MEMORANDUM

DATE: SEP 13 2002

TO: Ms. Donna L. Fortunat, Director
Division of Contracts, Policy and Oversight

Ms. Mary Santonastasso, Director
Division of Grants and Agreements

FROM: Ms. Deborah H. Cureton
Associate Inspector General for Audit

SUBJECT: Audit Report No. 02-1018
Fresh Pond Research Institute

Attached is the final report prepared by M. D. Oppenheim, a Certified Public Accounting Firm, on the audit of NSF grants DEB-9407965, AST-9896187, and SES-9906997 awarded to the Fresh Pond Research Institute (FPRI). The audit covers costs incurred from August 1, 1996 through September 30, 2001. Except for $4,434 in questioned fringe benefit and consultant costs, FPRI’s claimed costs of $392,119 were allowable in accordance with Federal and NSF award requirements.

This financial audit identified certain steps that NSF or FPRI should take to ensure awards to FPRI are properly administered. One of these steps include NSF reviewing FPRI’s awards to determine if they should be revised to require that only direct charges be claimed for NSF awards and that costs be properly allocated to the NSF awards and other projects. We also intend to provide in a separate report, recommendations relating to NSF’s administration of this award, which we developed as a result of this financial audit.

A courtesy copy of this memorandum is being provided to the Division Directors of the program offices sponsoring the audited awards. The responsibility for audit resolution rests with the Division of Contracts and Oversight, Cost Analysis/Audit Resolution Branch (CAAR). Accordingly, we remind all parties that they should not take any actions concerning the report’s findings without first consulting with CAAR at (703) 292-8244.

We thank the NSF staff for the assistance that was extended to the Office of Inspector General personnel in regards to this audit.
If you have any questions about this report, please contact Jannifer Jenkins at (703) 292-4996 or Sherrye McGregor at 703-292-5003.

Attachment

cc: Dr. Quentin Wheeler, Division Director, DEB
    Dr. Richard O. Lempert, Division Director, SES
    Dr. G. Wayne Van Citters, Division Director, AST
THE FRESH POND RESEARCH INSTITUTE
173 Harvey Street
Cambridge, Massachusetts 02140

National Science Foundation Award Numbers
DEB-9407965
AST-9896187
SES-9906997

Financial Schedules

and

Independent Auditors' Reports

For the Period August 1, 1996 to September 30, 2001
REPORT RELEASE RESTRICTION

This report may not be released to anyone outside of the National Science Foundation without the approval of the National Science Foundation - Office of Inspector General, except to an agency involved in negotiating or administering the awards. Furthermore, information contained in this audit report should not be used for purposes other than intended without prior consultation with the National Science Foundation - Office of Inspector General regarding its applicability.
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Report Summary and Highlights:</td>
<td>1</td>
</tr>
<tr>
<td>Purpose and Scope of Audit</td>
<td>2</td>
</tr>
<tr>
<td>Summary of Audit Results</td>
<td>3</td>
</tr>
<tr>
<td>Background</td>
<td>5</td>
</tr>
<tr>
<td>Exit Conference</td>
<td>7</td>
</tr>
<tr>
<td>Independent Auditors' Report on Compliance and Internal Control</td>
<td>9</td>
</tr>
<tr>
<td>Findings and Recommendations on Compliance</td>
<td>11</td>
</tr>
<tr>
<td>Follow-Up of Prior Audit Findings</td>
<td>14</td>
</tr>
<tr>
<td>Financial Schedules:</td>
<td>15</td>
</tr>
<tr>
<td>Independent Auditors' Report</td>
<td>16</td>
</tr>
<tr>
<td>Schedules A-1 to A-3 - Schedules of Award Costs</td>
<td>18</td>
</tr>
<tr>
<td>Schedule B - Schedule of Questioned Costs</td>
<td>21</td>
</tr>
<tr>
<td>Schedules C-1 to C-3 - Schedules of Reclassifications</td>
<td>23</td>
</tr>
<tr>
<td>Notes to Financial Schedules</td>
<td>26</td>
</tr>
</tbody>
</table>
REPORT SUMMARY AND HIGHLIGHTS
National Science Foundation  
Office of Inspector General  
4201 Wilson Boulevard  
Arlington, Virginia  22230

