

NATIONAL SCIENCE FOUNDATION
4201 Wilson Boulevard
ARLINGTON, VIRGINIA 22230

MAR 26 2008



OFFICE OF
INSPECTOR GENERAL

MEMORANDUM

DATE: MAR 26 2008

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-08-1-001
WGBH Educational Foundation

Attached is the final audit report, prepared by Mayer Hoffman McCann P.C., an independent public accounting firm, on the audit of NSF award numbers ESI-9804615/ESI-0229297, ESI-0000610, ESI-0104700, and DUE-0202223 awarded to WGBH Educational Foundation (WGBH). The audit covers NSF-funded costs claimed from May 1, 1998 through December 31, 2005, aggregating to approximately \$9.4 million of NSF direct funded costs and \$6.7 million of claimed cost sharing.

Overall the auditors found that, except for \$808,383 (8.6 percent of approximately \$9.4 million in total claimed costs) in questioned encumbrances, inadequately supported transactions, and unallocable costs for salaries, wages, fringe benefits, travel, other direct costs, and indirect costs claimed on three of the five awards audited, the costs claimed by WGBH appear fairly stated and are allowable, allocable, and reasonable for the audited NSF awards. Specifically, the auditors questioned \$775,939 in other direct costs on award nos. ESI-9804615/0229297 because WGBH did not actually incur these costs until after its award had expired. Knowing that its award expired on September 30, 2004, WGBH inappropriately claimed \$775,939 for salaries, fringe benefits, rent and indirect costs, that it had not and would not incur until the following fiscal year, in order to avoid losing access to these funds.

We also questioned \$25,707 in salaries, wages, fringe benefits, other direct costs and indirect costs on award nos. ESI-9804615/0229297 that did not relate to or benefit the NSF awards and \$6,737 in travel, other direct costs and indirect costs on award nos. ESI-9804615/0229297 and ESI-0000610 that did not have adequate supporting documentation.

The auditors identified one material and four reportable compliance and internal control deficiencies in WGBH's financial management practices that contributed to the questioned costs and could have a significant impact on WGBH's ability to administer its current and future NSF awards. Specifically, WGBH did not comply with both NSF and its own policies to only charge costs that it had actually incurred on its NSF awards. Instead, on its September 30, 2004 Federal Cash Transactions Report, WGBH claimed \$775,939 for future employment and rental contract costs that, while allocable to and in support of the NSF project, were not yet incurred and accordingly, were not valid for the period in which they were charged. Further, the NSF appropriation supporting the grants expired prior to WGBH receiving and paying for the contracted services. Therefore, WGBH claimed costs that, under Federal Appropriations Law, were no longer available to NSF for use in supporting the WGBH grants.

Also, WGBH was not able to locate supporting documentation for three of 651 non payroll transactions tested, and erroneously charged NSF awards for an additional three of 159 payroll transactions tested, which prevented WGBH from evidencing that all the costs claimed on the NSF awards were allocable, allowable, and reasonable. According to WGBH, some files were misfiled and there was an error in coding that was not caught during the monthly review process that caused these problems.

In addition, WGBH does not have policies and procedures that require it to document its review of service center charges to ensure that its actual costs are charged in compliance with NSF and Federal requirements. This internal control deficiency was also noted in WGBH's 2004 Fiscal Year A-133 Single Audit Report. Although, there was no indication that the rates discriminated against NSF or federal awards, nor did the auditors find that the rates were designed to recover more than actual costs, without documentation to evidence WGBH's rates setting process, the auditors could not ensure the reliability or reasonableness of the service charges assessed on NSF awards.

Finally, WGBH did not have adequate procedures to monitor and reconcile \$3.2 million of sub-award expenditures claimed in foreign currency and paid for in U.S. dollars, which limited WGBH's ability to ensure that costs claimed on the award were accurate. The claimed sub-award costs in foreign currency represents 66 percent of total costs claimed on the NSF award.

If WGBH fails to address these compliance and internal control deficiencies, similar problems may occur on other existing and/or future NSF awards granted to WGBH.

Accordingly, the auditors recommend that NSF request WGBH management to return \$775,939 of costs claimed under NSF award nos. ESI-9804615/0229297, enforce and monitor adherence to generally accepted accounting principles and its policy to only charge incurred and not anticipated future expenses to its NSF awards; and establish and implement proper policies and procedures that will prevent future claims for costs not yet incurred.

The auditors also recommend that NSF ensure that WGBH develop and implement written policies to ensure all source documentation for claimed costs under NSF awards are properly maintained, and expand controls to include a second review to better identify and correct any erroneous charges made to NSF awards. The auditors recommend that NSF ensure that WGBH reinforce current policies and procedures to ensure that Principal Investigators are properly reviewing costs charged to NSF awards. Finally, the auditors recommend that NSF ensure that WGBH develop and implement policies and procedures to: (a) ensure that service center rates are periodically reviewed and documented, and (b) periodically perform and document an overall reconciliation of the actual costs incurred in foreign currency by subawards versus advances paid by WGBH in U.S. dollars.

On October 11, 2007, WGBH responded to the audit findings and recommendations made in the attached report, and in general it concurs with the factual accuracy of the financial data presented but disagrees with questioning the \$775,939 of encumbered costs that it claimed on its September 30, 2004 Federal Cash Transactions Report, because it believes those costs were claimed under the direction of NSF personnel and with the full knowledge and consent of NSF. WGBH submitted additional support related to the \$6,737 in inadequately supported questioned costs; however the additional documentation did not have any impact on the audit findings, because the documentation provided did not evidence that the costs were incurred for the benefit of the NSF awards. WGBH instituted a procedure to ensure service center charges are reviewed annually and the reviews are documented. WGBH reported that otherwise their procedures are adequate; however, a new managerial position in the Accounting Department was created to ensure compliance with federal administrative requirements.

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

We are providing a copy of this memorandum to Division Directors and a Program Director in Education & Human Resources (EHR) and the Directors of Division of Financial Management (DFM) and the Division of Grants and Agreements (DGA). 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 Mayer Hoffman McCann P.C '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 Mayer Hoffman McCann P.C. and OIG management to discuss audit progress, findings, and recommendations;
- Reviewed the audit report, prepared by Mayer Hoffman McCann P.C., to ensure compliance with Government Auditing Standards and the NSF OIG Audit Guide; and
- Coordinated issuance of the audit report.

Mayer Hoffman McCann P.C. is responsible for the attached auditor's report on WGBH 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 the 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: Joan Ferrini-Mundy, Division Director, EHR/DRL
Valentine Kass, Program Director, EHR/DRL
Linda L. Slakey, Division Director, EHR/DUE
Karen Tiplady, Director, DGA
Shirl Ruffin, Director, DFM

WGBH EDUCATIONAL FOUNDATION

125 Western Avenue
Boston, MA 02134

National Science Foundation Award Numbers

ESI-9804615/ESI-0229297

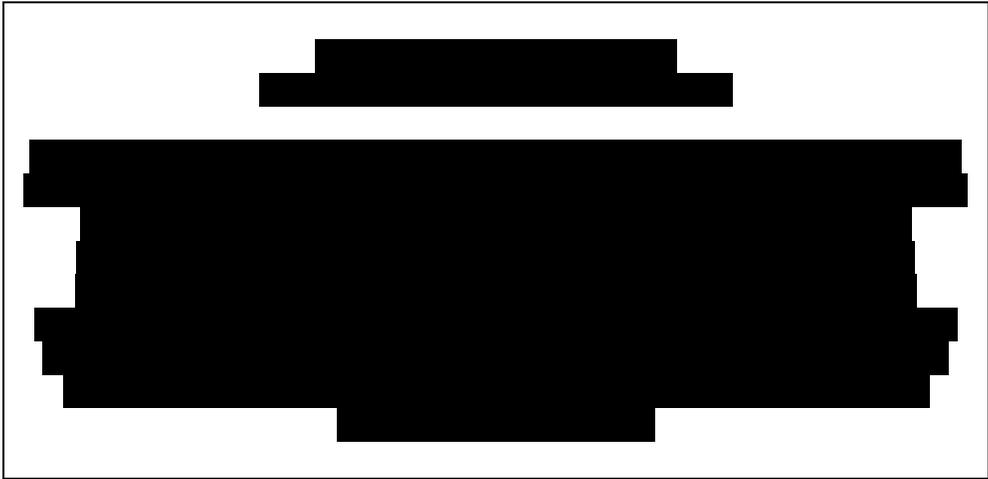
ESI-0000610

ESI-0104700

DUE-0202223

Financial Audit of Financial Schedules and
Independent Auditors' Reports
For the Period May 1, 1998 to December 31, 2005

MAYER HOFFMAN McCANN P.C.
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WGBH EDUCATIONAL FOUNDATION

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EXECUTIVE SUMMARY

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

BACKGROUND

We audited funds awarded by the National Science Foundation (NSF) to WGBH Educational Foundation (WGBH) under Award Nos. ESI-9804615/ESI-0229297, ESI-0000610, ESI-0104700, and DUE-0202223 for the period May 1, 1998 to December 31, 2005. WGBH, as a federal awardee, is required to follow the cost principles specified in the Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*, and Uniform 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*.

WGBH is a non-profit television production organization established in 1951 in Boston, Massachusetts. Since its inception, WGBH has expanded its operations to offer television and radio channels, a vibrant Web site, and a wide range of multimedia productions ranging from IMAX films to online teaching tools used in classrooms from coast to coast. WGBH's main mission is to enrich people's lives through programs and services that educate, inspire, and entertain, fostering citizenship and culture, the joy of learning, and the power of diverse perspectives.

