b) (7) requires accounting records that are supported by source documentation.</td>
</tr>
<tr>
<td>Missing source documentation in the form of a vendor invoice. Without the vendor invoice determination of the allowability of the cost cannot be determined.</td>
<td>OMB Circular A-110, Subpart C, paragraph 21 (b) (7) requires accounting records that are supported by source documentation.</td>
</tr>
</tbody>
</table>
AMERICAN METEOROLOGICAL SOCIETY  
Schedule of Auditors' Adjustments and Eliminations (Cont.)  
For the years ended December 31, 1998, 1999 and 2000

<table>
<thead>
<tr>
<th>Adjustment and/or Elimination</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Books and educational materials (which are direct costs) were erroneously included in indirect costs.</td>
<td>OMB Circular A-122, Attachment A, Part B (1) states that direct costs are those that can be identified specifically with a particular cost objective. In addition, OMB Circular A-122, Attachment A, Part C (1) states indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective.</td>
</tr>
<tr>
<td>Applicable credits for fellowships were not deducted from the direct cost pool.</td>
<td>OMB Circular A-122, Attachment A, Part A (5) states applicable credits refers to those receipts, or reductions of expenditures which operate to offset or reduce expense items that are allocable to awards as direct or indirect costs.</td>
</tr>
<tr>
<td>The cost of alcoholic beverages that were included in indirect and direct costs.</td>
<td>OMB Circular A-122, Attachment B, item 2, states that the cost of alcoholic beverages are unallowable.</td>
</tr>
</tbody>
</table>

**Audittee's Response**

**Baseline Funding and Education and Special Initiatives**

Disagree with your findings - please refer to response "Findings Number 1 ".

**Bank Char-‘es**

Strongly disagree - while all credit card bank charges relate to direct programs of AMS they are not readily identifiable to a specific program. Please refer to response to findings.
Auditee's Response (Cont.)

Inadequate Source Documentation

Source documentation for many of the credit card expenses were provided and all we believe were properly allocated to correct indirect or direct cost base. While we do need to do better in this area, your removal of 100% of indirect cost related expenditures from the indirect pool is misleading and unreasonable.

Missing Vendor Invoices

The scope of your audit, imposed on a small accounting department, went way beyond "fair and reasonable" as we discussed during your audit. It was also our busiest time of the year. In addition, during the several years covered in your audit, we experienced significant staff shortages (maternity leave, grant person left, replacement had to be let go) and yet we still found about 99% of requested invoices. Though minor in total dollars, it seems unreasonable that you had to remove those few missing invoices from indirect cost base.

Books and Educational Material

The inclusion of these direct costs in our indirect costs was a clerical error on our part in the preparation of our report.

Fellowship Not Deducted from Direct Cost Pool

We are familiar with OMB Circular A-122, Attachment A, Part A (5) and fellowship credits have been deducted from recent proposals.

Cost of Alcoholic Beverages

Please see response to this in earlier section of this report.

Auditors' Response to Auditee's Response

AMS as part of their response to resolve any of the adjustments and eliminations provided no source documentation, therefore, the amounts remain as stated.
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Expenses</td>
<td>$50,000</td>
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<tr>
<td>Travel Expenses</td>
<td>$20,000</td>
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<tr>
<td>Conference Fees</td>
<td>$10,000</td>
</tr>
<tr>
<td>Supplies</td>
<td>$5,000</td>
</tr>
</tbody>
</table>

**Total Direct Costs:** $85,000
AMERICAN METEOROLOGICAL SOCIETY
Schedule of Auditors' Adjustments and Eliminations - Direct Costs
For the year ended December 31, 1999

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AMERICAN METEOROLOGICAL SOCIETY
Schedule of Auditors' Adjustments and Eliminations - Direct Costs
For the year ended December 31, 2000
1. Summary of Significant Accounting Policies:

The accompanying financial schedules have been prepared in conformity with National Science Foundation (NSF) instructions. Schedules B-I to B-3 have been prepared from the indirect cost proposals prepared by the American Meteorological Society and Schedule A, has been prepared based upon the results of the audit of Schedules B-I to B-3. The schedules do not present the complete financial position of the American Meteorological Society. In accordance with NSF instructions, there are no schedules of financial position, statement of activities or statement of cash flows.

2. Income Taxes:

The American Meteorological Society is a private nonprofit corporation, incorporated under the laws of the Commonwealth of Massachusetts. The American Meteorological Society is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. It is also exempt from Commonwealth of Massachusetts franchise or income tax.
SECTION IV
SUPPLEMENTARY INFORMATION
INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Our report on our audit of the schedule of over/(under) recovered indirect costs and schedules of indirect and direct costs (the basic financial schedules) of the American Meteorological Society for the years ended December 31, 1998, 1999 and 2000, appears in Schedules A and Schedules B-1 to B-3. The audit was made for the purpose of forming an opinion on the basic financial schedules taken as a whole. The supplementary information presented in Schedules D-1 to D-10 and Schedule E are presented for purposes of supplementary analysis and are not a required part of the basic financial schedules. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial schedules and, accordingly, we express no opinion on them.

