

NATIONAL SCIENCE FOUNDATION  
4201 Wilson Boulevard  
ARLINGTON, VIRGINIA 22230



OFFICE OF  
INSPECTOR GENERAL

MEMORANDUM

Date: MAR 28 2007

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

From: *Deborah H. Cureton*  
Deborah H. Cureton  
Associate Inspector General for Audit

Subject: Audit Report No. OIG 07-01-014  
Nashville State Technical Community College

Attached is the final report prepared by Foxx & Company, an independent public accounting firm, on the audit of NSF Award Nos. DUE-9850307, DUE-0202249, and DUE-0202397 awarded to Nashville State Technical Community College (NSTCC). The audit covered NSF-funded costs claimed from October 1, 1998 to March 31, 2004 aggregating to \$2.6 million of NSF direct funded costs and \$624,527 of cost sharing.

Overall, the auditors questioned \$185,213 of the \$2.6 million in costs claimed to NSF and identified \$115,638 in at-risk cost sharing. Specifically, \$292 of salaries and wages were questioned because the employee was not authorized to work on the NSF award. We also questioned \$36,901 of non-personnel charges (including participant support, consultant, travel, and other direct costs) for lack of adequate support and \$148,020 of overcharged indirect costs. In addition, \$115,638 (43 %) of the \$271,700 budgeted cost sharing for Award No. DUE-0202249 was determined to be "at risk" because NSTCC could not provide adequate supporting documentation for all the cost sharing it had claimed to date. "At risk" cost sharing is the amount of required cost sharing that has not been met at the time of the audit, but which the awardee still has time to meet before the end of the award period.

NSTCC had four material internal control deficiencies that contributed to the questioned costs and "at risk" cost sharing. Specifically, NSTCC did not obtain certifications and personnel activity reports as required by Federal regulations and NSF grant terms to support \$433,069 (100%) of salaries and wages and \$122,947 (100%) of fringe benefits it claimed for NSF Award Nos. DUE-0202249 and DUE-0202397. This situation occurred even though NSTCC had time and effort reporting policies and procedures and had implemented a specific time and effort reporting template for its employees to use to record labor worked on NSF awards. Thus, it was necessary for us to perform alternative audit procedures to satisfy ourselves of the reasonableness and propriety of the

labor costs NSTCC charged to its NSF awards. Nevertheless, the lack of a labor effort reporting and certification process seriously undermined the accuracy and reliability of the labor costs NSTCC claimed on its NSF awards.

In addition, NSTCC overcharged NSF Award No. DUE-9850307 in the amount of \$148,020 for indirect costs. This occurred because NSTCC charged the budgeted amount of indirect costs instead of applying the NSF approved indirect cost rate of 37 percent to actual salaries and wages (excluding fringe benefits) incurred for the grant.

Also, NSTCC did not always maintain adequate documentation for the non-personnel costs it charged to its NSF awards. Thus, documentation such as purchase orders, invoices, contracts, and sign-in sheets were not available to support charges NSTCC claimed for its NSF grants. As a result, NSTCC could not provide adequate support for \$36,901 of participant support, consultant costs, travel costs and other direct costs charged to its NSF awards. This situation occurred because NSTCC did not always follow its existing procedures related to the retention of records for the costs it charged to its NSF awards.

Finally, NSTCC lacked adequate supporting documentation for \$85,446 of the \$241,528 of cost sharing it claimed for Award No. DUE-0202249. As indicated above, NSTCC did not maintain employee certifications or personnel activity reports to support salary and fringe benefit costs. Also, NSTCC did not always follow existing procedures related to the retention of records for non-personnel costs. We did not question the \$85,446 because the award period had not ended at the time of our audit. However, we have determined that the lack of adequate documentation for cost share results in \$115,638 of "at risk" cost sharing. The \$115,638 of "at risk" cost sharing is comprised of the \$85,446 of unsupported cost sharing that NSTCC claimed plus \$30,172 of cost sharing NSTCC was still required to provide by the end of the award period for Award No. DUE-0202249.

Accordingly, the auditors recommended that your offices direct NSTCC to a) develop and implement procedures to verify that all employees working on NSF awards are following NSTCC policies and procedures for completion of certifications and personnel activity reports; b) develop and implement written policies and procedures to ensure that indirect costs claimed are in accordance with the terms of the NSF award agreements; c) train staff in the implementation of NSTCC procedures to ensure that all documentation to support costs charged to future NSF awards is properly maintained and reviewed and approved in compliance with NSTCC policies and procedures; and, d) train staff in the implementation of NSTCC procedures to ensure that all documentation to support cost sharing costs charged to future NSF awards is properly maintained in compliance with NSTCC policies and procedures.

The awardee responded to the draft audit report on February 28, 2007. In its response, the awardee stated that it concurred with the findings that it lacked adequate supporting documentation for salary and fringe benefit costs for the period October 1, 1998 to March 31, 2004 and that it lacked adequate supporting documentation for salary and fringe benefits claimed as cost sharing. The awardee also concurred that it did not always maintain attendance/sign in sheets and that it misclassified \$5,483 of participant support costs. The awardee indicated that it has implemented several actions to improve its policies and procedures for reviewing and documenting salary related costs and participant support costs. The awardee disagreed with the findings that it lacked

appropriate policies and procedures over claimed travel, consultant, supplies and indirect costs. The awardee also disagreed with the finding that it did not have adequate documentation for cost share.

Please coordinate with our office during the resolution period to develop a mutually agreeable resolution of the audit findings. The findings should not be closed until NSF determines that all recommendations have been adequately addressed and the proposed corrective actions have been satisfactorily implemented.

We are providing a copy of this memorandum to the Division Director of EHR/DUE. The responsibility for audit resolution rests with the Division of Institution and Award Support, Cost Analysis and Audit Resolution Branch (CAAR). Accordingly, we ask that no action be taken concerning the report's findings without first consulting CAAR at 703-292-8244.

#### OIG Oversight of Audit

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

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

Foxx & Company is responsible for the attached auditor's report on Nashville State Technical Community College and the conclusions expressed in the report. We do not express any opinion on the Schedules of Award Costs, internal control, or conclusions on compliance with laws and regulations.

We thank your staff for the assistance that was extended to our auditors during this audit. If you have any questions regarding this report, please contact me at 703-292-4985 or Jannifer Jenkins at 703-292-4996.

Attachment

Cc: Linda L. Slakey, Division Director EHR/DUE

#07-1-014

**NASHVILLE STATE TECHNICAL COMMUNITY COLLEGE  
120 WHITE BRIDGE ROAD  
NASHVILLE, TENNESSEE 37209**

**NATIONAL SCIENCE FOUNDATION AWARD NUMBERS  
DUE-9850307, DUE-0202249, DUE-0202397**

**FINANCIAL AUDIT OF  
FINANCIAL SCHEDULES AND  
INDEPENDENT AUDITORS' REPORTS FOR THE PERIOD  
October 1, 1998 – March 31, 2004**

Foxx & Company  
700 Goodall Complex  
324 West Ninth Street  
Cincinnati, Ohio 45202-1908

**NASHVILLE STATE TECHNICAL COMMUNITY COLLEGE  
120 WHITE BRIDGE ROAD  
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NASHVILLE STATE TECHNICAL COMMUNITY COLLEGE

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## **EXECUTIVE SUMMARY**

## BACKGROUND

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We audited funds awarded by the National Science Foundation (NSF) to Nashville State Technical Community College (NSTCC) under Grant No. DUE-9850307 for the period October 1, 1998 to September 30, 2002, and Grant Nos. DUE-0202249 and DUE-0202397 for the period September 15, 2002 to August 31, 2005. NSTCC, as an NSF awardee, is governed by the cost principles specified by Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*. Additionally, NSTCC is required to follow the provisions for administrative requirements contained in OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*.

NSTCC is a two-year college established under the Tennessee Board of Regents. The governance of Nashville State Technical Community College is outlined by the Tennessee Board of Regents, which is guided by the leadership of the Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission. The Chief administrative officer is the President, who reports directly to the Board of Regents. The President is assisted and advised by the members of the faculty and administrative staff as to the progress and current activities of the school.