Descriptions of the NSF awards we audited are as follows:

Awards ESI-9804615/ESI-0229297 – Volcano (original title)/Science NOW I (new title)

NSF awarded ESI-9804615 to WGBH for the period of May 1, 1998 to September 30, 2005 in the amount of \$1,753,450 for the original purpose of producing a 40 minute large format film about the science of volcanology. *Volcano: Lost City of Pompeii* was to tell the story of a diverse group of scientists working together, to understand better how the volcano named Vesuvius can reasonably be expected to behave – today and in the years to come. The range of scientific disciplines involved in the film included: geochemistry, geology, geophysics, remote sensing, plate tectonics, seismology, archaeology, and volcanology. However, the grantee was not able to raise external private funds to support the project. Therefore, in April 2003, NSF decided to stop the program and transfer the remaining funds to another award. As result, the purpose of the funds awarded under Award No. ESI-9804615 has been changed to support the effort of Award No. ESI-0229297 – NOVA: *Leading Edge*. Under Award No. ESI-0229297, WGBH is producing twelve quarterly television magazine format programs devoted to the public understanding of current scientific research. In early 2005, the program names of ESI-9804615 and ESI-0229297 were changed to *ScienceNow I* and *ScienceNow II*, respectively.

In April 2003, NSF granted WGBH permission to use the \$1,753,450 from ESI-9804615 for expenditures related to award ESI-0229297. NSF awarded WGBH Award No. ESI-0229297 for the period of June 1, 2003 through May 31, 2006 in the amount of \$2,031,956 with a required cost sharing contribution of \$203,196. The purpose of ESI-0229297 is to produce twelve quarterly PBS television magazine-format programs to educate high-school aged students in current scientific articles targeted to teens in science publications, and to produce a website to supplement the television and magazine articles. The programs will consider the significant areas of on-going research, present the scientists who are conducting the research, portray research as an on-going endeavor and discuss the social impact and ethical implications of major areas of research. Cumulative disbursements for Award Nos. ESI-9804615/ESI-0229297 reported to NSF through September 30, 2005 was \$2,390,657. WGBH claimed cost sharing expenditures of \$123,104.

Award ESI-0000610 – Elegant Universe

NSF awarded ESI-0000610 to WGBH for the period of September 1, 2000 to January 31, 2005 in the amount of \$838,163 for the purpose of producing a three-hour television series about the scientific quest for a unified set of laws governing the universe. The programs, to be broadcast as part of the ongoing NOVA service, will place special emphasis on the new development in physics known as string theory. The series, planned for broadcast in the fall of 2002, communicated critical scientific concepts through filmed experiments, carefully crafted explanations, and the latest in computer animation. Outreach material was developed for the public and for teachers. NOVA Online produced a rich companion Web site to allow viewers whose interest is piqued by the series to enhance their learning. Cumulative disbursements for award no. ESI-0000610 reported to NSF through March 31, 2005 was \$838,163. WGBH claimed all of the \$1,572,025 of cost sharing that it was required to provide for this award.

Award ESI-0104700 – Peep & the Big Wide World

NSF awarded ESI-0104700 to WGBH for the period of September 1, 2001 to August 31, 2007 in the amount of \$5,911,050 for the purpose of producing and disseminating two seasons of a daily, half-hour television science series and accompanying outreach for three to five year olds. The series will be carried nationally as part of Discovery Television's newly expanded Discovery kids. The project will model a developmentally-appropriate process of inquiry and exploration, nurture young children's innate curiosity, catalyze further hands-on exploration of the world around them, and motivate parents and caregivers to support and encourage these activities. The television series will be supported by a comprehensive "Anywhere Science" outreach component of the project. "Anywhere Science" is being designed to show parents and caregivers how important it is to support children's curiosity and how easy it is to engage in activities that help develop their science "habits of mind." The outreach campaign will be built around the new National Association for the Education of Young Children professional development standards and Head Start's science framework. Cumulative disbursements for award no. ESI-0104700 reported to NSF through December 31, 2005 was \$4,886,349. WGBH agreed to provide \$7,509,583 of cost sharing for this award and claimed cost sharing expenditures of \$5,020,296.

Award DUE-0202223 – Pathway to Technologies

NSF awarded DUE-0202223 to WGBH for the period of September 1, 2002 to August 31, 2006 in the amount of \$1,330,943 for the purpose of showcasing a diverse range of ground-breaking Advanced Technology Education (ATE) programs currently operating in community colleges across the country, through production and dissemination of a series of media-based products. A companion Web site is expanding on the topics addressed in the videos, providing additional information through text, interactive activities, and streamed clips from the series, and links to related sites. Dissemination activities feature widespread distribution of copies of the video series, the overview CD-ROM, and print

guides to facilitate use. In addition, through partnerships with the American Association of Community Colleges (AACC), the American School Counselor Associate (ASCA), and Jobs for the Future Inc., there is use of common messaging to place listings and articles about the series in the online community college guides published by Peterson's, USA Today, and U.S. News and World Report. The intention of the project is to bring community colleges to the forefront of consideration when students and those who support them are exploring educational and career options. Cumulative disbursements for award no. DUE-0202223 reported to NSF through December 31, 2005 were \$1,330,943.

AUDIT OBJECTIVES, SCOPE & METHODOLOGY

The objectives of our audit were to:

1. Determine whether the Schedules of Award Costs of WGBH (Schedules A-1 through A-4) present fairly, in all material respects, the costs claimed on the Federal Cash Transactions Reports (FCTR) – Federal Share of Net Disbursements and the costs claimed, including cost sharing, are in conformity with 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 WGBH's internal control over financial reporting that could have a direct and material effect on the Schedules of Award Costs and WGBH's ability to properly administer, account for, and monitor its NSF awards.

Our audit was conducted 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. Those standards and the NSF Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether amounts claimed to NSF as presented in the Schedules of Award Costs (Schedules A-1 through A-4) are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules of Award Costs. An audit also includes assessing the accounting principles used and the significant estimates made by WGBH, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

SUMMARY OF AUDIT RESULTS

An audit was performed on the costs claimed on the financial reports submitted to NSF by WGBH on NSF Award Nos. ESI-9804615/ESI-0229297, ESI-0000610, ESI-0104700, and DUE-0202223, as well as the cost sharing provided. These costs and the costs questioned as a result of our audit are shown in the Schedules of Award Costs (Schedules A-1 through A-4) and are summarized as follows:

<u>NSF Award No.</u>	<u>Award Budget</u>	<u>Claimed Costs</u>	<u>Questioned Costs</u>
ESI - 9804615 & ESI - 0229297	\$ 1,753,450	1,753,450	807,348
ESI - 0229297	2,031,956	637,207	-
ESI - 0000610	838,163	838,163	1,035
ESI - 0104700	5,911,050	4,886,349	-
DUE - 0202223	<u>1,330,943</u>	<u>1,330,943</u>	<u>-</u>
Total	<u>\$11,865,562</u>	<u>9,446,112</u>	<u>808,383</u>

<u>Cost Sharing</u>	<u>Award Budget</u>	<u>Claimed Costs</u>	<u>Questioned Costs</u>
ESI - 0229297	\$ 203,196	123,104	-
ESI - 0000610	1,572,025	1,572,025	-
ESI - 0104700	<u>7,509,583</u>	<u>5,020,296</u>	<u>-</u>
Total	<u>\$9,284,804</u>	<u>6,715,425</u>	<u>-</u>

Except for the \$808,383 (8.6 percent of approximately \$9.4 million in total claimed costs) in questioned encumbrances, unsupported transactions, and unallocable costs for salaries, wages, fringe benefits, travel, other direct costs and indirect costs claimed on three of the five awards audited and described below, we determined that the costs claimed by WGBH appear fairly stated and are allowable, allocable, and reasonable for the audited NSF awards. Specifically, we questioned \$775,939 in other direct costs on award nos. ESI-9804615/0229297 because WGBH claimed costs that it had not incurred on its September 30, 2004 Federal Cash Transactions Report for salaries, fringe benefits, rent and indirect costs, that it planned to incur in the following fiscal year. WGBH claimed these costs in advance of actually incurring the expenses in order to avoid losing these funds because the NSF funding appropriation was due to expire on September 30, 2004. We also questioned \$25,707 in salaries, wages, fringe benefits, other direct costs and indirect costs on award nos. ESI-9804615/0229297 that did not relate to or benefit the NSF awards and \$6,737 in travel, other direct costs and indirect costs on award nos. ESI-9804615/0229297 and ESI-0000610 that did not have adequate support documentation.

We noted one material and four reportable compliance and internal control deficiencies in WGBH's financial management practices that contributed to the questioned costs and could have a significant impact on WGBH's ability to record, process, summarize, and report financial data, and effectively and efficiently administer the funds in a manner that is consistent with NSF and other Federal laws and regulations. Specifically, WGBH did not comply with its own policies to only charge costs actually incurred to its NSF awards. WGBH claimed \$775,939 in future employment and rental contract costs that were necessary to complete the project but were not yet incurred on award nos. ESI-9804615/0229297, instead of accruing and claiming expenses for the appropriate time period as required by NSF and WGBH's accounting procedures. Based on WGBH's interpretation of NSF's instruction to claim expenses and encumbrances prior to the expiration of the NSF funding, WGBH claimed the future expenses to prevent losing NSF funding that was due to expire and be de-obligated by NSF, which would have reduced the total of the grants by the expired amount. As a result, WGBH claimed expenses on its FCTR that it had not incurred contrary to generally accepted accounting principles¹ and in violation of applicable Federal appropriation laws which prohibit charging costs on an expired appropriation. WGBH should adhere to its accounting policies and procedures to ensure claims made on its NSF awards are not overstated and ensure that expired appropriated funds are not expended in compliance with NSF and federal requirements.

WGBH also needs to improve its control processes to ensure that proper documentation is maintained to support all award charges and ensure that all charges are recorded accurately on all NSF awards. WGBH was not able to locate supporting documentation for three out of 651 transactions tested and erroneously charged NSF awards for an additional three transactions out of 159 transactions tested, which prevented WGBH from evidencing that all the costs claimed on the NSF awards were allocable, allowable, and reasonable. According to WGBH, some files were misfiled and there was an error in coding that was not caught during the monthly review process that caused these problems.