PURPOSE AND SCOPE OF AUDIT

We have performed an audit of the funds awarded by the National Science Foundation to The Fresh Pond Research Institute as follows:

<table>
<thead>
<tr>
<th>Award Number</th>
<th>Award Period</th>
<th>Audit Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEB-9407965</td>
<td>08/01/96-01/31/00</td>
<td>08/01/96-01/31/00</td>
</tr>
<tr>
<td>AST-9896187</td>
<td>05/01/98-04/30/02</td>
<td>05/01/98-09/30/01</td>
</tr>
<tr>
<td>SES-9906997</td>
<td>09/01/99-08/31/02</td>
<td>09/01/99-09/30/01</td>
</tr>
</tbody>
</table>

The objectives of our audit were to determine whether:

1. Financial reports prepared by the awardee presented fairly the financial condition of the awards;

2. The system of internal control was adequate to safeguard federal funds;

3. The awardee had adequate procedures and controls to ensure compliance with Federal laws, NSF regulations and award conditions; and

4. The award costs reported to NSF were documented and allowable in accordance with the award terms and conditions.

Our audit was made 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 amounts claimed to the National Science Foundation as presented in the schedules of award costs (Schedules A-1 to A-3), are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in Schedules A-1 to A-3. An audit also includes assessing the accounting principles used and significant estimates made by the awardee, as well as evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.
SUMMARY OF AUDIT RESULTS

An audit was performed on the financial reports submitted by The Fresh Pond Research Institute to the National Science Foundation. These reports are summarized in Schedules A-1 to A-3 as follows:

<table>
<thead>
<tr>
<th>NSF Award Number</th>
<th>Award Budget</th>
<th>Claimed Costs</th>
<th>Questioned Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEB-9407965</td>
<td>$ 183,977</td>
<td>$ 183,977</td>
<td>$ 306</td>
</tr>
<tr>
<td>AST-9896187</td>
<td>146,817</td>
<td>139,950</td>
<td>3,932</td>
</tr>
<tr>
<td>SES-9906997</td>
<td>79,072</td>
<td>68,192</td>
<td>196</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 409,866</strong></td>
<td><strong>$ 392,119</strong></td>
<td><strong>$ 4,434</strong></td>
</tr>
</tbody>
</table>

As a result of our audit of the aforementioned awards, we are questioning costs totaling $4,434. Questioned costs are costs for which there is documentation that the recorded costs were expended in violation of the law, regulations or specific conditions of the award or those costs which require additional support by the awardee or which require interpretation of allowability by the National Science Foundation - Division of Contracts, Policy and Oversight.

The following summarizes the costs questioned on the above awards by reason:

<table>
<thead>
<tr>
<th>Explanation</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Costs charged 100% to NSF awards, however, the costs should have been</td>
<td></td>
</tr>
<tr>
<td>allocated between NSF and non-NSF programs. The overcharge to NSF was</td>
<td></td>
</tr>
<tr>
<td>for:</td>
<td></td>
</tr>
<tr>
<td>a. Health insurance benefits</td>
<td>$ 3,736</td>
</tr>
<tr>
<td>b. Accounting services</td>
<td>698</td>
</tr>
<tr>
<td><strong>Total questioned costs</strong></td>
<td>$ 4,434</td>
</tr>
</tbody>
</table>

We have used non-random sampling to test the costs claimed by the Awardee to NSF. Based upon this sampling plan, questioned costs in this report may not represent total costs that may have been questioned had all expenditures been tested. In addition, we have made no attempt to project such costs to total costs claimed, based on the relationship of costs tested to total costs.
The following is a brief description of the findings and observations which resulted from our audit. For a complete discussion of each finding, refer to the Findings and Recommendations on Compliance.

- The Fresh Pond Research Institute (FPRI) during the operations of the three NSF awards had approved indirect costs. During the performance of our audit we determined the following:
  
  ➢ FPRI did not have indirect costs, but rather direct costs related specifically to each NSF award as well as a small amount of allocated direct costs.

  ➢ FPRI did not file an indirect cost proposal report, based upon the actual indirect costs incurred, to the NSF Cost Analysis and Audit Resolution Branch for any years.

  ➢ The indirect costs incurred and billed to NSF by FPRI were not based upon a calculation, but rather by recording in their books of account actual direct expenses.