NSTCC offers two-year, college level programs, and certificates to prepare adults for employment as technicians in career areas. The programs lead to an associate of Applied Science degree. Also, NSTCC offers special programs and courses to meet the needs of industry, business, and government.

Descriptions of the NSF awards we audited are as follows:

**Award Number DUE-9850307** – NSF awarded Grant No. DUE-9850307 to NSTCC on October 1, 1998, for \$1,629,004 and included a \$252,000 cost-share requirement. NSTCC claimed \$1,607,080 in NSF funding and \$304,324 in cost sharing as of September 30, 2002. The award expired on September 30, 2002. The project titled “South East Advanced Technology Educational Center (SEATEC)” was part of a broad systemic initiative to develop and implement case studies. The SEATEC project consisted of five two-year colleges in Tennessee with their associated school districts, two four-year universities, and communication industries. The goals of the SEATEC project were to (1) provide national leadership in developing and implementing case studies for technological education, professional development for participating faculty; (2) evaluate the effectiveness of case study method in teaching technology related content; and (3) disseminate nationally information about the case studies and the outcomes of their use.

**Award Number DUE-0202249** – NSF awarded Grant No. DUE-0202249 to NSTCC on September 15, 2002, in the amount of \$1,209,126 and included a \$271,700 cost-share requirement. The award was amended on May 20, 2004 and July 31, 2004, with an additional

\$689,677 awarded for a total of \$1,898,803 in NSF funding. The expiration date of the award was extended to August 31, 2005. NSTCC claimed \$667,643 of NSF funding and a cost share of \$241,528 through March 31, 2004. The goals of the program, titled “CITE: Tennessee Information Technology Exchange or Center for Information Technology Education,” were to provide an effective workplace capacity building system by increasing the information technology educational strength in a consortium of two-year colleges, four-year colleges, and secondary schools and industries in North Central Tennessee, and to develop a sustainable Center to meet requirements by industry for a qualified workforce.

***Award Number DUE-0202397*** – NSF awarded Grant No. DUE-0202397 to NSTCC on September 15, 2002, in the amount of \$635,954 and included an \$80,000 cost share requirement. This award was amended on July 6, 2004, with an additional \$314,034 awarded for a total of \$949,988 in NSF funding. The performance period was extended to August 31, 2005. NSTCC claimed \$390,988 of NSF funding and a cost share of \$78,675 through March 31, 2004. The project titled “Case Files” was a follow-up of the SEATEC project. This project was to be a catalyst for reform for the learning experience for students in engineering and information technology program throughout the nation. The learning experience would occur through the creation of a national community of educators who were skilled and experienced in the delivery of case-based learning. The secondary objective of the project was to develop a systematic process that would capture “ideas,” develop a forum for sharing case concepts with other faculty, and to publish and distribute these materials.

## **AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY**

The objectives of our audit were to:

1. Determine whether NSTCC’s Schedules of Award Costs (Schedules A-1 through A-3) present fairly, in all material respects, the costs claimed on the Federal Cash Transactions Reports (FCTRs), and the costs claimed including cost sharing are in conformity with the Federal and NSF award requirements.
2. Identify matters concerning instances of noncompliance with laws, regulations, and the provisions of the award agreements pertaining to the NSF awards and weaknesses in NSTCC’s internal control over financial reporting that could have a direct and material effect on the Schedules of Award Costs (Schedules A-1 through A-3) and NSTCC’s ability to properly administer, account for, and monitor its NSF awards.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards* (2003 Revision), issued by the Comptroller General of the United States; and the *National Science Foundation Audit Guide* (September 1996), as applicable. These standards and the *National Science Foundation Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed to NSF as presented in the Schedules of Award Costs (Schedules A-1 through A-3) are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures on the Schedule of Award Costs. An audit also includes assessing the accounting principles used and the significant estimates made by NSTCC, as well

as evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

## SUMMARY OF AUDIT RESULTS

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An audit was performed on the costs claimed on the financial reports submitted to NSF, as well as cost sharing provided by NSTCC and consortium partners on the NSF awards. These costs and the results of our audit are shown in the Schedules of Award Costs (Schedules A-1 through A-3) and are summarized as follows:

Award No.	Funding Source	Budget	Claimed Costs	Questioned Costs	At-risk Cost Sharing
DUE-9850307	NSF-Funded	\$ 1,629,004	\$ 1,607,080	\$ 169,557	
	Cost Sharing	252,000	304,324	-	-
	Total Project	1,881,004	1,911,404	169,557	
DUE-0202249	NSF-Funded	1,898,803	667,643	15,114	-
	Cost Share	271,700	241,528	-	115,638
	Total Project	2,170,503	909,171	15,114	115,638
DUE-0202397	NSF-Funded	949,988	390,988	542	-
	Cost Share	80,000	78,675	-	-
	Total Project	1,029,988	469,663	542	
Total Awards	NSF-Funded	\$ 4,477,795	\$ 2,665,711	\$185,213	-
	Cost Share	\$ 603,700	\$ 624,527	-	\$115,638
	Totals	\$ 5,081,495	\$3,290,238	\$185,213	\$115,638

Except for the \$185,213 in questioned salaries and wages, and non-personnel charges (i.e., Travel, Consultant, Other Direct, Participant Support Costs and indirect costs), and \$115,638 in “at risk” cost sharing described below, we determined that the costs claimed by NSTCC appear fairly stated and are allowable, allocable, and reasonable for all three NSF awards. Specifically, \$292 of salaries and wages were questioned because the employee was not authorized to work on the NSF award. We also questioned \$36,901 of non-personnel charges (including participant support, consultant, travel, and other direct costs) for lack of adequate support and \$148,020 of overcharged indirect costs. In addition, \$115,638 (43 %) of the \$271,700 budgeted cost sharing for Award No. DUE-0202249 was determined to be “at risk” because NSTCC could not provide adequate supporting documentation for all the cost sharing it had claimed to date. “At risk” cost sharing is the amount of required cost sharing that has not been met at the time of the audit, but which the awardee still has time to meet before the end of the award period.

NSTCC had a number of material internal control deficiencies that contributed to the questioned costs for salary and non-personnel charges and the “at-risk” cost sharing amount. Specifically:

- NSTCC did not obtain certifications and personnel activity reports as required by Federal regulations and NSF grant terms to support [REDACTED] of salaries and wages and [REDACTED] of fringe benefits claimed for NSF Award Nos. DUE-0202249 and DUE-0202397. This situation occurred even though NSTCC had time and effort reporting policies and procedures and had implemented a specific time and effort reporting template for its employees to use to record labor worked on NSF awards. Thus, it was necessary for us to perform alternative audit procedures to satisfy ourselves of the reasonableness and propriety of the labor costs NSTCC charged to its NSF awards. Nevertheless, the lack of a labor effort reporting and certification process seriously undermined the accuracy and reliability of the labor costs NSTCC claimed on its NSF awards.
- NSTCC overcharged NSF Award No. DUE-9850307 in the amount of \$148,020 for indirect costs. This occurred because NSTCC charged the budgeted amount of indirect costs instead of applying the NSF approved indirect cost rate of [REDACTED] percent to actual salaries and wages (excluding fringe benefits) incurred for the grant.
- NSTCC did not always maintain adequate documentation for the non-personnel costs it charged to its NSF awards. Thus, documentation such as purchase orders, invoices, contracts, and sign-in sheets were not available to support charges NSTCC claimed for its NSF grants. As a result, NSTCC could not provide adequate support for \$36,901 of participant support, consultant costs, travel costs and other direct costs charged to its NSF awards. This situation occurred because NSTCC did not always follow its existing procedures related to the retention of records for the costs it charged to its NSF awards.
- NSTCC lacked adequate supporting documentation for \$85,446 of the \$241,528 of cost sharing it claimed for Award No. DUE-0202249. As indicated above, NSTCC did not maintain employee certifications or personnel activity reports to support the salary and fringe benefit costs. Also, NSTCC did not always follow existing procedures related to the retention of records for non-personnel costs. This condition also existed for costs NSTCC claimed as cost sharing. As a result, NSTCC could not provide adequate support for \$85,446 (35%) of the \$241,528 it claimed as cost sharing for Award No. DUE-0202249. We did not question the \$85,446 because the award period had not ended at the time of our audit. However, we have determined that the lack of adequate documentation for cost share results in \$115,638 of “at risk” cost sharing. “At risk” cost sharing is the amount of required cost sharing that has not been met at the time of the audit, but which the awardee still has time to meet before the end of the award period. The \$115,638 of “at risk” cost sharing is comprised of the \$85,446 of unsupported cost sharing that NSTCC claimed plus \$30,172 of cost sharing NSTCC is still required to provide by the end of the award period for Award No. DUE-0202249.