In addition, WGBH does not have policies and procedures that require that it document its review of service center charges to ensure that its actual costs are charged in compliance with NSF and Federal requirements. WGBH utilizes internal service centers to provide services such as telephone, copier, and information technology (IT) to all the other WGBH departments. Service centers track and bill each of the departments based on their usage for the month. Usage rates should be applied on a nondiscriminatory basis between federal awards and the other users of the service center. However, while WGBH does review its usage rates periodically, it does not document the process it uses to determine the rates to charge each user. This internal control deficiency was also noted in WGBH's 2004 Fiscal Year A-133 Single Audit Report. Although, there was no indication that the rates discriminated against NSF or federal awards, nor did we note any indication that the rates were designed to recover more than actual costs, without documentation to evidence WGBH's rates setting process, we could not ensure the reliability or reasonableness of the service charges assessed on NSF awards.

Finally, WGBH does not have adequate procedures to monitor and reconcile \$3.2 million of sub-award expenditures claimed in foreign currency and paid for in U.S. Dollars, which limits WGBH's ability to ensure that costs claimed on the award are accurate. The claimed sub-award costs in foreign currency represents 66 percent of total costs claimed on the NSF award.

¹ This action had no impact on WGBH's financial statements because the accounting entry recording the future expenses was reversed prior to fiscal year end.

Improving controls to prevent these deficiencies will help ensure that only allowable costs are charged to the NSF awards. If WGBH fails to address these compliance and internal control deficiencies, similar problems may occur on other existing and/or future NSF awards granted to WGBH.

To address these compliance and internal control deficiencies, we recommend that the Director of NSF's Division of Institution and Award Support (DIAS) ensure that WGBH (1a) return \$775,939 of costs claimed under NSF award nos. ESI-9804615/0229297, because WGBH incurred these costs after the expiration date of the appropriation when NSF no longer had access to these funds; (1b) strictly enforce and monitor adherence to Generally Accepted Accounting Principles and its policy to only charge incurred and not anticipated future expenses to its NSF awards; (1c) establish and implement proper policies and procedures that will prevent future claimed costs not yet incurred and claims charged against expired funds; (2) ensure all source documentation supporting transactions charged to the NSF awards are properly maintained and evidence that the costs claimed are in support of the NSF award; (3) expand controls to include a second review to better identify and correct mischarging errors and reinforce current policies and procedures to ensure that the Principal Investigators are properly reviewing costs charged to the NSF awards; (4) develop policies and procedures to ensure the reviews of the service center rates are documented; and (5) develop policies and procedures to periodically perform and document an overall reconciliation of the actual costs incurred by subawards in Canadian Dollars versus advances paid by WGBH in U.S. Dollars.

WGBH responded to the draft report on October 11, 2007. In its response, WGBH concurs with the factual accuracy of the financial data presented but disagrees with questioning the \$775,939 of encumbered costs that it claimed on its September 30, 2004 Federal Cash Transactions Report because those costs were claimed under the direction of NSF personnel and with the full knowledge and consent of NSF. WGBH does not believe that it should be forced to reimburse the Government for funds it was instructed by NSF to claim. WGBH provided documentation or an explanation for the inadequately supported costs that were questioned during the audit and for one of the three transactions questioned as not relating to the NSF awards. WGBH disagrees that there is a need to revise many of its existing policies and procedures in that they provide for proper review of charges made to NSF awards, including prevention of charging future expenses to an expired award, adequate record retention, and proper reconciliation of Canadian subcontract costs. WGBH indicated that it has instituted a procedure to ensure that the service center rates are reviewed annually and that the reviews are documented. WGBH also indicated that a new managerial position has been created in the Accounting Department to ensure compliance with federal administrative requirements.

Our findings and recommendations remained as stated because the encumbered costs were not incurred, the appropriation had expired, and the additional documentation provided did not evidence that the costs were incurred for the benefit of the NSF awards.

The findings in this report should not be closed until NSF has determined that all the recommendations have been adequately addressed and the corrective actions have been satisfactorily implemented. WGBH's response has been summarized within the report and is included in the Appendix attached to this report. Attachments A through J, included in WGBH's response contained email correspondence, proposed supporting documentation, accounting reports, NSF Grant Policy excerpts, and materials related to the corrective actions WGBH had taken with regard to policies and procedures newly instituted at WGBH to address internal control and compliance issues. Because the attachments A through J of WGBH's response are voluminous, they are contained in a separate volume of this report and are available upon request from the NSF OIG.

For a complete discussion of these findings, refer to the Independent Auditors' Report on Compliance and Internal Control over Financial Reporting Based on an Audit Performed in Accordance with Government Auditing Standards.

FOLLOW-UP OF PRIOR AUDIT FINDINGS

WGBH Educational Foundation has never been audited by NSF, but its programs have been audited as a major program in the OMB A-133 Single Audit Report. The A-133 Single Audit covering NSF awards during an audit for fiscal year-end August 31, 2004, identified two findings relating to NSF awards. One finding had to do with the purpose of travel not being adequately documented and airfare support not being retained. The second finding was for the lack of documentation supporting the review of service center charges. During the audit, we found that retaining and locating documentation for all claimed costs continues to be a challenge for WGBH. We also noted that WGBH was in the process of developing procedures to ensure the review of service center rates is properly documented.

EXIT CONFERENCE

An exit conference was held on August 21, 2006 at WGBH Educational Foundation located in Boston, Massachusetts. Preliminary findings and recommendations noted during the audit were discussed with those in attendance. WGBH was informed that the preliminary findings and recommendations were subject to final review by NSF and the report may include additional findings and recommendations and/or omit certain items discussed.

WGBH Educational Foundation

<u>Name</u>	<u>Title</u>
[REDACTED]	[REDACTED]

Mayer Hoffman McCann P.C. – Conrad Government Services Division

<u>Name</u>	<u>Title</u>
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

COMPLIANCE AND INTERNAL CONTROLS

National Science Foundation
Office of Inspector General
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

We have audited the costs claimed as presented in the Schedules of Award Costs (Schedules A-1 through A-4), which summarize the financial reports submitted by WGBH Educational Foundation (WGBH) to the National Science Foundation (NSF) and claimed cost sharing for the awards and periods listed below and have issued our report thereon dated August 21, 2006.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
ESI – 9804615/ESI–0229297	05/01/98 – 05/31/06	05/01/98 – 09/30/05
ESI – 0000610	09/01/00 – 01/31/05	09/01/00 – 01/31/05
ESI – 0104700	09/01/01 – 08/31/07	09/01/01 – 12/31/05
DUE–0202223	09/01/02 – 08/31/06	09/01/02 – 12/31/05

We conducted our audit of the Schedules of Award Costs as presented in Schedules A-1 through A-4 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 (2003 revision), 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 financial schedules are free of material misstatement.

COMPLIANCE WITH LAWS AND REGULATIONS AND OTHER MATTERS

Compliance with applicable federal laws, regulations, and NSF award terms and conditions is the responsibility of WGBH's management. As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatement, we performed tests of WGBH's compliance with certain provisions of applicable laws, regulations, and the NSF award terms and conditions, noncompliance with which could have a direct and material effect on the determination of the financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and the *National Science Foundation Audit Guide* which are described in Finding Nos. 1 through 5, below.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of WGBH is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments made 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 the National Science Foundation. Because of inherent limitations in any internal control, misstatements due to errors or fraud 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-4) for the period May 1, 1998 to December 31, 2005, we considered WGBH'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 the internal control over financial reporting. Accordingly, we do not express such an opinion.

However, we noted certain matters described below involving the 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 the WGBH's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules. Reportable conditions that we identified are described in Finding Nos. 1 through 5, 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 the 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 the reportable condition identified in Finding No. 1 to be a material weakness.

Finding No. 1 – Future Costs Charged to Expired Appropriation Funding

WGBH claimed costs that were not yet incurred to prevent losing \$775,939 of funding that was due to expire and be de-obligated which would have reduced the total grant by the expired amount. WGBH claimed on its September 30, 2004 FCTR \$775,939 in accrued costs related to award no. ESI-9804615, that it actually incurred after the closure date of the FCTR and the expiration of the NSF funding appropriation. Detail accounting records supporting the September 30, 2004 FCTR indicated that WGBH claimed \$1,033,786 of expenditures for grant awards ESI-9804615/ESI-0229297 (Volcano/Science NOW). Further review of the \$1,033,786 indicated that \$775,939 of this amount was for expenditures (salaries, benefits, rent, and indirect costs) to be incurred in WGBH's next fiscal year (2005) to produce necessary television segments for the NSF award. In addition, the grant award was funded from a 1998 congressional appropriation, which lapsed on September 30, 2004, and WGBH incurred costs after the closure date of that appropriation. In other words, WGBH claimed funds that it

needed to pay for future expenses, which was not in accordance with its own accounting practices, generally accepted accounting principles, appropriation accounting, OMB Circular A-110's definition of allowable outlays and expenditures, and the NSF Grant Policy Manual.

United States Code, Title 31 – Money and Finance, Subtitle II – The Budget Process, Chapter 15 – Appropriation Accounting, Subchapter IV – Closing Accounts, Section 1502 states in part:

(a) The balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability or to completed contracts properly made within that period of availability and obligated consistent with section 1501 of this title. However, the appropriation of fund is not available for expenditure for a period beyond the period otherwise authorized by law.

United States Code, Title 31 – Money and Finance, Subtitle II – The Budget Process, Chapter 15 – Appropriation Accounting, Subchapter IV – Closing Accounts, Section 1553 states in part:

(a) After the end of the period of availability for obligation of a fixed appropriation account and before the closing of that account under section 1552(a) of this title, the account shall retain its fiscal-year identity and remain available for recording, adjusting, and liquidating obligations properly chargeable to that account.

United States Code, Title 31 – Money and Finance, Subtitle II – The Budget Process, Chapter 15 – Appropriation Accounting, Subchapter IV – Closing Accounts, Section 1552 states in part:

(a) On September 30th of the 5th fiscal year after the period of availability for obligation of a fixed appropriation account ends, the account shall be closed and any remaining balance (whether obligated or unobligated) in the account shall be canceled and thereafter shall not be available for obligation or expenditure for any purpose.