During the course of our audit we performed an analysis of the expenses recorded in FPRI’s books of account and designated as indirect costs. This analysis resulted in the adjustment of all indirect costs to direct program costs. The reclassification of these indirect costs to direct costs, is presented in detail in Schedules C-1 to C-3 of this report. (Finding 1)

- On the NSF award number AST-9896187 the principal investigator prepares a time and attendance record that delineates the time expended for this NSF award and other non-NSF time. This time and attendance record, is signed by the principal investigator (PI) but not signed/approved by who serves as the supervisor of the PI’s work. (Finding 2)
BACKGROUND

The Fresh Pond Research Institute is a private nonprofit corporation as defined under Section 501(c)(3) of the Internal Revenue Code. The Fresh Pond Research Institute follows the cost principles specified by the OMB Circulars A-110 and A-122. The projects under the direction of The Fresh Pond Research Institute are as follows:

<table>
<thead>
<tr>
<th>Award Number</th>
<th>Type of Award</th>
<th>Award Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEB-9407965</td>
<td>Grant</td>
<td>The scientific work performed was a study of molecular evolution and sex ratio evolution in two species of parasitic wasp, <em>Nasonia giraulti</em> and <em>N. vitripennis</em>. The study will provide an important opportunity to assess molecular polymorphism and to test the predictions of the neutral theory of molecular evolution in two species whose genomic structure (males are haploid, females are diploid) is quite different from that of species that are the usual focus of such analyses (e.g., <em>Drosophila melanogaster</em>). As such, the study will provide new insights into our general understanding of molecular evolution.</td>
</tr>
<tr>
<td>AST-9896187</td>
<td>Grant</td>
<td>This project has three closely intertwined objectives. The first objective is to enhance in a general sense the theoretical understanding of the nonlinear dynamics of quasi-collisional gas tori in the Solar System. The second objective is to provide a specific gas model of the quasi-collisional Triton H, H2, and N tori and evaluate their effects on the Neptune magnetosphere. The third objective is to broaden and enhance our program for the study of astrophysical gases through all kinetic regimes and the development of consistent numerical schemes to describe them. The activities in this program will in the first year begin with the refinement and tuning of a recently developed state of the art DSMC kinetic algorithm for the tori problem. After this initial task is completed, the nonlinear dynamics of a pure H quasi-collisional torus will be investigated for the Neptune – Triton system. In the second year the nonlinear dynamics of a H and N tori followed by the nonlinear dynamics of H, H2, and N tori will be investigated for the Neptune – Triton system. Finally, in the last year a realistic model of the Triton Tori will be constructed and used with Voyager 2 measurements to infer information for Triton’s atmosphere and evaluate the importance of the tori to Neptune’s magnetosphere.</td>
</tr>
<tr>
<td>Award Number</td>
<td>Type of Award</td>
<td>Award Description</td>
</tr>
<tr>
<td>--------------</td>
<td>---------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>SES-9906997</td>
<td>Grant</td>
<td>The project entitled “Adaptation, Phylogenetic Inertia, and Trait Independence,” which in recent years, a number of biologists have proposed methods for using comparative (cross-species) data to test adaptive hypotheses. The most widely used of these methods is Felsenstein’s (1985) method of independent contrasts. One important objective of these methods is to control for the possibility of phylogenetic inertia – to take account of the fact that closely related species may have similar traits, not because these traits are adaptive, but simply because they were inherited from a common ancestor (Harvey and Pagel 1992). In this project, Fresh Pond will evaluate these methods; we also will construct, justify, and apply a new method (which we call the method of controlled comparisons) that we think avoids the defects found in existing methods.</td>
</tr>
</tbody>
</table>
EXIT CONFERENCE

An exit conference was held on January 7, 2002 at the Awardee's office located at 64 Fairfield Street, Cambridge, Massachusetts. Findings and recommendations and questioned costs contained in this report were discussed with those attending.

For The Fresh Pond Research Institute:

For M.D. Oppenheim and Company, P.C.:
INDEPENDENT AUDITORS' REPORT

ON

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

We have audited the schedules of award costs, as presented in Schedules A-1 to A-3 which summarize the financial reports submitted by The Fresh Pond Research Institute to the National Science Foundation for the awards listed below, and have issued our report thereon dated January 7, 2002.