Accordingly, we recommend that the NSF Directors for the Division of Institution and Award Support (DIAS) and the Division of Grants and Agreements (DGA) direct NSTCC for current and future awards to:

1. Develop and implement procedures to verify that all employees working on NSF awards are following NSTCC policies and procedures for completion of certifications and personnel activity reports;
2. Develop and implement written policies and procedures to ensure that indirect costs claimed are in accordance with the terms of the NSF award agreements;
3. Train staff in the implementation of NSTCC procedures to ensure that all documentation to support costs charged to future NSF awards is properly maintained and reviewed and approved in compliance with NSTCC policies and procedures; and,
4. Train staff in the implementation of NSTCC procedures to ensure that all documentation to support cost sharing costs charged to future NSF awards is properly maintained in compliance with NSTCC policies and procedures.

The awardee responded to the draft audit report on February 28, 2007. In its response, the awardee stated that it concurred with the findings that it lacked adequate supporting documentation for salary and fringe benefit costs for the period October 1, 1998 to March 31, 2004 and that it lacked adequate supporting documentation for salary and fringe benefits for cost sharing. The awardee also concurred that it did not always maintain attendance/sign in sheets and that it misclassified [REDACTED] participant support costs. The awardee indicated that it has implemented several actions to improve its policies and procedures for reviewing and documenting salary related costs and participant support costs. The awardee disagreed with the findings that it lacked appropriate policies and procedures and documentation for claimed consultant, travel, supplies, and indirect costs. The awardee also disagreed with the finding that it did not have adequate documentation for cost share.

The findings in this report should not be closed until NSF has determined that all the recommendations have been adequately addressed and the proposed corrective actions have been satisfactorily implemented. NSTCC’s response has been included in its entirety in Appendix A.

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

**EXIT CONFERENCE**

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We conducted an on-site exit conference on April 1, 2005, at NSTCC. We discussed findings and recommendations as well as other observations contained in this report with those attending:

Representing NSTCC were:

Name	Title
[REDACTED]	[REDACTED]

Representing Foxx & Company were:

Name	Title
[REDACTED]	[REDACTED]

The preliminary results of the audit were discussed. We also conducted a telephone exit conference on July 12, 2005, with representatives from NSTCC's office in Nashville, Tennessee. We provided a detailed summary of findings to NSTCC on July 12, 2005 via email. Based on the information in our email, NSTCC provided additional information to us on July 21, 2005, which we considered in the results of our audit. A draft report was sent to the awardee for comments on February 14, 2007. The awardee responded with comments on March 1, 2007. The awardee's comments are contained as Exhibit A of this report and after each finding in summary form.

**AUDIT FINDINGS AND RECOMMENDATIONS**



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

### INDEPENDENT AUDITORS' REPORT ON FINANCIAL SCHEDULES

We have audited the costs claimed by the Nashville State Technical Community College (NSTCC) to the National Science Foundation (NSF) on the Federal Cash Transactions Reports (FCTR) for the NSF awards listed below. In addition, we audited the amount of cost sharing claimed on each award. The FCTRs, as presented in the Schedules of Award Costs (Schedules A-1 through A-3), are the responsibility of NSTCC's management. Our responsibility is to express an opinion on the Schedules of Award Costs (Schedules A-1 through A-3) based on our audit.

<b>Award Number</b>	<b>Award Period</b>	<b>Audit Period</b>
DUE-9850307	10/01/98 to 09/30/02	10/01/98 to 09/30/02
DUE-0202249	09/15/02 to 08/31/05	09/15/02 to 03/31/04
DUE-0202397	09/15/02 to 08/31/05	09/15/02 to 03/31/04

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards* (2003 revision), issued by the Comptroller General of the United States; and the *National Science Foundation Audit Guide* (September 1996), as applicable. These standards and the *National Science Foundation Audit Guide* require that we plan and perform the audit to obtain reasonable assurance that the amounts claimed to the NSF as presented in the Schedules of Award Costs (Schedules A-1 through A-3) are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules of Award Costs (Schedules A-1 through A-3). An audit also includes assessing the accounting principles used and significant estimates made by NSTCC's management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

The Schedules of Questioned Costs (Schedules B-1 through B-3) explain the \$185,213 (6.9%) of total claimed NSF funded costs that we have questioned for allowability. These questioned costs include unauthorized salaries and wages, unallowable indirect costs, and unsupported travel costs, participant support costs, consultant costs, and other direct costs. Schedule B-2 explains the \$115,538 (43 percent) of total claimed cost sharing that we have determined “at risk” under the award agreement. “At risk” cost sharing is the amount of required cost sharing that has not been met at the time of the audit, but which the awardee still has time to meet before the end of the award period.

Questioned costs are (1) costs for which documentation exists to show that the recorded costs were expended in violation of the laws, regulations or specific conditions of the award, (2) costs requiring additional support by the awardee, or (3) costs that require interpretation of allowability by NSF’s Division of Institution and Award Support (DIAS). NSF will make the final determination regarding whether such costs are allowable. The ultimate outcome of this determination cannot presently be determined. Accordingly, no adjustment has been made to costs claimed for any potential disallowance by NSF.

In our opinion, except for \$185,213 of questioned NSF-funded costs and the \$115,538 of “at risk” cost sharing, the Schedules of Award Costs (Schedules A-1 through A-3) present fairly, in all material respects, the costs claimed on the FCTRs for the period October 1, 1998, to March 31, 2004, in conformity with the *National Science Foundation Audit Guide*, *NSF Grant Policy Manual*, terms and conditions of the NSF award requirements, and on the basis of accounting described in the Notes to the Financial Schedules. These schedules are not intended to be a complete presentation of financial position of NSTCC in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* and provisions of the *National Science Foundation Audit Guide*, we have also issued a report dated July 21, 2005, on our tests of NSTCC’s compliance with certain provisions of laws, regulations, and NSF award terms and conditions, and our consideration of NSTCC’s internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the NSTCC management, NSF, the cognizant Federal audit agency, the Office of Management and Budget, and the Congress of the United States of America, and is not intended to be and should not be used by anyone other than these specified parties.

Foxx & Company

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Cincinnati, Ohio  
July 21, 2005



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

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

We have audited costs claimed as presented in the Schedules of Award Costs (Schedules A-1 through A-3), which summarize the financial reports submitted by the Nashville State Technical Community College (NSTCC) to the National Science Foundation (NSF) and claimed cost sharing for the awards listed below and have issued our report thereon dated July 21, 2005.

<b>Award Number</b>	<b>Award Period</b>	<b>Audit Period</b>
DUE-9850307	10/01/98 to 09/30/02	10/01/98 to 09/30/02
DUE-0202249	09/15/02 to 08/31/05	09/15/02 to 03/31/04
DUE-0202397	09/15/02 to 08/31/05	09/15/02 to 03/31/04

We conducted our audit of the Schedules of Award Costs as presented in Schedules A-1 through A-3 in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards* (2003 revision), issued by the Comptroller General of the United States; and the *National Science Foundation Audit Guide* (September 1996), as applicable. These standards and the *National Science Foundation Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement.