OMB Circular A-110, Uniform Administrative Requirements for Grants and Other Agreements with Institution of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart A, Section 2 - Definitions state in pertinent part:

(a) Accrued expenditures means the charges incurred by the recipient during a given period requiring the provision of funds for: (1) goods and other tangible property **received**; (2) services **performed** by employees, contractors, subrecipients, and other payees; and, (3) other amounts becoming owed under programs for which no current services or performance is required.

National Science Foundation Grant Policy Manual, Section 420 states in pertinent part:

(d) Disbursements/Outlays/Expenditures are charges made to the project during a given period for:

1. goods and other tangible property **received**;
2. services **performed** by employees, subawardees, contractors, and other payees.

(h) Grantee Obligations are the amounts of orders placed, subawards issued, contracts awarded, services received and similar transactions during a given period that will require payment by the awardee.

Finally, it was not WGBH's normal accounting policy or procedure to claim expenditures that had not been incurred by the end of the FCTR reporting period.

Accordingly, WGBH can only claim costs to grants funded with currently available NSF appropriations and only for goods received or services that have been performed.

However, appropriation no. 0498, which partially funded grant award ESI-9804615 commenced in Fiscal Year (FY) 1998 and lapsed on September 30, 2004, as such, it had to be financially closed by NSF as mandated by 31 U.S.C §1552(a). Accordingly, on June 4, 2004 NSF's Division of Financial Management (DFM) sent an e-mail to WGBH stating in part that Grant monies that are funded by the Fiscal Year 1998 appropriation will lapse on September 30, 2004. "We will financially close (de-obligate all unobligated balances) for all grants with 1998 appropriations in late September. Please alert the appropriate principal investigator's department of this situation. It is acceptable to report encumbrances as cost on the FCTR when a grant is due to be financially closed. If possible, report final expenditures on the June 30, 2004 FCTR." As a result, WGBH claimed on its September 30, 2004 FCTR costs that it did not actually incur until after September 30, 2004 and claimed these costs against an appropriation that lapsed on that date.

As a result, WGBH overstated the accrued and paid expenses that it claimed on its September 30, 2004 FCTR by \$775,939. Since WGBH had not actually incurred these costs as of September 30, 2004 and the award funds were no longer available, WGBH claimed monies that NSF no longer had access to. By incurring expenses after September 30, 2004, WGBH violated applicable federal appropriation laws, which prohibit charging an appropriation after September 30th of the 5th fiscal year after its period of availability for obligation ends. WGBH also violated generally accepted accounting principles and its own accounting procedures which indicate that WGBH can only claim expenditures that it has incurred by the end of the reporting period on its FCTR. This action had no impact on WGBH's financial statements because the accounting entry recording the future expenses was reversed prior to fiscal year end.

Therefore, we have recalculated expenditures through September 30, 2004 and questioned the remaining balance of \$775,939 because the expenditures had not been incurred by WGBH and the appropriation to pay these expenditures after September 30, 2004 had expired. (Also see Schedule of Questioned Costs, Schedule B, Note B-4).

\$ 906,324	1998 congressional Appropriation (expiring 9/30/04)
(45,220)	Costs claimed and incurred on or before 6/30/04 FCTR
<u>(85,165)</u>	Recalculated actual costs incurred for the month of September 2004
\$ <u>775,939</u>	Total Questioned Costs

Recommendation No. 1

We recommend that NSF's Director of the Division of Institution and Award Support (DIAS) request WGBH to (a) return \$775,939 of costs claimed under NSF award nos. ESI-9804615/0229297, because WGBH incurred these costs after the expiration date of the appropriation when NSF no longer had access to these funds; (b) strictly enforce and monitor adherence to Generally Accepted Accounting Principles (GAAP) and its policy to only charge incurred and not anticipated future expenses to its NSF awards; and (c) establish and implement proper policies and procedures that will prevent future claims for costs not yet incurred and claims charged against expired funds.

Awardee Comments

WGBH disagreed with the questioned encumbrance amount of \$775,939 and maintains that the costs were claimed under the direction of NSF personnel with the full knowledge and consent of NSF. The awardee does not believe that it should be forced to reimburse the Government for money that NSF instructed them to claim.

See Appendix attached to this report for the response from WGBH.

Auditor's Response

Notwithstanding WGBH's response, WGBH claimed costs that it had not incurred on its September 30, 2004 Federal Cash Transaction Report for salary, fringe benefits, rent and indirect costs, but that it planned to incur in the following fiscal year. WGBH claimed these costs in advance of actually incurring the expenses in order to avoid losing these funds because the NSF funding appropriation was due to expire on September 30, 2004. The claiming of these costs clearly was not in accordance with WGBH's own accounting practices, generally accepted accounting principles, appropriation accounting, and OMB Circular A-110's definition of allowable outlays and expenditures and the NSF Grant Policy Manual. Accordingly, our Finding and Recommendation remains as previously stated. This report finding should not be closed until NSF determines that the grantee implemented acceptable corrective actions that address our recommendation.

Finding No. 2 - Transactions Lacking Supporting Documentation

During our tests of 651 expenditures representing 38.60% (\$3,641,554) of total costs charged to the NSF grants, we noted three transactions totaling \$6,737 that lacked sufficient source documentation to support that the expenditures were allocable and allowable to the NSF grants. Specifically, we noted the following:

<u>Exception Noted</u>	<u>Amount</u>
One transaction for travel expenses of \$301 was supported with a journal entry with no other source documentation to support the costs. Only a portion of the cost was charged to NSF. (Volcano/Science NOW award)	\$ 223
One travel transaction for \$2,721 was only supported with an employee travel expense report. Receipts for the costs were not provided to support the costs. Only a portion of the cost was charged to NSF. (Elegant Universe)	898
Other direct costs of \$6,373 were allocated to the grant; however, no source documentation was provided to support the costs or the allocation. Only a portion of the \$6,373 was charged to NSF. (Volcano/Science NOW)	4,722
Indirect costs associated with the items noted above	894
Total	\$ 6,737

OMB Circular A-110, Uniform Administrative Requirements for Grants and Other Agreements with Institution of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart C, Section 21, Sub-Section B, states in part:

(b) Recipients' financial management systems shall provide for the following:

- (1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with Section 52....
- (3) Effective control over and accountability of all funds, property and other assets...
- (7) Accounting records including cost accounting records that are supported by source documentation.

National Science Foundation, Grant General Conditions (GC-1), Article 23 states in part:

- (a) 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.

WGBH believes that the documentation was misfiled and would have been properly reviewed and approved prior to payment. However, without sufficient documentation, we were unable to determine if the expenses were allowable and allocable to the NSF grants. As such, we have questioned a total of \$6,737 of salary, other direct costs, and indirect costs. (Also see Schedule of Questioned Costs, Schedule B, Notes B-3, B-4 and B-5.) A similar finding related to WGBH's inability to locate and provide adequate support for travel costs was also noted in WGBH's prior A-133 report (FYE 8/31/04). Specifically, the report noted that the purpose of travel was not being adequately documented and airfare support was not being retained.

Recommendation No. 2

We recommend that NSF's Director of DIAS instruct WGBH to develop and implement written policies and procedures to ensure all source documentation supporting transactions charged to NSF awards are properly maintained and evidence that the costs claimed are in support of the NSF award.

Awardee Comments

WGBH has written policies and procedures regarding source documentation for supporting transactions. We have reviewed these documents, and respectfully assert that our existing policies and procedures are fully compliant with federal documentation requirements.

As noted in the draft audit report, you tested a total of 651 transactions, and were unable to find supporting documents for three transactions during the audit. Subsequent to the audit, WGBH was able to locate supporting documentation for two of these transactions.

With this additional documentation, we can offer the following explanation for each transaction:

- Transaction #1 -- We have the following supporting documentation for this transaction: a journal entry of Pcard (purchasing card) charges for \$301.00; a Pcard statement with a charge of \$301.00 for ground transportation; a charge slip for \$301.00; an invoice for \$301.00; individual (2) trips slips for \$149.10 and \$146.00.
- Transaction #2 -- This transaction for \$2,721 (NSF amount \$898) had only the expense report as part of the documentation. The expense report indicated that a transaction receipt (American

Express) was attached to the report. We suspect that during the process of converting our files to digital media, the receipt was lost or misfiled. However, we can assure you that the employee's supervisor and the Manager of Accounting Services approved the payment of the expenses in accordance with our Travel policy, which requires original receipts to be attached when an expense report is submitted. We believe that given the circumstances outlined above, the expense should be allowed.

- Transaction #3 -- We have the following supporting documentation for this transaction: a production insurance list for period 7/01/04 through 9/30/04 (showing dates of production, estimated production costs, insured costs, rate, total per production); a journal entry showing charge of \$6,373.00 to NOVA *scienceNOW*; an accounts payable payment request and invoice that covered this expense.

The overhead of \$894 is a function of applying the federally approved rates to the direct expenses in the transactions noted above.

We respectfully dispute the recommendation in the draft audit report, as we believe that these three transactions represent exceptional circumstances and our current record retention policies and procedures are adequate and in accordance with applicable requirements.

Auditor's Response

We reviewed the additional documentation provided and have the following comments:

- Transaction 1 – Although supporting documentation was provided, the purpose of the travel was not adequately documented to determine the relationship and benefit to the NSF grant being charged.
- Transaction 2 – No additional new documentation was provided from that originally provided during fieldwork.
- Transaction 3 – Although supporting documentation was provided, the allocation basis for the amount allocated to the NSF grant could not be determined from the information provided.

Accordingly, notwithstanding WGBH's response, the finding, recommendation and questioned costs remain unchanged. In addition, WGBH should reinforce current policies and procedures to ensure that supporting documentation is adequately denoted to 1) establish the relationship and benefit of the cost being charged to an award, and 2) provide a clear basis for any costs allocated to an award. This report finding should not be closed until NSF determines that the grantee implemented acceptable corrective actions that address our recommendation.