<table>
<thead>
<tr>
<th>Award Number</th>
<th>Award Period</th>
<th>Audit Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEB-9407965</td>
<td>08/01/96-01/31/00</td>
<td>08/01/96-01/31/00</td>
</tr>
<tr>
<td>AST-9896187</td>
<td>05/01/98-04/30/02</td>
<td>05/01/98-09/30/01</td>
</tr>
<tr>
<td>SES-9906997</td>
<td>09/01/99-08/31/02</td>
<td>09/01/99-09/30/01</td>
</tr>
</tbody>
</table>

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 Fresh Pond Research Institute’s financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, awards and policies 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 the instances of noncompliance, as reported in the accompanying Findings and Recommendations on Compliance and the questioned costs reflected in Schedule B, 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 Fresh Pond Research Institute’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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. 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. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of The Fresh Pond Research Institute National Science Foundation and is not intended to be used by anyone other than these specified parties.

January 7, 2002
1. Program Direct Costs Budgeted and Claimed as Indirect Costs

Office of Management and Budget Circular A-122, Attachment A, Section C, defines indirect costs as those costs that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. In addition, Section B of that same Circular defines direct costs as those that can be identified specifically with a final cost objective, i.e., a particular award, project, service, or other direct activity of an organization.

The Fresh Pond Research Institute (FPRI) during the operations of the three NSF awards had approved indirect costs. The following chart illustrates the budgeted and actual costs per FPRI’s books of account related to indirect costs:

<table>
<thead>
<tr>
<th>Award Number</th>
<th>Indirect Costs Budgeted</th>
<th>Indirect Cost Rate</th>
<th>Indirect Costs Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEB-9407965</td>
<td>$ 40,977</td>
<td>30.58% (B)</td>
<td>$ 49,190</td>
</tr>
<tr>
<td>AST-9896187</td>
<td>$ 32,976</td>
<td>30.58% (B)</td>
<td>$ 31,290</td>
</tr>
<tr>
<td>SES-9906997</td>
<td>$ 18,712</td>
<td>(A)</td>
<td>$ 12,876</td>
</tr>
</tbody>
</table>

(A) Fixed amount approved by NSF in lieu of a rate.

(B) Rate is applied to total direct costs less capital costs.

During the performance of our audit we determined the following:

- FPRI did not have indirect costs, but rather direct costs related specifically to each NSF award as well as a small amount of allocated direct costs.

- FPRI did not file an indirect cost proposal report, based upon the actual indirect costs incurred, to the NSF Cost Analysis and Audit Resolution Branch for any years.

- The indirect costs incurred and billed to NSF by FPRI were not based upon a calculation, but rather by recording in their books of account actual direct expenses.

- , was the only full time employee for most of the period of operations for the three NSF awards. (During the operations of the AST award a second employee was added to the FPRI operations). In that capacity he either served as a principal investigator of an NSF award or supervised the work of other principal investigators.
1. **Program Direct Costs Budgeted and Claimed as Indirect Costs (Cont.)**

We believe the incorrect accounting of indirect costs was a result of not understanding what constitutes an indirect cost. This situation was further compounded by a statement that NSF had instructed him to prepare an indirect cost calculation.

During the course of our audit we performed an analysis of the expenses recorded in FPRI’s books of account and designated as indirect costs. This analysis resulted in the adjustment of all indirect costs to direct program costs. The reclassification of these indirect costs to direct costs, is presented in detail in Schedules C-1 to C-3 of this report. In the process of performing this reclassification, we noted the following:

- The account labeled “overhead salary expense” related to salary. The amount of salary charged to NSF awards was based upon actual time and attendance reports with specific reference to each award.

- The fringe benefits expenses were either related to direct salary costs budgeted and claimed to NSF or related to documented salaries charged to NSF.

- All other non-personnel costs, except accounting expenses, were all 100% direct expenses for a particular NSF award.

- The costs recorded as indirect costs, but which were actually direct costs, were allowable direct costs based upon our sample testing of these costs. Based upon this we have not questioned these indirect costs that were reclassified as direct costs.