**COMPLIANCE WITH LAWS AND REGULATIONS**

Compliance with applicable Federal laws, regulations, and NSF award terms and conditions is the responsibility of NSTCC's management. As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatement, we performed tests of NSTCC's compliance with certain provisions of applicable laws, regulations, and NSF award

terms and conditions, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on overall compliance with such provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed four instances of noncompliance that are required to be reported under *Government Auditing Standards* and the *National Science Foundation Audit Guide* and are described in Findings Nos. 1 through 4 below.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

NSTCC management is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial schedules in accordance with accounting principles prescribed by NSF. Because of inherent limitations in any internal control, misstatements due to errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Schedules of Award Costs (Schedules A-1 through A-3) for the period October 1, 1998, to March 31, 2004, we considered NSTCC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

We noted, however, certain matters described below involving internal control over financial reporting and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. 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 NSTCC's ability to record, process, summarize and report financial data consistent with management's assertions in the financial schedules. Reportable conditions we found are described in Finding Nos. 1 through 4 below.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control elements does not reduce, to a relatively low level, the risk that misstatements caused by error or fraud 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 internal control over financial reporting would not necessarily disclose all matters related to internal control over financial reporting that might be reportable conditions; and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material

weaknesses. We consider all of the reportable conditions described below to be material weaknesses.

**Finding No. 1: Lack of Adequate Supporting Documentation for Salary and Fringe Benefit Costs for the Period October 1, 1998 to March 31, 2004**

NSTCC did not obtain certifications and personnel activity reports as required by Federal regulations and NSF grant terms to support [REDACTED] of salaries and wages and [REDACTED] of fringe benefits claimed for the period October 1, 1998 through March 31, 2004 for NSF Award Nos. DUE-0202249 and DUE-0202397. This situation occurred even though NSTCC had time and effort reporting policies and procedures for an earlier NSF award (DUE-9850307). In addition, NSTCC charged [REDACTED] to Award No. DUE-0202249 for labor costs for an employee that was not authorized to work on the award. Because NSTCC did not follow the requirements for certifications and personnel activity reports, it was necessary for us to perform alternative audit procedures to assess the reasonableness and propriety of the claimed labor costs.

NSTCC's policy requires each employee charging time to a federal project to complete monthly personnel activity reports. Upon receipt of Award No. DUE-9850307, NSTCC implemented a specific time and effort reporting template for its employees to use to record labor effort worked on NSF awards. NSTCC also designated one administrative NSTCC employee to ensure that employees working on the NSF award were completing the appropriate personnel activity reports. Accordingly, NSTCC employees completed the required personnel activity reports for NSF Award No. DUE-9850307. However, when NSTCC was awarded two additional NSF awards, DUE-0202249 and DUE-0202397, the employees assigned to these new grants were neither aware of nor trained on NSTCC's personnel activity reporting system because the NSTCC administrative employee responsible for ensuring employees completed these reports no longer worked at the college. The principal investigators on the newer NSF awards also stated that they were not aware of the personnel activity reporting requirements for their awards.

OMB Circular A-21, Subpart J, Section 10b 2(b), states that awardees must "recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities... may be confirmed by responsible persons with suitable means of verification that the work was performed. Confirmation by the employee is not a requirement for... direct... cost activities... where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee."

NSTCC employees working on NSF Award Nos. DUE-0202249 and DUE-0202397 were required by the college to sign employment contracts. Each employment contract included a description of the employee's duty and the amount of time allocated for the employee to work on the NSF awards. NSTCC's management stated that employees' time and effort percentages were detailed in the employees' individual contracts with NSTCC. According to NSTCC

management, employees were bound by the terms of their contracts with NSTCC as to the amount of effort the employee was required to provide on a specific NSF award. NSTCC management also indicated that the department head or the principal investigator on an NSF project confirmed the amount of effort an employee worked on an award during their approval process for each payroll. Thus, NSTCC officials believed the employment contracts, coupled with the payroll approval process, would meet NSF grant requirements.

To satisfy our concerns, we performed additional testing to determine whether labor costs charged to NSF Award Nos. DUE-0202249 and DUE-0202397 were allowable under Federal and NSF award requirements. We reviewed the employment contracts of all 30 employees charged to these awards for the period October 1, 1998 through March 31, 2004 to verify that job titles, responsibilities, and time effort allocation complied with the NSF approved budget. We also reviewed payroll records to verify that the NSTCC payroll approval process was utilized for these employees.

Additionally, after we completed fieldwork, NSTCC provided us with certifications signed by the principal investigators for all personnel costs charged to Award Nos. DUE-0202249 and DUE-0202397. These certifications stated that all employee costs charged directly to these grants were valid charges and that the employees charged to these NSF awards did work on the respective awards at the percentages of time and effort listed in their contracts with NSTCC. Based on our alternative procedures and the certifications received from the principal investigators, we did not question these costs. Nevertheless, the lack of a labor effort reporting and certification process seriously undermined the accuracy and reliability of the labor costs NSTCC claimed on its NSF awards.

Finally, the [REDACTED] of questioned salaries and wages represents labor and overtime costs charged to Award No. DUE-0202249 for which NSTCC could not provide written authorization. The total amount consisted of [REDACTED] for labor costs for an employee who was a part-time administrative assistant who was not authorized to work on the NSF award. The remaining [REDACTED] questioned resulted from this same employee charging overtime to the award. Because there was no authorization for this person to work on the award, the [REDACTED] of direct labor and overtime charged to the grant has been questioned.

***Recommendation No. 1:***

We recommend that for current and future awards the NSF Directors for the Division of Institution and Award Support (DIAS) and the Division of Grants and Agreements (DGA) direct NSTCC to develop and implement procedures to verify that all employees working on NSF awards are following NSTCC policies and procedures for completion of certifications and personnel activity reports.

***NSTCC Comments:***

NSTCC's management concurs with finding and will immediately begin new procedures. Suggested procedure includes:

- 1) The principal investigator will make individual files for each of its employees. These files will contain copies of employment contracts, signed time/activity reports, and related employment documents.
- 2) The principal investigator will be responsible for collecting the above listed information for files.
- 3) The principal investigator will be responsible for reconciling time/activity reports to contract dates on a monthly basis.
- 4) The principal investigator will notify Grants Accounting Office personnel of any corrections necessary.

***Auditor's Response:***

Nashville's corrective actions appear to be responsive to the recommendation. However this report finding should not be closed until NSF determines that the corrective actions have been satisfactorily implemented.

**Finding No. 2: Lack of Appropriate Policies and Procedures Over Claimed Indirect Costs**

NSTCC overcharged NSF Award No. DUE-9850307 in the amount of \$148,020 for indirect costs. This occurred because NSTCC charged the budgeted amount of indirect costs instead of applying the NSF approved indirect cost rate of [REDACTED] percent of salaries and wages, excluding fringe benefits, to the actual salary and wage costs incurred for the grant.

According to award terms, NSTCC should have claimed indirect costs of [REDACTED]. Instead, it claimed [REDACTED] (see Schedule B-1), because it applied the indirect cost rate of [REDACTED] percent to budgeted salaries and wages rather than to actual salaries and wages incurred for the grant. NSTCC could not explain why this happened.

***Recommendation No. 2:***

We recommend that the NSF Directors of DIAS and DGA direct NSTCC to develop and implement written policies and procedures to ensure that indirect costs claimed are in accordance with the terms of the NSF award agreements.

***NSTCC Comments:***

While NSTCC's management understands the finding, we do not concur with the finding. Grants Office personnel were directed during that time by the current PI for the grant on the indirect cost process with consortium schools. The PI's understanding of the indirect cost claimed was relayed to her through conversations with NSF personnel. The reason the indirect costs were the exact amount of the budget for one year was because the actual indirect calculation was slightly more indirect cost than was budgeted. To avoid going over budget in the indirect cost category, Grants Office personnel did not claim the overage.

***Auditor's Response:***

Our audit identified the indirect costs that should have been charged to the NSF grant in compliance with the award terms and conditions. Because the awardee did not provide any documentation to support its claim that indirect cost were accurately charged to the NSF award, the \$148,020 will remain questioned. We recommend that NSF clarify and explain its award terms and conditions to NSTCC and recover the questioned indirect costs.

**Finding No. 3: Lack of Adequate Supporting Documentation for Non-Personnel Costs**

NSTCC did not always maintain adequate documentation for the non-personnel costs it charged to its NSF awards. Thus, documentation such as purchase orders, invoices, contracts, and sign-in sheets were not available to support charges NSTCC claimed on its NSF grants. As a result, NSTCC could not provide adequate support for \$36,901 of participant support, consultant costs, travel costs and other direct costs it charged to its NSF awards.