Finding No. 3 - Transactions Not Related to the Award

WGBH claimed costs not related to award nos. ESI-9804615/ESI-0229297, which led to an overstatement of \$25,707 in costs claimed on the awards. During our tests of 159 transactions amounting to \$852,893 (35.7% of the total costs charged to award nos. ESI-9804615/ESI-0229297), we noted three transactions that were not related to the project. WGBH agreed that these transactions were not related to the NSF project and that they were mistakenly charged to the grants. WGBH made journal entries during our audit field work to remove the costs, but those costs were already claimed on the FCTR. The following are the non-related transactions.

Exception Noted	Amount
One payroll transaction (pay period ending 3/25/05) was identified by the Coordinating Producer as not benefiting the NSF project. Only a portion of the cost was charged to NSF. (Volcano/Science NOW)	\$ 6,302
One payroll transaction (pay period ending 8/31/03) was identified by the Coordinating Producer as not benefiting the NSF project. Only a portion of the cost was charged to NSF. (Volcano/Science NOW)	8,403
Fees for musician work not related to the grant. (Volcano/Science NOW grant) Only a portion of the cost was charged to NSF.	4,601
Associated fringe benefits for the questioned salary costs identified above.	2,990
Associated indirect costs for the questioned costs identified above.	3,411
Total	\$ 25,707

OMB Circular A-122, Cost Principles for Non-Profit Organizations, Subpart A – Basic Considerations, Section 4 – Allocable Costs, states in part:

- (a) A cost is allocable to a particular cost objective, such as a grant, contract, project, service, other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:
 - (1) Is incurred specifically for the award.
 - (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received...
- (a) Any cost allocable to a particular award or other cost objective under these principles may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by the terms of the award.

The documentation supporting the transactions indicated that the costs should have benefited another non-NSF award; however, WGBH's Coordinating Producer believes that a keying error caused the costs to be charged to NSF. Controls at WGBH were designed for a review and approval of expenditures (payroll and non-payroll) prior to charging the costs to the NSF grants. In addition, controls were also designed to review monthly expenditure reports for accuracy and reasonableness. It appears that the controls did not operate as intended and consequently these transactions were not properly identified and removed during the review process. As a result, the failure to properly identify costs not related to the NSF projects has caused costs to be over stated and improper payments were made. (Also see Schedule of Questioned Costs, Schedule B, Notes B-1, B-2, B-4, and B-5)

Recommendation No. 3

We recommend that NSF's Director of DIAS instruct WGBH to expand controls to include a second review by the supervisory accountant to better identify and correct errors made to the award. In addition, WGBH should reinforce current policies and procedures to ensure Principal Investigators are properly reviewing costs charged to the award to ensure costs are related to and benefit the award.

Awardee Comments

WGBH respectfully disputes a portion of this finding. As such, we will respond in turn with respect to each of the three transactions:

- Transaction #1 -- a payroll transaction (pay period ending 3/25/07) in the amount of \$8,505, NSF portion \$6,302

WGBH does not dispute the finding with respect to this transaction, as the expense (while part of the NOVA project) should not have been charged to this grant.

- Transaction #2 -- a payroll transaction (pay period ending 8/31/03) in the amount of \$11,340, NSF portion \$8,403

WGBH respectfully disputes the finding with respect to this transaction. Although this transaction took place outside of the grant period, the expense was for research and development related to the ESI-9804615/ESI-0229297 grants and was incurred within ninety days of the start of the grant period. We believe that this expense should be allowed under § 602.2 of the Grant Policy Manual.

- Transaction #3 -- a fee for a musician in the amount of \$6,209, NSF portion \$4,601

WGBH does not dispute the finding with respect to this transaction, as the expense (while part of the NOVA project) should not have been charged to this grant.

As such, Finding No. 3 in the draft audit should be reduced from \$25,707 to \$14,048.

Auditor's Response

WGBH agreed with the questioning of transactions #1 and #3. With respect to transaction #2, WGBH did not provide any support to establish that the payroll charge in question was for research and development related to the NSF award charged. In addition, the revised NSF Grant Policy Manual provided with the response, which was used as the basis for WGBH's position, was effective as July 1, 2005 while the transaction in question occurred in August 2003. Accordingly, the finding, recommendation and questioned costs remain as previously stated. This report finding should not be closed until NSF determines that the grantee implemented an acceptable corrective action that addresses our recommendation.

Finding No. 4 – Service Center Charges Review Not Documented

WGBH did not document its review of service center charges in compliance with OMB Circular A-122, which limits WGBH's ability to affirm that service center costs charged to the NSF awards are accurate, allocable and reasonable. WGBH utilizes internal service centers to provide services such as telephone, copier, and information technology (IT) to all the other WGBH departments. Service centers track and bill each of the departments based on their usage for the month. As such, NSF grants are supposed to be charged their appropriate portion of telephone, copier, and IT charges. According to WGBH's officials, the rates used by the Service Centers in their calculation are reviewed annually by the finance department during the budget process to ensure their accuracy. However, WGBH does not document the review it performs to determine its service center usage rates. Therefore, there is no evidence that the rates were accurate and were being reviewed periodically. A similar finding was

noted by WGBH's external auditors in the prior A-133 audit report (FYE 8/31/04). There was no indication that the rates discriminated against NSF or federal awards, or that the rates were designed to recover more costs unallocable to the NSF awards. We nevertheless were unable to ensure the accuracy or reasonableness of the rates without documentation of WGBH's review process. During the audit, we noted that WGBH was developing procedures to document its process to review these rates and ensure they support the amounts charged to NSF awards.

OMB Circular A-122, Cost Principles for Non-Profit Organizations, Subpart A – Basic Considerations, Section 4 – Allocable Costs, states in part:

- (a) A cost is allocable to a particular cost objective, such as a grant, contract, project, service, other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:
 - (1) Is incurred specifically for the award.
 - (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received...
- (b) Any cost allocable to a particular award or other cost objective under these principles may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by the terms of the award.

OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment B – Selected Items of Costs, Section 46 – Specialized Service Facilities, states in part:

- (b) The cost of such services, when material, must be charged directly to the applicable awards based on actual usage of the services on the basis of a schedule of rates or established methodology that (i) does not discriminate against federally-supported activities of that non-profit organization, including usage by the non-profit organization for internal purposes, and (ii) is designed to recover only the aggregate costs of the services. The costs of each service shall consist normally of both its direct costs and its allocable share of all indirect costs. Rates shall be adjusted at least biennially, and shall take into consideration over/under applied costs of the previous period.

WGBH's policy is to review the rates during the annual budget process but there is no specific policy or procedure requiring the documentation of the review. Failure to properly document the review of rates charged by service centers limits WGBH's ability to ensure costs charged to NSF are equitable and based on actual costs.

Recommendation No. 4

We recommend that NSF's Directors of DIAS instruct WGBH to develop and implement policies and procedures to ensure service center rates are periodically reviewed and documented.

Awardee Comments

We do not dispute that WGBH was unable to provide the auditors with full documentation of our review. One of our four service centers did not adequately document the review that was performed on its rate setting procedures.

Recognizing this problem, WGBH Management has instituted a procedure to ensure that the rates charged by its service centers are reviewed annually and that each review is adequately documented. WGBH has created a new managerial position in the Accounting Department that is specifically responsible for compliance with federal administrative requirements. Annually, this compliance manager will meet with the service center departments to review and document the methodology behind the rate cards. This annual review will include a review of the prior year's recovery results and a review of the assumptions used in the current year's rate setting process. In addition, as part of the annual budget process, the service center departments will be required to submit projected costs and income associated with their areas of responsibility. We are confident that these changes will ensure that our service center rates are periodically reviewed and sufficiently documented.

Auditor's Response

WGBH's comments are responsive to the recommendation and indicate that it is currently in the process of developing the procedures as recommended. This report finding should not be closed until NSF determines that the grantee implemented an acceptable corrective action that addresses our recommendation.

Finding No. 5 – Inadequate Procedures to Monitor Exchange Rates for Subaward Costs

WGBH did not have adequate procedures to monitor and reconcile the \$3.2 million of expenditures it claimed on the NSF awards in foreign currency and paid for in American dollars, which limits WGBH's ability to ensure costs claimed on the NSF awards are accurate. For Award No. ESI-0104700, WGBH has a sub-contract with 9 Stories, located in Ontario, Canada which produces the animation piece of the Peep television series. Total expenditures billed by the sub-awardee (9-stories) to WGBH amounts to \$3,234,154, which is 66 percent of total costs claimed on NSF award no. ESI-0104700. Payments to 9 Stories are made in the form of two-week advances based on a predicted cash flow basis. On a weekly basis, 9 Stories will submit a cost report and trial balance to document the actual costs incurred in the prior week. On a weekly basis, the Coordinating Producer in charge of monitoring 9 Stories' work, reviews and tracks the costs in Canadian dollars. The main purpose of the monitoring is to ensure the actual costs align with the advances already made and to adjust future advances based on the progress of the project.

However, WGBH's accounting department does not have policies to perform and document an overall reconciliation between the total advances made in US dollars to the total costs incurred in Canadian dollars. Additional work was performed in the second phase of the audit to a) reconcile the costs between Canadian and US dollars, b) review the exchange rate, and c) review a sample of the costs charged by 9 Stories for allowability and allocability. Based on our review no costs were questioned; however, internal controls could be strengthened by implementing written policies and procedures to periodically perform and document an overall reconciliation of actual costs incurred by 9 Stories (Canadian dollars) and the costs paid by WGBH (advanced in U.S. dollars).

OMB Circular A-110, Uniform Administrative Requirements for Grants and Other Agreements with Institution of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart C, Section 21, Sub-Section B, states in part:

(b) Recipients' financial management systems shall provide for the following:

- (1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with Section 52....

- (3) Effective control over and accountability of all funds, property and other assets...
- (7) Accounting records including cost accounting records that are supported by source documentation.

WGBH did not have policies or procedures in place to perform such an overall reconciliation as noted above because the Controller has indicated that the Coordinating Producer monitors the subawards' activities and cash flow very closely. Management believes that since the Coordinating Producer works so closely with the subaward, any problems with the costs would be identified by the Producer. Failure to reconcile and review advances made in U.S. dollars versus costs incurred in Canadian dollars, limits WGBH's ability to ensure that subaward costs charged to the grant are accurate, valid, and for actual expenses. Without an overall reconciliation, WGBH can not be assured that advances were for the exact amount of costs incurred by 9 Stories.