January 25, 2002
See accompanying independent auditors' report.
See accompanying independent auditors' report.
See accompanying independent auditors' report.
National Science Foundation Award Number ATM-9402990
Awarded To
American Meteorological Society
Detailed Schedule of Over/(Under) Recovered Indirect Costs
For the period January 1, 1998 to August 31, 1999 (A)
Final
(Unaudited)

See accompanying independent auditors' report.
National Science Foundation Award Number ESI-9453205  
Awarded To  
American Meteorological Society  
Detailed Schedule of Over/(Under) Recovered Indirect Costs  
For the period January 1, 1998 to December 31, 2000 (A)  
Interim  
(Unaudited)

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See accompanying independent auditors' report.
National Science Foundation Award Number ATM-9714415
Awarded To
American Meteorological Society
Detailed Schedule of Over/(Under) Recovered Indirect Costs
For the period January 1, 1998 to June 30, 1998 (A)
Final
(Unaudited)

See accompanying independent auditors' report.
National Science Foundation Award Number DUE-9752416
Awarded To
American Meteorological Society
Detailed Schedule of Over/(Under) Recovered Indirect Costs
For the period February 15, 1998 to December 31, 2000 (A)
Interim
(Unaudited)

See accompanying independent auditors' report.
See accompanying independent auditors' report.
See accompanying independent auditors' report.
National Science Foundation Award Number ATM-9906174  
Awarded To  
American Meteorological Society  
Detailed Schedule of Over/(Under) Recovered Indirect Costs  
For the period September 15, 1999 to December 31, 2000 (A)  
Interim  
(Unaudited)

<table>
<thead>
<tr>
<th>Category</th>
<th>9/15/99-12/31/99</th>
<th>1/1/00-6/30/00</th>
<th>7/1/00-12/31/00</th>
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<tbody>
<tr>
<td>Direct Costs</td>
<td>$500,000</td>
<td>$100,000</td>
<td>$150,000</td>
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<tr>
<td>Indirect Costs</td>
<td>$200,000</td>
<td>$75,000</td>
<td>$125,000</td>
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<tr>
<td>Total Costs</td>
<td>$700,000</td>
<td>$175,000</td>
<td>$275,000</td>
</tr>
</tbody>
</table>

See accompanying independent auditors' report.
There were seven NSF awards that were active during the years ended December 31, 1998, 1999 and 2000, that did not include:

- Indirect costs incurred or billed to NSF on an FCTR; or,
- Indirect costs based upon the application of a rate.

The listing below presents those awards along with an explanation for their exclusion from this audit.

<table>
<thead>
<tr>
<th>NSF Award Number</th>
<th>Award Period</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATM-9731851</td>
<td>01/01/98-12/31/01</td>
<td>(A)</td>
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<tr>
<td>ATM-9816532</td>
<td>01/01/99-12/31/99</td>
<td>(B)</td>
</tr>
<tr>
<td>ATM-9819601</td>
<td>03/01/99-02/29/00</td>
<td>(A)</td>
</tr>
<tr>
<td>ATM-9906843</td>
<td>05/15/99-10/31/00</td>
<td>(A)</td>
</tr>
<tr>
<td>ATM-9909215</td>
<td>09/01/99-08/31/00</td>
<td>(A)</td>
</tr>
<tr>
<td>ATM-0086289</td>
<td>07/01/00-06/30/01</td>
<td>(A)</td>
</tr>
<tr>
<td>ATM-0003193</td>
<td>07/01/00-12/31/01</td>
<td>(A)</td>
</tr>
</tbody>
</table>

(A) No indirect costs budgeted/approved or claimed under this award.

(B) A flat amount of indirect costs in lieu of an amount based upon a rate.
SECTION V

AWARDEE'S RESPONSE
July 30, 2002

M.D. Oppenheim and Company, P.C.
485 U.S. Highway One - Building C
P.O. Box 4100
Iselin, New Jersey 08830-4100

Dear

Thank you for your final audit report on the financial and compliance audit of the indirect costs of the American Meteorological Society (AMS) for the years ended December 31, 1998, 1999 and 2000. We thank you also for the thorough and professional manner in which you conducted that audit. Your staff (and you) kept us informed and up-to-date on findings and the ongoing status of our audit. Your comments and recommendations during your on-site work were appreciated.

We do not agree with some of the proposed audit findings and some of your recommendations for compliance. While AMS does have some compliance issues that need and will be addressed, we do take some exception to the implications, and the total dollar effect, as presented in your "summary of audit results" (page 3).