OMB Circular A-110, Subpart C, Paragraph .21(7) states that to be allowable under an award, costs must “be adequately documented by accounting records including cost accounting records supported by source documentation.” NSF Grant General Conditions (GC-1) 23.a.1 also states that “financial records, supporting documents, statistical records, and other records pertinent to this award shall be retained by the awardee for a period of three years from submission of the final reports specified in Article 16. Records that relate to audits, litigation or the settlement of claims arising out of the performance of the project shall be retained until such audits, appeals, litigation or claims have been disposed of.”

According to NSF Grants Policy Manual (GPM) Section 301, NSTCC is responsible for prudent management of all expenditures and actions affecting the grant. GPM Section 301 also states that documentation for each expenditure or action affecting an award must reflect appropriate organizational reviews or approvals, which should be made in advance of the action.

**Participant Support Costs**

For NSF Award Nos. DUE-0202249 and DUE-0202397, we questioned a total of \$9,903 of participant support costs. Specifically, for award number DUE-0202249, we questioned \$5,483 of unsupported participant support costs because NSTCC misclassified contractor costs incurred for this award as “participant support.” NSTCC could not explain how these costs were in fact participant support costs. We also questioned eight stipends totaling \$4,020 because NSTCC could not provide sign-in sheets that verified that the participants attended the grant workshop. Also, \$400 of participant support costs were questioned for NSF Award No. DUE-0202397 for lack of sign-in sheets. NSTCC was also unable to provide alternative documentation to support these transactions.

**Consultant Costs**

We questioned a total of \$18,688 of consultant costs on Award Nos DUE-9850307 and DUE-0202249. For Award No. DUE-9850307, \$17,688 of consultant costs were questioned because

NSTCC could not provide adequate documentation to support these costs. The \$17,688 consisted of [REDACTED] for unsupported wages and salaries, travel expenses and indirect costs billed to NSTCC by Jackson State University but for which NSTCC could not provide a signed contract or other documentation for how these costs related to the NSF award. The remaining [REDACTED] was for contractor expenses for which NSTCC was unable to provide either a contract agreement or other form of documentation. For Award No. DUE-0202249 we questioned [REDACTED] of consultant costs because there was no approved contract between NSTCC and the vendor for these costs.

### **Travel Costs**

We questioned a total of \$6,610 of travel costs. This amount included \$2,291 of travel costs for NSF Award No. DUE-9850307 for which NSTCC could not provide adequate documentation and \$4,319 questioned costs for Award No. DUE-0202249 due to a lack of documentation and the absence of approved expense reports for the travel.

### **Other Costs**

For Award No. DUE-9850307, we questioned \$1,558 of other costs because these costs were not supported by properly approved or completed purchase orders. For \$1,058 of this amount, we could not determine if the purchases had been properly approved as required by NSTCC's policies and procedures. These questioned costs included purchases for office supplies, an honorarium, and a meeting for case study module development. The remaining \$500 of questioned costs was for an honorarium for which NSTCC could not provide any documentation.

We also questioned \$142 of costs charged to Award No. DUE-0202397. These questioned costs consisted of two purchases for office supplies which were not supported by properly approved and completed purchase orders.

As a result of the above, we concluded that NSTCC did not always follow existing procedures related to the approval of costs and/or the retention of records for the costs it charged to its NSF awards. NSTCC management did not explain why this occurred. As a result, we questioned a total of \$36,901 for all three awards.

### ***Recommendation No. 3:***

We recommend that NSF's Division Directors of DIAS and DGA require NSTCC to train staff in the implementation of NSTCC procedures to ensure all documentation to support costs charged to current and future NSF awards is properly maintained and reviewed and approved in compliance with NSTCC policies and procedures.

### ***NSTCC Comments:***

NSTCC's management concurs with the portion of the finding regarding attendance/sign-in sheets. Procedures were put into effect during calendar year 2004 to require these attendance sheets for payments to vendors. The attendance sheet requirement and procedure are currently in effect.

NSCC's management concurs with the portion of the finding regarding misclassification of \$5,483. The principal investigator will work with the Grants Accounting office to insure that all participant support costs are classified correctly.

NSCC's management does not concur with the portion of the finding regarding travel. Travel samples with "no travel approval" did not require NSCC travel approval forms. Travel approval forms are required only for college employees who do not have blanket travel approval authority. NSCC policy does not require travel approval forms for travel by individuals who are not direct employees of the college. Individuals paid as professional services are not required to complete a travel approval form.

NSCC's management does not concur with the portion of the finding regarding supply charges. Supply charges in question were purchased according to TBR/NSCC policy. Normally a purchase order is required, but a statewide contract existed between TBR schools and the vendor. No purchase orders are required for supplies through this approved vendor because of the statewide contract and purchasing pre-approval procedures that were in place.

NSCC's management does not concur with the portion of the finding regarding the nine non-personnel items. Nine non-personnel items listed in this audit report were not listed on the certification sheets that were sent to NSCC management for project personnel signatures. The majority of questioned consultant costs consisted on one vendor that was labeled as "good" on documentation on a fieldwork sample sheet from the auditor. Seven of the items were requested in the first few visits by originating auditor who later left employment with Foxx & Co. Two new auditors were assigned to complete the audit and it is our concern that these documents were not relayed between auditors.

***Auditor's Response:***

The awardee concurred with the questioned participant support costs and the need for sign in sheets. Accordingly, the \$5,483 should be recovered from the awardee. With regard to the questioned travel, consultant, and other costs, the awardee did not provide adequate documentation supporting that these costs were allowable charges to the NSF awards. NSTCC also had several opportunities to provide us with requested documentation. All documentation received from NSTCC by the originating auditor was passed along to the new auditors assigned to complete the audit. Because documentation supporting the questioned costs was either not adequate, not available, or not provided, the costs will remain questioned. This report finding should not be closed until NSF determines that corrective actions have been satisfactorily implemented by NSTCC.

**Finding No. 4: Lack of Adequate Supporting Documentation for Cost Sharing**

NSTCC lacked adequate supporting documentation for the cost sharing it claimed for Award No. DUE-0202249. We found that NSTCC did not maintain employee certifications and personnel activity reports to support the salary and fringe benefit costs. Also, it could not provide support for the facilities and equipment costs it claimed as cost sharing. As a result, NSTCC could not

provide adequate support for \$85,446 (35%) of the \$241,528 of the amount of cost sharing it claimed for Award No. DUE-0202249.

NSF’s *Grant Policy Manual* (GPM), Section 333, *NSF Cost Sharing*, requires a grantee to maintain records of all costs claimed as cost sharing and those records are subject to audit. Also, OMB Circular A-110, Section 23, Cost Sharing, states that cost sharing expenses must be verifiable from the recipient’s records and be necessary and reasonable for the efficient accomplishment of project or program objectives and allowable under the applicable cost principles.

As discussed in Finding No. 1, above, NSTCC did not always follow its policies and procedures which required NSTCC employees working on NSF grants to complete employee certifications and personnel activity reports to support salary and fringe benefit costs charged to NSF awards. This condition also existed for salary and fringe benefit costs claimed as cost sharing on NSF Award No. DUE-0202249. Additionally, NSTCC could not provide adequate documentation for “release time” claimed as cost sharing. “Release time” was time incurred by regular instructors for creation, review, and other participation in developing an effective learning environment through the use of case studies for the NSF project. Thus, \$24,876 of labor related costs claimed as cost sharing were not supported by adequate documentation.

Moreover, as discussed in Finding No. 3, above, NSTCC did not always maintain adequate documentation to support the non-personnel costs it charged to its NSF grants. Thus, \$60,570 of non-personnel costs NSTCC claimed as cost share for facilities and equipment were unsupported. This situation existed because NSTCC personnel did not follow its existing policies and procedures for record retention for costs it charged to its NSF awards.

We did not question the \$85,446 of inadequately supported cost share because the award period for NSF Award No. DUE-0202249 had not ended at the time of our audit. Thus, we have determined that the lack of adequate documentation for cost share results in “at risk” cost sharing. “At risk” cost sharing is the amount of required cost sharing that has not been met at the time of the audit, but which the awardee still has time to meet before the end of the award period.