Recommendation No. 5

We recommend that NSF's Directors of DIAS instruct WGBH to develop written policies and procedures to periodically perform and document an overall reconciliation of the actual costs incurred in foreign currency by subawards versus advances paid by WGBH in U.S. dollars. The reconciliation should allow for a comparison of the expenditures and advances in U.S. dollars.

Awardee Comments

We respectfully dispute this finding. WGBH has adequate procedures and processes in place to monitor and reconcile the expenditures to ensure that the costs for the project are accurate and valid and, therefore, that the costs claimed on the NSF awards are accurate and valid.

In this particular case, the budget from the sub-awardee was prepared in Canadian currency, and the sub-award advances were paid in Canadian currency. We specifically monitored and reconciled the sub-awardee's expenses in the same currency in order to eliminate exchange rate fluctuations as a variable. WGBH's books indicated that the advances paid were recognized in U.S. dollars at the exchange rate existing at the time of each payment. WGBH monitored expenses for the sub-award on a weekly basis. The sub-awardee submitted weekly cost reports and trial balances, which were reviewed by WGBH's Coordinating Producer/Business Director for completeness, accuracy, and expense validity. Each review also included a review of the cash flow schedule for possible adjustments to future advances. In addition, WGBH's Coordinating Producer made several visits to the sub-awardee's office to further ensure the accuracy and validity of the information being sent. This weekly reconciliation created no unresolved discrepancies.

WGBH's practice for all funded projects is that each project performs an overall reconciliation on a quarterly basis in U.S. dollars, prepare a quarterly estimate to complete report, and meet with staff from our Budget Office to discuss the project's progress. Each quarterly report contains a reconciliation of WGBH's overall expenditure in U.S. dollars. In the case of the Canadian sub-awardee, each payment request form submitted for processing included the Canadian currency amount to be paid, the conversion rate, and the U.S. Dollar equivalent.

We are confident that our policies and monitoring activities for sub-awardee advances far exceeds the requirements of OMB Circular A-110.

Auditor's Response

Notwithstanding WGBH's response, we continue to maintain that internal controls could be strengthened by implementing written policies and procedures to periodically perform and document an overall reconciliation of actual costs incurred in Canadian dollars and the costs paid by WGBH in U.S. dollars. This report finding should not be closed until NSF determines that the grantee implemented an acceptable corrective action that addresses our recommendation.

We considered these internal control deficiencies in forming our opinion of whether Schedules A-1 through A-4 are presented fairly in all material respects, in conformity with National Science Foundation policies and procedures, and determined that this report does not affect our report dated August 21, 2006 on the financial schedules.

This report is intended solely for the information and use of WGBH's management, the National Science Foundation, WGBH's Federal cognizant 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 those specified parties.

Mayer Hoffman McCann P.C.
Conrad Government Services Division

Irvine, California
August 21, 2006

**FINANCIAL SCHEDULES AND
SUPPLEMENTAL INFORMATION**

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 WGBH Educational Foundation (WGBH) to the National Science Foundation (NSF) on the Federal Cash Transactions Reports (FCTR) for the NSF awards listed below. In addition, we have also audited the amount of cost sharing claimed on Award Nos. ESI-0000610 and ESI-0104700. The FCTRs, as presented in the *Schedules of Award Costs* (Schedules A-1 through A-4), are the responsibility of WGBH's management. Our responsibility is to express an opinion on the Schedules of Award Costs (Schedules A-1 through A-4) based on our audit.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
ESI – 9804615/ESI – 0229297	05/01/98 – 05/31/06	05/01/98 – 09/30/05
ESI – 0000610	09/01/00 – 01/31/05	09/01/00 – 01/31/05
ESI – 0104700	09/01/01 – 08/31/07	09/01/01 – 12/31/05
DUE–0202223	09/01/02 – 08/31/06	09/01/02 – 12/31/05

Except as discussed in the following paragraph, 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 (2003 Revision), and the *National Science Foundation Audit Guide (September 1996)* as applicable. Those 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 NSF as presented in the Schedules of Award Costs (Schedules A-1 through A-4) 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-4). An audit also includes assessing the accounting principles used and the significant estimates made by WGBH, as well as evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The Schedule of Questioned Costs (Schedule B) explains the \$808,383 (8.56%) of total claimed NSF-funded costs that we questioned as to their allowability under the award agreements. These questioned costs include unallowable expired award amounts and unsupported costs claimed for salaries, wages, fringe benefits, travel, other direct costs, and the associated unallowable indirect expenses. Questioned costs are (1) costs for which there is documentation that the recorded costs were expended in violation of laws, regulations or specific conditions of the award, (2) costs that require additional support by the awardee, or (3) costs that require interpretation of allowability by the National Science Foundation – Division of Institution and Award Support (DIAS). The National Science

Foundation will make the final determination regarding whether such costs are allowable. The ultimate outcome of this determination cannot presently be determined. Accordingly, no adjustment has been made to costs claimed for any potential disallowance by NSF.

In our opinion, except for the \$808,383 of questioned NSF funded costs, the Schedules of Award Costs (Schedules A-1 through A-4) referred to above present fairly, in all material respects, the costs claimed on the Federal Cash Transactions Reports, for the period May 1, 1998 to December 31, 2005 in conformity with the *National Science Foundation Audit Guide*, *NSF Grant Policy Manual*, terms and conditions of the NSF award and on the basis of accounting described in the Notes to the Financial Schedules, which is a comprehensive basis of accounting other than generally accepted accounting principles. The Schedules are not intended to be a complete presentation of financial position in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, and provisions of the *National Science Foundation Audit Guide*, we have also issued our report dated August 21, 2006 on our tests of WGBH's compliance with certain provisions of laws, regulations, and NSF award terms and conditions and our consideration of WGBH's internal control over financial reporting. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Mayer Hoffman McCann P.C.
Conrad Government Services Division

Irvine, California
August 21, 2006

WGBH EDUCATIONAL FOUNDATION

National Science Foundation Award Numbers ESI-9804615/ESI-0229297

Schedule of Award Costs

May 1, 1998 - September 30, 2005

Interim

<u>Cost Category</u>	ESI-9804615	ESI-0229297	<u>Total Budget (B)</u>	<u>Claimed Costs (A)</u>	<u>Questioned Costs</u>	<u>Schedule Reference</u>
	<u>Approved Budget</u>	<u>Approved Budget</u>				
Direct costs:						
Salaries and wages					14,705	B-1
Fringe benefits					2,990	B-2
Equipment					-	
Travel					223	B-3
Participant support					-	
Other direct costs:						
Material and supplies					-	
Publication					-	
Consulting					-	
Subaward					-	
Other direct costs					<u>785,262</u>	B-4
Total direct costs	1,521,621	1,762,320	3,283,941	2,073,288	803,180	
Indirect costs	<u>231,829</u>	<u>269,636</u>	<u>501,465</u>	<u>317,369</u>	<u>4,168</u>	B-5
Total	<u>\$ 1,753,450</u>	<u>2,031,956</u>	<u>3,785,406</u>	<u>2,390,657</u>	<u>807,348</u>	
Cost sharing	<u>\$ -</u>	<u>203,196</u>	<u>203,196</u>	<u>123,104</u>	<u>-</u>	

(A) - The total claimed costs agrees with the total expenditures reported by WGBH Educational Foundation on the Federal Cash Transaction Report - Federal Share of Net Disbursements as of the quarter ended September 30, 2005. Claimed costs reported above are taken from the awardee's books of accounts.

(B) - In April 2003, NSF authorized WGBH to use remaining funds from ESI-9804615 for expenditures related to NSF award ESI-0229297. As such, WGBH maintained all costs related to both projects in one project code. As of 09/30/05, a total of \$1,753,450 was claimed on the ESI-9804615 award and \$637,207 was claimed on the ESI-0229297 award.

The accompanying Notes to Financial Schedules are in integral part of this schedule.

WGBH EDUCATIONAL FOUNDATION
 National Science Foundation Award Number ESI-0000610
 Schedule of Award Costs
 September 1, 2000 - January 31, 2005
 Final

<u>Cost Category</u>	<u>Approved Budget</u>	<u>Claimed Costs (A)</u>	<u>Questioned Costs</u>	<u>Schedule Reference</u>
Direct costs:				
Salaries and wages			-	
Fringe benefits			-	
Equipment			-	
Travel			898	B-3
Participant support			-	
Other direct costs:				
Material and supplies			-	
Publication			-	
Consulting			-	
Subaward			-	
Other direct costs			-	
Total direct costs	726,942	778,067	898	
Indirect costs	<u>111,221</u>	<u>60,096</u>	<u>137</u>	B-5
Total	<u>\$ 838,163</u>	<u>838,163</u>	<u>1,035</u>	
Cost sharing	<u>\$ 1,572,025</u>	<u>1,572,025</u>	<u>-</u>	

(A) - The total claimed costs agrees with the total expenditures reported by WGBH Educational Foundation on the Federal Cash Transaction Report - Federal Share of Net Disbursements as of the quarter ended March 31, 2005. Claimed costs reported above are taken from the awardee's books of accounts.

The accompanying Notes to Financial Schedules are in integral part of this schedule.

WGBH EDUCATIONAL FOUNDATION
 National Science Foundation Award Number ESI-0104700
 Schedule of Award Costs
 September 1, 2001 - December 31, 2005
 Interim

<u>Cost Category</u>	<u>Approved Budget</u>	<u>Claimed Costs (A)</u>	<u>Questioned Costs</u>	<u>Schedule Reference</u>
Direct costs:				
Salaries and wages			-	
Fringe benefits			-	
Equipment			-	
Travel			-	
Participant support			-	
Other direct costs:				
Material and supplies			-	
Publication			-	
Consulting			-	
Subaward			-	
Other direct costs			-	
Total direct costs	5,666,457	4,677,612	-	
Indirect costs	<u>244,593</u>	<u>208,737</u>	-	
Total	<u>\$ 5,911,050</u>	<u>4,886,349</u>	-	
Cost sharing	<u>\$ 7,509,583</u>	<u>5,020,296</u>	-	

(A) - The total claimed costs agrees with the total expenditures reported by WGBH Educational Foundation on the Federal Cash Transaction Report - Federal Share of Net Disbursements as of the quarter ended December 31, 2005. Claimed costs reported above are taken from the awardee's books of accounts.