**Recommendation**

We recommend that contact NSF and determine whether he should amend the approved budgets and associated award letters on the two NSF awards that are currently active. In addition, FPRI should not propose an award for indirect costs until such time as FPRI has the need to account for indirect costs rather than documented allocable direct costs.

**Awardee’s Comment**

I have no problem with the redescription of “indirect costs” to “allocated direct costs” since it is a change in name. In the future, direct costs related to administrative expenses will be recorded as such.

The accounting of these allocated direct costs as “indirect costs” as defined by NSF stems entirely from the explicit direction given to in 1995, 1996, and 1998 by NSF.
1. **Program Direct Costs Budgeted and Claimed as Indirect Costs (Cont.)**

**Awardee’s Comment (Cont.)**

officials in the Division of Grants and Agreements and in the Division of Contracts, Policy, and Oversight. These officials include Dionie Henry, Rosalind Jackson-Lewis, Irving Poloway, and Charles Zeigler. I can supply documentation for the dates of these conversations. All of these officials acted in a fully professional, courteous, and helpful way when directing me to estimate and calculate an “indirect cost rate”.

**Auditors’ Response to Awardee’s Comment**

A response is not deemed necessary.

**Non-Material Deficiency**

2. **Time and Attendance Records Not Approved**

On the NSF award number AST-9896187 the principal investigator prepares a time and attendance record that delineates the time expended for this NSF award and other non-NSF time. This time and attendance record, is signed by the principal investigator (PI) but not signed/approved by , who serves as the supervisor of the PI’s work. It is believed since he has a close working relationship with the PI and approves the payment of salary that he has approved the hours indicated on the time and attendance report.

Office and Management Budget Circular A-122, Attachment B, Item 7 (m) (1) requires that charges to awards for salaries and wages, whether treated as direct or indirect costs, will be based on documented payrolls approved by a responsible official of the organization.

**Recommendation**

We recommend that sign the time and attendance record of any employee working for FPRI. The signature will signify his approval of the hours reflected on the time and attendance record.

**Awardee’s Comment**

I inspect each of the time sheets submitted by . In the future, I will sign them.

**Auditors’ Response to Awardee’s Comment**

A response is not deemed necessary.
FOLLOW-UP OF PRIOR AUDIT FINDINGS

There was no prior audit of NSF awards to The Fresh Pond Research Institute.
FINANCIAL SCHEDULES
National Science Foundation
Office of Inspector General
4201 Wilson Boulevard
Arlington, Virginia 22230

INDEPENDENT AUDITORS' REPORT

We have audited the costs claimed by The Fresh Pond Research Institute to the National Science Foundation on the Federal Cash Transactions Report – Federal Share of Net Disbursements for the National Science Foundation awards listed below. These Federal Cash Transaction Reports, as presented in the schedules of award costs (Schedules A-1 to A-3) are the responsibility of The Fresh Pond Research Institute's management. Our responsibility is to express an opinion on Schedules A-1 to A-3 based on our audit.

<table>
<thead>
<tr>
<th>Award Number</th>
<th>Award Period</th>
<th>Audit Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEB-9407965</td>
<td>08/01/96-01/31/00</td>
<td>08/01/96-01/31/00</td>
</tr>
<tr>
<td>AST-9896187</td>
<td>05/01/98-04/30/02</td>
<td>05/01/98-09/30/01</td>
</tr>
<tr>
<td>SES-9906997</td>
<td>09/01/99-08/31/02</td>
<td>09/01/99-09/30/01</td>
</tr>
</tbody>
</table>

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.
National Science Foundation
Office of Inspector General
Arlington, Virginia

In our opinion, the financial schedules referred to above present fairly, in all material respects, the costs claimed on the Federal Cash Transactions Report – Federal Share of Net Disbursements as presented in the schedules of award costs (Schedules A-1 to A-3), for the period August 1, 1996 to September 30, 2001 in conformity with the National Science Foundation Audit Guide, NSF Grant Policy Manual, the award agreements and on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 7, 2002 on our consideration of The Fresh Pond Research Institute's internal control over financial reporting and on our tests of its compliance with laws, regulations and the NSF awards. 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 result of our audit.

Schedule B contains costs in the amount of $4,434 that are questioned as to their allowability under the award agreements. The final determination as to whether such costs are allowable will be made by the National Science Foundation. 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.