We calculated at-risk cost sharing as follows:

Required Cost Sharing		\$271,700
Cost Sharing Claimed	\$241,528	
Cost Sharing Unacceptable	(85,446)	
Cost Sharing available for award		156,062
<b>Cost Sharing “at risk”</b>		<b>\$115,638</b>

Based on our calculation of cost sharing “at risk”, NSTCC is still required to provide \$115,638 of cost sharing for NSF Award No. DUE-0202249 before the award period is completed.

***Recommendation No. 4:***

We recommend that NSF's Division Directors of DIAS and DGA require NSTCC to train staff in the implementation of NSTCC procedures to ensure all documentation to support cost sharing costs charged to current and future NSF awards is properly maintained in compliance with NSTCC policies and procedures.

***NSTCC Comments:***

NSCC's management concurs on the need for more accurate time record keeping for grant funded project employees. Our response in Finding No. 1 regarding procedure will also apply to cost sharing records as well.

NSCC's management does not concur with the in-kind donation portion of the finding. The project has in-kind donations totaling well over the required cost sharing figure of the \$271,700 shown in this report for NSF Award No. DUE-0202249.

***Auditor's Response:***

Because the awardee did not provide documentation supporting additional eligible cost sharing or evidence that the questioned \$85,446 was acceptable, the \$115,638 remains as "at risk" cost sharing. NSTCC should ensure that proper documentation to support cost sharing is maintained, regardless of the type of cost. This report finding should not be closed until NSF determines that corrective action has been satisfactorily implemented.

We considered these instances of non compliance and internal control weaknesses in forming our opinion of whether the Schedules of Award Costs (Schedules A-1 through A-3) present fairly in all material respects, the costs claimed by NSTCC on the Federal Cash Transactions Reports and Cost Sharing claimed, for the period October 1, 1998 through March 31, 2004, in conformity with the *National Science Foundation Audit Guide* (September 1996), *NSF Grant Policy Manual*, *Federal Laws and Regulations*, and NSF award terms and conditions, and determined that this report does not affect our report dated July 21, 2005 on the Schedules of Award Costs.

This report is intended solely for the information and use of the NSTCC's management, NSF, the cognizant Federal audit agency, the Office of Management and Budget, and the Congress of the United States, and is not intended to be and should not be used by anyone other than these specified parties.

Foxx & Company  
July 21, 2005

**FINANCIAL SCHEDULES AND  
SUPPLEMENTAL INFORMATION**

**SCHEDULE A-1**

**NASHVILLE STATE TECHNICAL COMMUNITY COLLEGE  
NASHVILLE, TENNESSEE**

**NATIONAL SCIENCE FOUNDATION AWARD NO. DUE-9850307  
SCHEDULE OF AWARD COSTS  
OCTOBER 1, 1998, TO SEPTEMBER 30, 2002  
FINAL**

<u>Cost Category</u>	<u>Approved Budget</u>	<u>Claimed Costs (A)</u>	<u>Questioned Costs</u>	<u>Schedule B Note Reference</u>
Direct costs:				
Salaries and wages	[REDACTED]	[REDACTED]	\$ -	
Fringe benefits	[REDACTED]	[REDACTED]	-	
Equipment	[REDACTED]	[REDACTED]	-	
Travel	[REDACTED]	[REDACTED]	2,291	Note B-1a
Consultant	[REDACTED]	[REDACTED]	17,688	Note B-1b
Materials and supplies	[REDACTED]	[REDACTED]	-	
Other	[REDACTED]	[REDACTED]	1,558	Note B-1c
Total direct costs	[REDACTED]	[REDACTED]	<u>21,537</u>	
Indirect costs (B)	[REDACTED]	[REDACTED]	<u>148,020</u>	Note B-1d
Total direct and indirect costs	[REDACTED]	[REDACTED]	<u>\$ 169,557</u>	
Cost sharing (C)	<u>\$ 252,000</u>	<u>\$ 304,324</u>	<u>-</u>	

- (A) The total costs claimed agree with the total expenditures reported on the FCTR as of September 30, 2002. The claimed costs reported above are taken directly from the awardee's books of accounts.
- (B) The indirect cost allowance is at a predetermined fixed rate of [REDACTED] percent, to be applied to a direct salaries and wages excluding the fringe benefits cost base.
- (C) NSTCC claimed \$304,324 in cost sharing. We determined that \$288,481 was allowable and that the resulting \$15,837 of claimed cost share was potentially questioned. However, since the allowable amount was more than the required amount of cost share, we did not question any cost sharing for this award.

## SCHEDULE B-1

### NASHVILLE STATE TECHNICAL COMMUNITY COLLEGE NASHVILLE, TENNESSEE

#### NATIONAL SCIENCE FOUNDATION AWARD NO. DUE-9850307 SCHEDULE OF QUESTIONED COSTS OCTOBER 1, 1998 to SEPTEMBER 30, 2002

##### **Note B-1a Travel Cost**

The \$2,291 questioned represents travel costs for which the awardee did not have adequate documentation supporting the costs. NSTCC could not provide adequate support which documented that travel costs were properly approved (i.e., Authorized Travel Approval/Travel claim form). These costs included travel to a SEATEC advisory meeting (\$803), and travel to SEATEC NSTI workshops, National Advisory Committee meetings, and developmental conference for principle investigators, (\$1,488). Without supporting documentation and authorized approvals, the \$2,291 has been questioned in accordance with OMB Circular A-110, Subpart C, Paragraph .21.

##### **Note B-1b Consultant Costs**

The \$17,688 questioned represents claimed cost for consultant services and related expenses, which were not properly supported by adequate documentation. We found that NSTCC could not provide a contract or any other identification for ██████ in claimed consultant cost charged to the award. In addition, the remaining ██████ questioned costs consisted of unsupported wages and salaries, travel expenses and indirect cost billed to NSTCC by Jackson State University. In addition, NSTCC could not provide a signed contract for the Jackson State University costs. Because NSTCC did not have any support for these costs the \$17,688 has been questioned in accordance with OMB Circular A-110, Subpart C, Paragraph .21.

##### **Note B-1c Other Direct Cost**

The \$1,558 questioned consists of purchases charged to this award which were not supported by properly approved or completed purchase orders. As a result, we could not determine if the purchases had been approved, nor could we compare the approved amount from the purchase order to the actual payment for the voucher package payment (\$1,058). The questioned costs which were not properly approved included purchases for office supplies, an honorarium, and a meeting for case study module development. In addition, the remaining \$500 questioned was for an honorarium for which NSTCC could not provide any support such as an approved purchase order for the other direct cost charged to the award. These costs have been questioned in accordance with OMB Circular A-110, Subpart C, Paragraph .21.

### **Note B-1d Indirect Cost**

The \$148,020 questioned consists of overcharges for indirect cost based on NSTCC claiming the budgeted amount of indirect costs instead of applying the approved indirect cost rate of 37 percent of salaries and wages excluding fringe benefits to the actual salaries and wages incurred for the grant. Based on the actual salaries and wages, NSTCC had a maximum allowability of indirect cost charges of [REDACTED]. Based on our review of indirect costs claimed, NSTCC charged [REDACTED] to this award which represented the budgeted amount for the award. The [REDACTED] is questioned in accordance with OMB Circular A-21, Paragraph C3, a cost must be reasonable and Paragraph C4, a cost must be allocable.

**SCHEDULE A-2**

**NASHVILLE STATE TECHNICAL COMMUNITY COLLEGE  
NASHVILLE, TENNESSEE**

**NATIONAL SCIENCE FOUNDATION AWARD NO. DUE-0202249  
SCHEDULE OF AWARD COSTS  
SEPTEMBER 15, 2002 TO MARCH 31, 2004**

<b>Cost Category</b>	<b>Approved Budget</b>	<b>Claimed Costs (A)</b>	<b>Questioned Costs</b>	<b>At Risk</b>	<b>Schedule B Note Reference</b>
<b>Direct costs:</b>					
Salaries and wages			\$ 292	-	Note B-2a
Fringe benefits			-	-	
Travel			4,319	-	Note B-2b
Participant support costs			9,503	-	Note B-2c
Materials and supplies					
Consultant costs			1,000	-	Note B-2d
Sub awards				-	
Other (Publication)				-	
Total direct costs			15,114	-	
<b>Indirect costs (B)</b>					
Total direct and indirect costs			\$ 15,114	\$ -	
<b>Cost sharing</b>	<u>\$ 271,700</u>	<u>\$ 241,528</u>	<u>\$ -</u>	<u>\$115,638</u>	Note B-2e

(A) The total costs claimed agree with the total expenditures reported on the FCTR as of March 31, 2004. Claimed costs reported above are taken directly from the awardee's books of accounts.