A few general comments on that summary before responding to specific findings:

a. Over-recovery/240K is extremely misleading. While your audit procedures/guidelines necessitates removing significant dollars from stated indirect costs, those reductions for inadequate source documentation and missing documentation most assuredly constituted indirect costs; a significant amount of bank charges cannot be readily identified with a specific direct cost center and should be allowable as indirect costs; and some alcohol expenditures, while minor, are also still in our direct cost base. All of these items would increase your audited indirect cost rate.

b. "...Misclassification ... staff ... did not understand" - while staff may not have memorized OMB Circular A-122, it is kept close at hand for reference/review/understanding of federal cost principles. We still feel that our "Baseline Funding" and "Special Initiative" expenditures should be includable in our indirect cost base. A-122 states "...when significant and necessary to the
organization's mission...". AMS considers these expenditures to be neither significant nor necessary to our mission. We could eliminate all of these initiatives with no major effect on our mission. These costs also directly and significantly inflate the over-recovery amount.

c. A significant portion of the 806K of indirect salaries represents staff whose time is 100% attributable to indirect costs; tracked via time sheets (grant personnel with split functions); or reasonably (though arbitrarily) allocated to indirect costs.

We have some additional issues but these will be addressed in our specific responses to individual findings. Once again, the Society greatly appreciates your assistance/recommendations in helping improve our compliance with federal reporting requirements.

Sincerely,
You have taken costs totaling $1,439,117 over three years, the majority of which we feel were properly classified as indirect costs, for Baseline Funding and Education and Special Initiatives, and reclassified these costs as direct. While we would agree that "Baseline Funding" and "Education and Special Initiatives" do expand and enhance AMS's mission, AMS does feel strongly that these expenditures are certainly NOT "significant and necessary" to our organization's mission. Several years ago our membership felt the Society's reserves were sufficient and adequate, and that earnings on those reserves be expended on "nice, but not necessary" projects. Most anything an organization does would "expand" its mission but that expansion for these particular programs is quite minimal to AMS's overall goals. These expenditures are fairly unique to stated A-122 guidelines for classification of direct and indirect costs. We request that NSF closely review these expenses and allow them to be included as indirect costs.

We take exception to comment on page 3 that the misclassification of costs occurred because the staff who prepared the indirect cost rate proposals did not understand applicable federal cost principles. We feel that the comment made about our understanding of the applicable federal principles is not appropriate and should be removed. We point out that in 1995, when we submitted our indirect cost proposal, which was reviewed and accepted by NSF and a predetermined indirect cost rate was awarded, the salary allocation between direct and indirect Baseline Funding and Education and Special Initiatives was reviewed and accepted as well as the allocation for rent for our Washington, D.C. office. These costs are now classified 100% direct costs. The situation and circumstances for these have not changed significantly since 1995.

In summary, it is our belief that these costs were classified properly as indirect costs and should not be classified as direct costs and, as a result, this is not a material non-compliance.

Your last sentence in the second paragraph (pg. 9) seems to associate credit card collection charges with "Baseline Funding" and "Special Initiatives". Naturally, this is a separate issue, not funded from investment income. This amount ($127,491) cannot be readily identified as a specific charge to a particular final cost objective. Breaking the credit card charge out to applicable program operation would be onerous. This seems to AMS to be a valid indirect cost. OMB Circular A-122 states that "any direct cost for minor amounts may be treated as an indirect cost for reasons of practicability applied where the accounting treatment for such costs is consistently applied to all final cost objectives". American Meteorological Society would incur a significant amount of additional labor cost to breakdown each master card or visa fee to allocate between direct and indirect costs. The total charges each year are approximately \( \frac{1}{2} \) percent (.5\%) of the total direct costs and would change the indirect cost rate by less than 1%. American
Meteorological Society feels that the cost of reviewing each Master Card fee and matching it to specific program cost, is an unnecessary task and would create an added burden on the accounting staff, which is already at its maximum level of production. This was not the intent of OMB Circular A-122 and it clearly states that.

Our position, depending on NSF disposition, would increase the audited rate and reduce over-recovery amount. Additionally, we strongly feel the development of written policies and procedures is not necessary. We have already addressed most compliance related issues while those still open relate to issues of interpretation of OMB A-122.
We had difficulty determining who you included in the $806,180 of indirect staff labor you say we cannot support. It has been assumed this does not include staff whose time is clearly 100% indirect (controller, mail center personnel, IS staff, etc.). It does appear that you have disallowed a portion of an accounting staff member's time (25%) which is clearly an indirect cost. It is also assumed it included some staff working in grants, Special Initiatives, Baseline Funding, and those in senior management (working in a program area), all of whom have had some of their time allocated to indirect salaries.