The accompanying Notes to Financial Schedules are in integral part of this schedule.

WGBH EDUCATIONAL FOUNDATION
 National Science Foundation Award Number DUE-0202223
 Schedule of Award Costs
 September 1, 2002 - December 31, 2005
 Interim

<u>Cost Category</u>	<u>Approved Budget</u>	<u>Claimed Costs (A)</u>	<u>Questioned Costs</u>	<u>Schedule Reference</u>
Direct costs:				
Salaries and wages			-	
Fringe benefits			-	
Equipment			-	
Travel			-	
Participant support			-	
Other direct costs:				
Material and supplies			-	
Publication			-	
Consulting			-	
Subaward			-	
Other direct costs			-	
Total direct costs	1,154,330	1,155,878	-	
Indirect costs	<u>176,613</u>	<u>175,065</u>	<u>-</u>	
Total	<u>\$ 1,330,943</u>	<u>1,330,943</u>	<u>-</u>	
Cost sharing	<u>\$ -</u>	<u>-</u>	<u>-</u>	

(A) - The total claimed costs agrees with the total expenditures reported by WGBH Educational Foundation on the Federal Cash Transaction Report - Federal Share of Net Disbursements as of the quarter ended December 31, 2005. Claimed costs reported above are taken from the awardee's books of accounts.

The accompanying Notes to Financial Schedules are in integral part of this schedule.

WGBH EDUCATIONAL FOUNDATION (WGBH)

National Science Foundation Award Numbers
 ESI-9804615/ESI-0229297, ESI-0000610, ESI-0104700, DUE-0202223
 Schedule of Questioned Costs
 From May 1, 1998 to December 31, 2005

Note B-1 **Salaries & Wages**

During the review of Salary & Wages for the ESI-9804615/ESI-0229297 award, we noted two transactions that were identified by WGBH as not relating or benefiting the NSF award. These transactions were specifically identified by WGBH as not benefiting the NSF project, but mistakenly charged to the grants. WGBH made journal entries during field work to remove the costs, but those costs were already claimed. (See Finding and Recommendation No. 3 in the *Report on Compliance and Other Matters and Internal Controls over Financial Reporting*.)

<u>Date</u>	<u>Activity</u>	<u>Account</u>	<u>Description</u>	<u>Amount</u>
03/25/05	LEAD1COR	806005 7010101-000	Expense accrual	\$ 8,505
08/31/03	LEADEDG1	806005 7010101-000	Expense accrual	<u>11,340</u>
			Total	\$ 19,845
			Percentage Charged to NSF	<u>74.10%</u>
			Questioned Costs	<u>\$ 14,705</u>

Note B-2 **Fringe Benefits**

As a result of questioned salary & wage expense (Note B-1), we have also questioned the associated fringe benefits for those employees as follows:

Total questioned salary costs (Note B-1)	\$ 14,705
NSF approved benefit rate	<u>20.33%</u>
Questioned Fringe Benefit Costs	<u>\$ 2,990</u>

WGBH EDUCATIONAL FOUNDATION (WGBH)
 National Science Foundation Award Numbers
 ESI-9804615/ESI-0229297, ESI-0000610, ESI-0104700, DUE-0202223
 Schedule of Questioned Costs
 From May 1, 1998 to December 31, 2005

(Continued)

Note B-3

Travel Costs

During the review of travel costs, two transactions were not properly supported with adequate documentation to determine if the costs were allowable and related to the grant award. The following summarizes the transactions noted during the review. (See Finding and Recommendation No. 2 in the *Report on Compliance and Other Matters and Internal Controls over Financial Reporting*.)

ESI-9804615/ESI-0229297:

<u>Date</u>	<u>Activity</u>	<u>Account Category</u>	<u>Account</u>	<u>Amount</u>
		H3400		
06/30/05	LEAD1COR	Research/Scouting	806005 730216	\$ 301
			Percentage Charged to NSF	74.10%
			Questioned Costs	\$ 223

- Only documentation supporting the transaction was a copy of the journal entry recording the transaction.

ESI-0000610:

<u>Date</u>	<u>Activity</u>	<u>Account Category</u>	<u>Account</u>	<u>Amount</u>
06/14/02	NOVRPHYS	HJ100 Shoot T&L-Air	806000 730100	\$ 2,721
			Percentage Charged to NSF	33.00%
			Questioned Costs	\$ 898

- An employee expense report was provided as support for the transactions; however, actual receipts supporting the expense were not provided.

WGBH EDUCATIONAL FOUNDATION (WGBH)
 National Science Foundation Award Numbers
 ESI-9804615/ESI-0229297, ESI-0000610, ESI-0104700, DUE-0202223
 Schedule of Questioned Costs
 From May 1, 1998 to December 31, 2005

(Continued)

Note B-4 **Other Direct Costs - ESI-9804615/ESI-0229297**

<u>Amount</u>	<u>Description</u>
\$ 4,722	No supporting documentation
4,601	Not related to the grant
<u>775,939</u>	Expired appropriation
<u>\$ 785,262</u>	Total Questioned Other Direct Costs

No Supporting Documentation:

<u>Date</u>	<u>Activity</u>	<u>Account Category</u>	<u>Account</u>	<u>Amount</u>
11/30/04	LEAD1COR	C8000 Insurance	806005 720823	\$ <u>6,373</u>
			Percentage Charged to NSF	<u>74.10%</u>
			Questioned Costs	\$ <u>4,722</u>

- Amount was allocated insurance premiums; however there was no source documentation provided to support the total insurance premium or the allocation. Without adequate support, we were unable to determine if the costs were allowable and related to the grant award.

Not Related to the Grant:

<u>Date</u>	<u>Activity</u>	<u>Account Category</u>	<u>Account</u>	<u>Amount</u>
05/20/05	LEAD1COR	EG151 Musicians	806005 701016	\$ <u>6,209</u>
			Percentage Charged to NSF	<u>74.10%</u>
			Questioned Costs	\$ <u>4,601</u>

- These transactions were specifically identified by WGBH as not benefiting the NSF project, but mistakenly charged to the grants. WGBH made journal entries during field work to remove the costs, but those costs were already claimed.

Expired Appropriations

On the September 30, 2004 FCTR, WGBH claimed quarterly costs of \$1,033,786, of which were costs incurred for the month of September 2004 and accrued costs for expenditures to be incurred in the months following September 2004. Details of the \$1,033,786 indicated the costs were employment and rental contracts necessary to complete the project. However, the amount claimed was for the full amount of each contract and to accrue expenditures for the extended time period was not WGBH's normal accounting procedure. In addition, \$906,324 of the appropriation funding the

WGBH EDUCATIONAL FOUNDATION (WGBH)
 National Science Foundation Award Numbers
 ESI-9804615/ESI-0229297, ESI-0000610, ESI-0104700, DUE-0202223
 Schedule of Questioned Costs
 From May 1, 1998 to December 31, 2005

(Continued)

Note B-5 **Indirect Costs**

As a result of costs questioned in Notes B-1, B-2, B-3 and B-4, we have also questioned indirect cost claimed by WGBH as follows:

	Questioned Costs
	<u>ESI-9804615/ESI-0229297</u>
Note B-1 – Questioned Salary & Wage	\$ 14,705
Note B-2 – Questioned Fringe Benefits	2,990
Note B-3 – Questioned Travel Costs	223
Note B-4 – Questioned Other Direct Costs (a)	<u>9,323</u>
Total Questioned Direct Costs	\$ 27,241
WGBH's Indirect Cost rate	██████████
Questioned Indirect Costs	<u>\$ 4,168</u>

(a) – Only a portion of questioned costs in Note B-4 is subjected to this calculation. The remaining questioned costs, \$775,939, identified in Note B-4 already took into consideration the indirect cost factor.

	Questioned Costs
	<u>ESI-0000610</u>
Note B-3 – Questioned Travel Costs	\$ 898
WGBH's Indirect Cost rate	██████████
Questioned Indirect Costs	<u>\$ 137</u>

WGBH EDUCATIONAL FOUNDATION
 Summary Schedules of Awards Audited and Audit Results
 From May 1, 1998 to December 31, 2005

Summary of Awards Audited

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
ESI – 9804615/ESI – 0229297	05/01/98 – 05/31/06	05/01/98 – 09/30/05
ESI – 0000610	09/01/00 – 01/31/05	09/01/00 – 01/31/05
ESI – 0104700	09/01/01 – 08/31/07	09/01/01 – 12/31/05
DUE-0202223	09/01/02 – 08/31/06	09/01/02 – 12/31/05

<u>Award Number</u>	<u>Type of Award</u>	<u>Award Description</u>
ESI – 9804615 & ESI - 0229297	Grant	The original purpose of the award was to produce a 40 minute large format film about the science of volcanology. In 2003, the project was changed to produce quarterly television magazine format programs related to scientific research.
ESI – 0000610	Grant	Production of a three-hour television series about the quest for a unified set of laws governing the universe.
ESI – 0104700	Grant	Production of a daily half-hour television series about science geared towards three to five year old children.
DUE – 0202223	Grant	This project is showcasing a diverse range of ground-breaking Advanced Technology Education (ATE) programs currently operating in community colleges across the country, through production and dissemination of a series of media-based products.