(B) The indirect cost allowance is at a predetermined fixed rate of      percent, to be applied to direct salaries and wages plus fringe benefits.

NASHVILLE STATE TECHNICAL COMMUNITY COLLEGE  
NASHVILLE, TENNESSEE

NATIONAL SCIENCE FOUNDATION AWARD NO. DUE-0202249  
SCHEDULE OF QUESTIONED COSTS  
SEPTEMBER 15, 2002 TO MARCH 31, 2004

**Note B-2a Salaries and Wages**

The [REDACTED] questioned represents time charged to the award which was not approved. NSTCC could not provide written authorization for an employee to charge time to the award in the amount of [REDACTED]. Our review of the employee personnel file showed that the employee was an 84 percent part-time Administrative Assistant for the Business Technology Department. Therefore, some form of authorization to charge time to the award should have been available. The remaining [REDACTED] questioned resulted from NSTCC not providing written authorization for the same employee to work overtime. Because there was no authorization for this person to work on the award, the [REDACTED] of direct time and overtime charged to the grant has been questioned.

**Note B-2b Travel Cost**

The \$4,319 questioned represents unapproved and unsupported travel costs. NSTCC could not provide adequate support which documented that travel cost were properly approved for travel cost claimed in the amount of \$4,319. The \$4,319 included travel to the S3 Conference, Professional Development/Cisco Training, the East Tennessee Technological Council Conference [REDACTED], and travel to the SEATEC Developmental Conference in Raleigh, North Carolina [REDACTED]. There was no support for the claim or an approved expense report for any of the trips. Accordingly, the \$4,319 is questioned in accordance with OMB Circular A-110, Subpart C, Paragraph .21.

**Note B-2c Participant Support**

The \$9,503 questioned represents participant support cost transactions, which NSTCC could not adequately support. Participant support costs included the cost of contracts for services rendered in the amount of \$5,483, and eight stipends totaling [REDACTED] for NCTCC workshops. NSTCC could not support how the contract costs benefited the participant support. Also, the stipends were questioned because no sign-in sheets were provided to verify that participants actually attended the event. NSTCC was not able to provide any additional documentation to support these transactions. Accordingly, the \$9,503 is questioned in accordance with OMB Circular A-110, Subpart C, Paragraph .21.

### **Note B-2d Consultant Costs**

The \$1,000 questioned represents claimed costs for consultant services and related expenses. The \$1,000 was not properly supported by an approved contract. [REDACTED]

[REDACTED]. Because there was no documentation to support this charge, the \$1,000 is questioned in accordance with OMB Circular A-110, Subpart C, Paragraph .21.

### **Note B-2e Cost Sharing**

The \$115,638 of cost sharing “at risk” represents the cost sharing necessary to comply with the award budget. “At risk” cost sharing is the amount of required cost sharing that has not been met at the time of the audit, but which the awardee still has time to meet before the end of the award period. NSTCC claimed \$241,528 in cost sharing for this award. Our audit initially found that \$85,446 of charges made to cost sharing from consortium partners of the CITE grant were not adequately supported and were, therefore unacceptable as cost sharing. We found that NSTCC did not provide adequate support such as timesheets, diaries, calendars, memos, or other supporting documentation that adequately described the services for the cost sharing charged to the award. Cost sharing claims for facilities, equipment, and labor for such facilities went totally unsupported, with no documentation to support the actual calculation of such charges. Based on a calculation of the required cost sharing for this award (\$271,700) less the amount of cost sharing that we determined was acceptable (\$156,082, or \$241,528 claimed less \$85,446 unacceptable), we calculated \$115,638 that is considered “at risk” because the award was not completed at the time of our review. The “at risk” cost sharing still has to be provided in order for NSTCC to be in compliance with the award cost sharing requirement.

**SCHEDULE A-3**

**NASHVILLE STATE TECHNICAL COMMUNITY COLLEGE  
NASHVILLE, TENNESSEE**

**NATIONAL SCIENCE FOUNDATION AWARD NO. DUE-0202397  
SCHEDULE OF AWARD COSTS  
SEPTEMBER 15, 2002 TO MARCH 31, 2004  
INTERIM**

<u>Cost Category</u>	<u>Approved Budget</u>	<u>Claimed Costs (A)</u>	<u>Questioned Costs</u>	<u>Schedule B Note Reference</u>
Direct costs:				
Salaries and wages	\$ ██████████	██████████	\$ -	
Fringe benefits	██████████	██████████	-	
Travel			-	
Participant support costs			400	Note B-3a
Materials and supplies			-	
Consultant costs			-	
Other (Publication)			142	Note B-3b
Total direct costs			<u>542</u>	
Indirect costs (B)			-	
Total direct and indirect costs			<u>\$ 542</u>	
Cost sharing	<u>\$ 80,000</u>	<u>\$ 78,675</u>	<u>\$ -</u>	

(A) The total costs claimed agree with the total expenditures reported on the FCTR as of March 31, 2004. Claimed costs reported above are taken directly from the awardee's books of accounts.

(B) The indirect cost allowance is at a predetermined fixed rate of █████ percent, to be applied to direct salaries and wages plus fringe benefits.

**SCHEDULE B-3**

**NASHVILLE STATE TECHNICAL COMMUNITY COLLEGE  
NASHVILLE, TENNESSEE**

**NATIONAL SCIENCE FOUNDATION AWARD NO. DUE-0202397  
SCHEDULE OF QUESTIONED COSTS  
SEPTEMBER 15, 2002 TO MARCH 31, 2004  
INTERIM**

**Note B-3a Participant Support**

The \$400 questioned cost represents two participant support cost transactions which NSTCC could not adequately support. We found that NSTCC could not provide sign-in sheets to verify that the participants actually attended the event for stipends valued at \$400. Accordingly, these costs are questioned in accordance with OMB Circular A-110, Subpart C, and Paragraph. 21.

**Note B-3b Other**

The \$142 questioned consists of two purchases charged to the award for office supplies which were not supported by properly approved and completed purchase orders. As a result, we could not perform a comparison of approved amounts from the purchase order to the existing voucher payment forms. Because of a lack of support documentation for these items, the \$142 has been questioned in accordance with OMB Circular A-110, Subpart C, Paragraph .21.

**NASHVILLE STATE TECHNICAL COMMUNITY COLLEGE  
NASHVILLE, TENNESSEE**

**NATIONAL SCIENCE FOUNDATION AWARD NOS.  
DUE-9850307, DUE-0202249, and DUE-0202397**

**SUMMARY SCHEDULES OF AWARDS AUDITED AND AUDIT RESULTS  
OCTOBER 1, 1998 TO MARCH 31, 2004**

**Summary of Awards Audited**

<b>Award Number</b>	<b>Award Period</b>	<b>Audit Period</b>
DUE-9850307	10/01/98 – 09/30/02	10/01/1998 – 9/30/2002
DUE-0202249	09/15/02 – 08/31/05	09/15/2002 – 3/31/2004
DUE-0202397	09/15/02 – 08/31/05	09/15/2002 – 3/31/2004

<b>Award Number</b>	<b>Type of Award</b>	<b>Award Description</b>
DUE-9850307	Grant	South East Advanced Technology Education Center (SEATEC)
DUE-0202249	Grant	Center for Information Technology Education (CITE)
DUE-0202397	Grant	Case Files

**Summary of Questioned and Unsupported Costs by Award**

<b>NSF Award Number</b>	<b>Award Budget</b>	<b>Claimed Costs</b>	<b>Questioned Costs</b>	<b>Unsupported Costs</b>
DUE-9850307	\$ 1,629,004	\$ 1,607,080	\$ 169,557	\$ 21,537
DUE-0202249	1,898,803	667,643	15,114	14,822
DUE-0202397	949,988	390,988	542	542
<b>Total</b>	<b>\$ 4,477,795</b>	<b>\$ 2,665,711</b>	<b>\$185,213</b>	<b>\$ 36,901</b>