We provided you with schedules which showed the amount of time spent for staff working in Baseline Funding and Education with applicable back-up time sheets. We also provided you with what we feel was a reasonable estimate of the time spent by senior management for their direct and indirect labor efforts. The indirect portion of their time was related to their administrative duties, all staff meetings, senior staff meetings, policy meetings/decisions, and travel, meetings, and time spent in volunteerism to sister/business related societies. We feel the arbitrary 10% allocation (20% in one case) of their time to indirect cost pool to be reasonable and fair. We also feel it would be unproductive to require senior managers to provide time sheets in pursuit of a specific determination of a minimal number of indirect labor hours.
This would be an extremely difficult task to accomplish and maybe not a meaningful one. AMS is prepared to attempt this but naturally would rather not. Additional discussion is needed. We will await a decision from NSF before moving forward with this project.
AMS has been lax in the preparation and submission of our indirect cost proposal on a timely basis. We will correct this immediately by preparing the report and submitting it to NSF annually, within the six-month time requirement.

Two additional points of clarification:

1) Our 2001 proposal has been prepared but submission will be approximately two months late as we attempt to further analyze audit findings and incorporate same where possible.

2) Audit refers to "Biennial Approval" process as if it were a "permanent" agreement with NSF. This happened twice and was directly related to situations where cost proposals had not been submitted for a two-year period. Permission was requested (and verbally approved) to submit just the most recent year’s proposal.
The amount of money spent on alcoholic beverages by the Society is extremely small. Certainly, no Grant funds are spent on alcohol. Identifying and tracking a separate line item on our financial statements that equates to about .0002 per cent of annual expenses would have little effect on our indirect cost rate. In fact, if alcohol expenditures were removed from our direct cost pool, the indirect cost rate would increase.

We have started to track and separately book the cost of alcoholic beverages. This was not done for the 2001 fiscal year. Not doing so actually results in a lower indirect cost rate but we will await NSF direction on this matter for 2001 rate proposal.
AMS has a computerized general leader system which adequately tracks all grant costs, excluding salaries and consulting. We utilize an Excel program to keep track of these costs by award. Labor constraints and cost of software upgrade will exceed the benefit, if any, that can be derived from this comment. System is working properly and our outside auditors have not had a problem with it. AMS does not feel the system is cumbersome. Section 21: Standards for financial management systems, (b) (7) states financial management systems shall provide "accounting records including cost accounting records that are supported by source documentation" which we assume would include our Excel schedules.
2. Lack of Documentation for Credit Card Charges
Page 16 - Number 2

AMS now requires that underlying vendor invoices be provided to support credit card charges. Several points, some covered in other sections, need to be made as concerns this finding:

a. Many of these invoices were kept, but not included as back-up for the credit card bill payment. Documentation/actual detailed bill sometimes filed with applicable program cost (meeting, journal, special initiative etc.). Our DC office was also in the middle of a move to a new location and document search was difficult. Some invoices may also have been misfiled after our audits.

b. Scope of audit/time spent on pulling required documentation made it difficult time-wise to do a complete search for missing documentation.

c. Your scope was 100% of all credit card expenditures. Many were found and they had been all properly coded. Disallowing those without original receipt eliminates a significant amount of valid indirect costs.

d. To remove these charges from our indirect cost pool and then include that differential in an "over-recovery" figure and a lower "audited indirect cost rate" is extremely misleading and projects a less than fair impression.
1. **Baseline Funding and Education and Special Initiatives**

   Disagree with your findings - please refer to response "Findings - #1".

2. **Bank Charges**

   Strongly disagree - while all credit card bank charges relate to direct programs of AMS they are not readily identifiable to a specific program. Please refer to response to findings.

3. **Inadequate Source Documentation**

   Source documentation for many of the credit card expenses were provided and all we believe were properly allocated to correct indirect or direct cost base. While we do need to do better in this area, your removal of 100% of indirect cost related expenditures from the indirect pool is misleading and unreasonable.

4. **Missing Vendor Invoices**

   The scope of your audit, imposed on a small accounting department, went way beyond "fair and reasonable" as we discussed during your audit. It was also our busiest time of the year. In addition, during the several years covered in your audit, we experienced significant staff shortages (maternity leave, grant person left, replacement had to be let go) and yet we still found about 99% of requested invoices. Though minor in total dollars, it seems unreasonable that you had to remove those few missing invoices from indirect cost base.

5. **Books and Educational Material**

   The inclusion of these direct costs in our indirect costs was a clerical error on our part in the preparation of our report.

6. **Fellowship Not Deducted from Direct Cost Pool**

   We are familiar with OMB Circular A - 122, Attachment A, Part A (5) and fellowship credits have been deducted from recent proposals.

7. **Cost of Alcoholic Beverages**

   Please see response to this in earlier section of this report.