This report is intended solely for the information and use of The Fresh Pond Research Institute’s management and the National Science Foundation and is not intended to be used by anyone other than these specified parties.

M.D. Oppenheim & Company, P.C.

January 7, 2002
This page has been redacted
This page has been redacted
This page has been redacted
THE FRESH POND RESEARCH INSTITUTE
National Science Foundation Awards
Schedule of Questioned Costs
From August 1, 1996 to September 30, 2001

Fringe Benefits:

The Principal Investigator’s (PI) salary is allocated between the NSF award number AST-9896187 and other non-NSF operations. This allocation is based upon time and attendance reports and results in 44.85% of the total PI salary being allocated to this NSF award. During the course of the audit we noted that 100% of the PI’s health insurance benefits expense was charged to NSF. A questioned cost results from this charge since only 44.85% of the health insurance benefits expense should be charged to this NSF award, calculated as follows:

Total health insurance benefits expense $ 6,775
X percentage applicable to NSF 44.85%

Total expense allocable to NSF 3,039
Less: amount claimed to NSF 6,775

Questioned cost (AST-9896187) $ 3,736

Consultant Services:

The professional fee paid to an independent certified public accountant to perform a review of The Fresh Pond Research Institute’s (FPRI) financial statements for the years ended October 31, 1999 and 2000 was charged 100% to NSF awards. During these two years NSF funds were only 49% (year ended 10/31/99) and 45% (year ended 10/31/00) of total operating expenses of FPRI. Based upon this we are questioning the excess of professional fees charged to NSF awards over the percentages stated above, calculated as follows:

<table>
<thead>
<tr>
<th>NSF Award No.</th>
<th>(A) Total Fee</th>
<th>(B) Year Ended</th>
<th>NSF % of Expenses</th>
<th>(C) Calculated Amount</th>
<th>Questioned Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEB-9407965</td>
<td>$ 600</td>
<td>10/31/99</td>
<td>49%</td>
<td>$ 294</td>
<td>$ 306</td>
</tr>
<tr>
<td>AST-9896187</td>
<td>712</td>
<td>10/31/00</td>
<td>45%</td>
<td>320</td>
<td>196</td>
</tr>
<tr>
<td>SES-9906997</td>
<td>*</td>
<td>10/31/00</td>
<td>45%</td>
<td>*</td>
<td>196</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>$ 698</strong></td>
<td></td>
</tr>
</tbody>
</table>

* = The fee for the year ended 10/31/00 was split equally between the two NSF awards.
Consultant Services (Cont.):

Office of Management and Budget Circular A-122, Attachment A, Section A, 4, requires that a cost is allocable to a particular cost objective, such as a grant, contract, service, or other activity, in accordance with the relative benefits received. Since the NSF awards were not the beneficiary of all of these expenses an allocation should have been performed to charge NSF for only the proper benefit.

In discussions with the President of FPRI, these charges were made in error to the NSF awards as an indirect cost. This treatment was incorrect as explained in Finding Number 1 of the Findings and Recommendations on Compliance Section of this report.

Awardee's Comment

In the future, FPRI will make sure that all health insurance costs are paid in proportion to the percentage of effort expended. The accountant fees were included in indirect costs as directed by NSF (see further explanation in Awardee's comment to Compliance Finding Number 1). In the future, FPRI will allocate accountant costs in proportion to the percentage of expenses. All other costs have been paid in proportion to the effort expended.

Auditors' Response to Awardee's Comment

A response is not deemed necessary.
This page has been redacted
This page has been redacted
This page has been redacted
1. Summary of Significant Accounting Policies:

Accounting Basis

The accompanying financial schedules have been prepared in conformity with National Science Foundation (NSF) instructions. Schedules A-1 to A-3 have been prepared from the reports submitted to NSF. The basis of accounting used 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 the National Science Foundation. Therefore, the awardee does not maintain any equity in the award and any excess of cash received from NSF over final expenditures is due back to the National Science Foundation.

B. Inventory

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

2. Income Taxes:

The Fresh Pond Research Institute is a private nonprofit corporation, incorporated under the laws of the Commonwealth of Massachusetts. The Fresh Pond Research Institute is exempt from Commonwealth of Massachusetts franchise or income tax.