**Summary of Questioned Cost by Explanation**

<b>Condition</b>	<b>Questioned Cost Amount</b>	<b>Internal Control Weaknesses</b>	<b>Non-Compliance</b>
Unauthorized Salaries	\$ 292	Yes	Yes
Unsupported Participant Support	9,903	Yes	Yes
Inadequate Approval/Support for travel Charged to Grants	6,610	Yes	Yes
Inadequate Support for Consultant Cost	18,688	Yes	Yes
Unsupported/inadequate support for Other Direct Cost	1,700	Yes	Yes
Over Charged for Indirect Cost	148,020	Yes	Yes
Inadequate Support for Cost Sharing	*	Yes	Yes
<b>Total Questioned Costs</b>	<b>\$185,213</b>		

\*Although we questioned \$85,466 of cost sharing claimed on Award No. DUE-0202249, we have shown the cost sharing as “at risk” (\$115,638) because the award performance period was not ended at the time of the audit. The \$115,638 of cost sharing is comprised of the \$85,466 of unsupported cost share and \$30,172 of cost share NSTCC has not yet claimed. See Note B-2e to Schedule A-2.

**Summary of Internal Control Weaknesses and Non-Compliance Issues**

<b>Condition</b>	<b>Internal Control or Non-Compliance</b>	<b>Material, Reportable or Other</b>
Lack of Adequate Supporting Documentation for Salary and Fringe Benefit Costs	Internal Control and Non-compliance	Material
Lack of Appropriate Policies and Procedures over Indirect Costs	Internal Control and Non-compliance	Material
Lack of Adequate Supporting Documentation for Non-Personnel Costs	Internal Control and Non-compliance	Material
Lack of Adequate Supporting Documentation for Cost Share	Internal Control and Non-compliance	Material

**NASHVILLE STATE TECHNICAL COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL SCHEDULES**  
**OCTOBER 1, 1998 TO MARCH 31, 2004**

**Note 1: Summary of Significant Accounting Policies**

Accounting Basis

The accompanying financial schedules have been prepared in conformity with National Science Foundation (NSF) instructions. Schedules A-1 through A-3 have been prepared from the reports submitted to NSF and information obtained from the accounting records maintained for the grant award by NSTCC. The basis of accounting utilized in preparation of these reports differs from generally accepted accounting principles. The following information summarizes these differences:

A. Equity

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

B. Equipment

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

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

C. Inventory

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

D. Federal Income Tax

NSTCC has no Federal income tax liability.

**NASHVILLE STATE TECHNICAL COMMUNITY COLLEGE  
NOTES TO FINANCIAL SCHEDULES  
OCTOBER 1, 1998 TO MARCH 31, 2004**

**Note 2: NSF Cost Sharing and Matching**

The following represents the cost share requirements and actual cost share as of March 31, 2004:

	<u>Cost Share Required</u>	<u>Actual Cost Share Claimed</u>	<u>Unsupported Cost Share</u>	<u>Actual Supported Cost Share</u>	<u>Actual Cost Share Over/(Under) Required</u>
<b>Award No. DUE-9850307</b>	\$ 252,000	\$ 304,324	\$ 15,843	\$ 288,481	\$ 36,481
<b>Award No. DUE-0202249</b>	271,700	241,528	85,446	156,082	(115,638)
<b>Award No. DUE-0202397</b>	<u>80,000</u>	<u>78,675</u>	<u>-</u>	<u>78,675</u>	<u>(1,325)</u>
<b>Total</b>	<u>\$ 603,700</u>	<u>\$ 624,527</u>	<u>\$ 101,289</u>	<u>\$ 523,238</u>	<u>\$ (80,482)</u>

**Note 3: Indirect Cost Rates**

Award Number	Indirect Cost Rate	Base
DUE-9850307		
DUE-0202249		
DUE-0202397		

**APPENDIX A**

**AWARDEE'S COMMENTS TO REPORT**

Summary of Awardee's Response and Auditor's Comments to Audit Results

[REDACTED]

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**From:** [REDACTED]  
**Sent:** Wednesday, February 28, 2007 1:02 PM  
**To:** [REDACTED]  
**Cc:** [REDACTED]  
**Subject:** NSCC DRAFT Audit Responses  
**Attachments:** NSCC AUDIT RESPONSES.AFTERDEBRASEDITS.doc

[REDACTED]

I have attached our responses. I am also sending it overnight FedEx to [REDACTED]

NSCC AUDIT  
RESPONSES.AFTERDEB

Thanks,  
[REDACTED]

<b>Tracking:</b>	<b>Recipient</b> [REDACTED]	<b>Delivery</b>
		Delivered: 2/28/2007 1:02 PM Delivered: 2/28/2007 1:02 PM

## **NSCC AUDIT RESPONSES**

*Finding No. 1: Lack of Adequate Supporting Documentation for Salary and Fringe Benefit Costs for the Period October 1, 1998 to March 31, 2004.*

### ***NSCC's Response:***

NSCC's management concurs with finding and will immediately begin new procedures. Suggested procedure includes:

- 1) The principal investigator will make individual files for each of its employees. These files will contain copies of employment contracts, signed timely activity reports, and related employment documents.
- 2) The principal investigator will be responsible for collecting the above listed information for files.
- 3) The principal investigator will be responsible for reconciling time activity reports to contract dates on a monthly basis.
- 4) The principal investigator will notify Grants Accounting Office personnel of any corrections necessary.

*Finding No. 2: Lack of Appropriate Policies and Procedures Over Claimed Indirect Costs.*

### ***NSCC's Response:***

While NSCC's management understands the finding, we do not concur with the finding. Grants Office personnel were directed during that time by the current PI for the grant on the indirect cost process with consortium schools. The PI's understanding of the indirect cost claimed was relayed to her through conversations with NSF personnel. The reason the indirect costs were the exact amount of the budget for one year was because the actual indirect calculation was slightly more indirect cost than was budgeted. To avoid going over budget in the indirect cost category, Grants Office personnel did not claim the overage.

*Finding No. 3 Lack of Adequate Supporting Documentation for Non-Personnel Costs.*  
***NSCC's Response:***

NSCC's management concurs with the portion of the finding regarding attendance/sign-in sheets. Procedures were put into effect during calendar year 2004 to require these attendance sheets for payments to vendors. The attendance sheet requirement and procedure are currently in effect.

NSCC's management concurs with the portion of the finding regarding misclassification of \$5,483. The principal investigator will work with the Grants Accounting office to insure that all participant support costs are classified correctly.

NSCC's management does not concur with the portion of the finding regarding travel. Travel samples with "no travel approval" did not require NSCC travel approval forms. Travel approval forms are required only for college employees who do not have blanket travel approval authority. NSCC policy does not require travel approval forms for travel by individuals who are not direct employees of the college. Individuals paid as professional services are not required to complete a travel approval form. NSCC's management does not concur with the portion of the finding regarding supply charges. Supply charges in question were purchased according to TBRINSCC policy. Normally a purchase order is required, but a statewide contract existed between TBR schools and the vendor. No purchase orders are required for supplies through this approved vendor because of the statewide contract and purchasing pre-approval procedures that were in place.

NSCC's management does not concur with the portion of the finding regarding the nine non- personnel items. Nine non-personnel items listed in this audit report were not listed on the certification sheets that were sent to NSCC management for project personnel signatures. The majority of questioned consultant costs consisted of one vendor that was labeled as "good" on documentation on a fieldwork sample sheet from the auditor. Seven of the items were requested in the first few visits by originating auditor who later left employment with Foxx & Co. Two new auditors were assigned to complete the audit and it is our concern that these documents were not relayed between auditors. Finding No. 4: Lack of Adequate Supporting Documentation for Cost Sharing.

***NSCC's response:***

NSCC's management concurs on the need for more accurate time record keeping for grant funded project employees. Our response in Finding No. 1 regarding procedure will also apply to cost sharing records as well.

NSCC's management does not concur with the in-kind donation portion of the finding. The project has in-kind donations totaling well over the required cost sharing figure of the \$271,700 shown in this report for NSF Award No. DUE-0202249.