Summary of Questioned and Unsupported Costs by Award

<u>Award Number</u>	<u>Award Budget</u>	<u>Claimed Costs</u>	<u>Questioned Costs</u>	<u>Unsupported Costs</u>
ESI – 9804615	\$1,753,450	1,753,450	807,348	5,702
ESI – 0229297	2,031,956	637,207	-	-
ESI – 0000610	838,163	838,163	1,035	1,035
ESI – 0104700	5,911,050	4,886,349	-	-
DUE-0202223	1,330,943	1,330,943	-	-
Totals	<u>\$11,865,562</u>	<u>9,446,112</u>	<u>808,383</u>	<u>6,737</u>

WGBH EDUCATIONAL FOUNDATION
 Summary Schedules of Awards Audited and Audit Results
 From May 1, 1998 to December 31, 2005

(Continued)

Summary of Questioned Cost by Explanation

Category	Questioned Costs	Internal Controls	Non-Compliance
Salaries and Wages	\$ 14,705	Yes	Yes
Fringe Benefits	2,990	Yes	Yes
Equipment	-	No	No
Travel	1,121	Yes	Yes
Participant Support	-	No	No
Material & Supplies	-	No	No
Publication	-	No	No
Consulting	-	No	No
Subcontractors	-	No	No
Other Direct Costs	785,262	Yes	Yes
Indirect Costs	4,305	Yes	Yes
Cost Sharing	-	No	No

Summary of Non-Compliance and Internal Control Findings

Findings	Non-Compliance or Internal Control	Material or Reportable
Future Costs Charged to Expired Appropriation Funding	Non-Compliance and Internal Control	Material
Transactions Lacking Supporting Documentation	Non-Compliance and Internal Control	Reportable
Transactions Not Related to the Award	Non-Compliance and Internal Control	Reportable
Service Center Charges Review Not Documented	Non-Compliance and Internal Control	Reportable
Inadequate Procedures to Monitor Exchange Rates for Subaward Costs	Non-Compliance and Internal Control	Reportable

WGBH EDUCATIONAL FOUNDATION (WGBH)

Notes to Financial Schedules

From May 1, 1998 to December 31, 2005

Note 1: Summary of Significant Accounting Policies

Accounting Basis

The accompanying financial schedules have been prepared in conformity with National Science Foundation (NSF) instructions, which are based on a comprehensive basis of accounting other than generally accepted accounting principles. Schedules A-1 through A-4 have been prepared by WGBH from the Federal Cash Transactions Reports submitted to NSF and WGBH's accounting records. 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 Schedules of Award Costs include the cost of equipment purchased during the period rather than a provision for depreciation.

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

C. Inventory

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

d. Income Taxes

WGBH is a non-profit organization exempt from federal income taxes under Section 501(c) (3) of the United States Internal Revenue Code.

The departure from generally accepted accounting principles allows NSF to properly monitor and track actual expenditures incurred by the Grantee. The departure does not constitute a material weakness in internal controls.

WGBH EDUCATIONAL FOUNDATION (WGBH)

Notes to Financial Schedules
From May 1, 1998 to December 31, 2005

(Continued)

Note 2: NSF Cost Sharing and Matching

The following represents the cost share requirement and actual cost share as of December 31, 2005:

<u>Award Number</u>	<u>Cost Share Required</u>	<u>Actual Cost Share Claimed</u>	<u>Over/(Under)</u>
ESI – 0000610	\$ 1,572,025	\$ 1,572,025	\$ -
ESI – 0229297	203,196	123,104	(80,092)
ESI – 0104700	7,509,583	5,020,296	(2,489,287)

Grant Nos. ESI – 0229297 and ESI – 0104700 are still in progress and WGBH has until May 31, 2006 and August 31, 2007, respectively, to meet the remaining obligated cost share requirement.

Note 3: Indirect Cost Rates

<u>Award Number</u>	<u>Indirect Cost Rate</u>	<u>Base</u>
ESI – 9804615/ ESI-0229297	██████████	Modified Total Direct Costs (Total direct salaries, fringe benefits, materials, supplies, services, travel, and subawards (up to the first ██████████))
ESI – 0000610		
ESI – 0104700		
DUE – 0202223		

APPENDIX - AUDITEE'S COMMENTS TO REPORT

WGBH
One Guest Street
Boston
Massachusetts
02135

617 300 2000
wgbh.org

October 11, 2007

VIA OVERNIGHT MAIL

 CPA, CFE
Mayer Hoffman McCann P.C.
2301 Dupont Drive, Suite 200
Irvine, California 92612

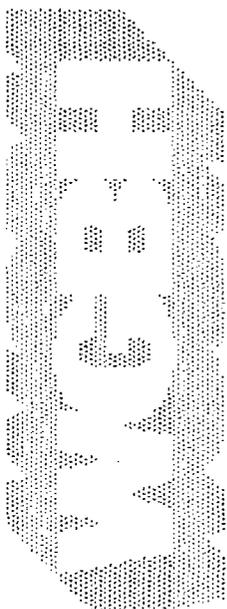
Comments by WGBH Educational Foundation
in Response to August 20, 2007 Draft Audit Report

Dear Mr. Rolwes:

WGBH Educational Foundation ("WGBH") respectfully submits comments in response to the draft audit report covering National Science Foundation ("NSF") grant awards Nos. ESI-9804615/ESI-0229297, ESI-0000610, ESI-0104700, and DUE-0202223 that you sent to us on August 20, 2007 (hereinafter referred to as the "draft audit report"). We appreciate the opportunity to provide our comments on the draft audit report, and request your careful consideration.

You have asked us to state specifically whether we concur with the following: (1) the factual accuracy of the data presented; (2) the conditions included in the *Report on Compliance and Other Matters on Internal Control over Financial Reporting Based on an Audit Performed in Accordance with Government Auditing Standards* (hereinafter referred to as the "*Report on Compliance and Internal Controls*"); and (3) the questioned costs identified in Schedule B of the draft audit report. As explained below, although we believe the financial data on which you have based your draft report are generally accurate, there are important respects in which we believe that the *Report on Compliance and Internal Controls* fails to present a complete view of the relevant facts and reaches conclusions about WGBH's incurrence of costs and about our compliance systems that are unwarranted by the facts.

As requested, we respond in turn to each of the findings and recommendations set forth in the *Report on Compliance and Internal Controls*. We also express our opinion concerning the factual accuracy of the data presented and the questioned costs identified in Schedule B in each of our responses below.



A. Finding and Recommendation No. 1 -- Future Costs Charged to Expired Appropriation Funding

1. Summary of the Draft Audit Report

Finding No. 1 of the draft audit report alleges that WGBH claimed costs that it had not yet incurred to prevent losing \$775,939 of grant funding under an appropriation that partially funded grant No. ESI-9804615 and that was due to expire and be deobligated. More specifically, the draft audit report states that WGBH claimed, on its September 30, 2004 Federal Cash Transaction Report ("FCTR"), \$775,939 in salary, benefits, rent, and indirect costs to be incurred in fiscal year 2005 to produce necessary television segments for NSF award No. ESI-9804615/ESI-0229297.

According to the draft audit report, our decision to claim these funds was "[b]ased on [our] interpretation of NSF's instruction to claim expenses and encumbrances prior to the expiration of the grant."

As a result of this finding, the draft audit report recommends that we return \$775,939 of costs claimed on an expired appropriation and that we take the following preventative measures: (a) strictly enforce and monitor general adherence to Generally Accepted Accounting Principles and our policy to charge only incurred costs and not anticipated future expenses to our NSF awards and (b) establish and implement proper policies and procedures that will prevent future claims for costs not yet incurred and claims charged against expired funds.

2. WGBH's Response

We respectfully dispute this finding and the corresponding recommendations. As explained below, we were given specific instructions by NSF about how to treat the \$775,939 of grant money that was set to expire, and we followed those instructions in good faith. The draft audit report appears to suggest that our actions were based on an erroneous "interpretation of NSF instructions," but, as discussed below, we followed the only reasonable interpretation of those instructions.

In order to fully appreciate the circumstances at issue, it is necessary to understand the unusual history of the grant in question. On May 18, 1998, NSF awarded grant No. ESI-9804615 to WGBH for the production of "Volcano: Lost City of Pompeii" (hereafter the "Pompeii Project"). On April 3, 2003, after we were unable to raise sufficient external funds to support the Pompeii Project, NSF decided to terminate support for the Pompeii Project and transfer the remaining funds under Grant No. ESI-9804615 to another WGBH project, entitled "NOVA: Leading Edge," which then was supported by Grant No. ESI-0229297. Under the NOVA project and the ESI-0229297 grant, WGBH was to produce a quarterly television program devoted to the public understanding of current scientific research, a new and important initiative of NSF.

From April 3, 2003 to June 4, 2004, WGBH operated under the assumption that the remaining funds from the ESI-9804615 grant had been transferred into the newer ESI-0229297 grant, leaving WGBH with the task of managing a single grant. *See* Attachment A at p. 1, ¶ 4 (“In addition...”). As such, we were not cognizant of the impending expiration of the ESI-9804615 grant funds on September 30, 2004, until we received an email from Dorothy Battle, NSF Accountant, on June 4, 2004. That email informed us for the first time that the ESI-9804615 grant funds were considered separate from the ESI-0229297 grant, and that a portion of those funds were set to expire in 118 days. In her June 4, 2004 email, Ms. Battle offered the following warning:

Grant monies that are funded by Fiscal Year 1998 appropriations will lapse on September 30, 2004. We will financially close (deobligate all unobligated balances) all grants with 1998 appropriations in late September.

The following grant to your organization is funded by FY 1998 appropriations:

[Grant No. ESI-]9804615 \$906,324.45

Please alert the appropriate principle [sic] investigator's department of this situation.

See Attachment B. Significantly, however, the email from Ms. Battle further explained that not all costs reported on the FCTR and charged to the grant had to be actually incurred before the September 30, 2004 date: “It is acceptable to report encumbrances as cost on the FCTR when a grant is due to be financially closed.” *Id.*

Once we received Ms. Battle's June 4, 2004 email, we immediately became concerned that we would not be able to spend the \$906,324.45 in grant funds in less than four months time in a manner that would help to advance the project. At the time, we had just begun to ramp up production of the first season of the NOVA: Leading Edge series. We were in the process of negotiating various employment contracts to assemble our production staff and a lease agreement for our production offices. If \$905,324.45 of the grant money were to be deobligated and taken from the project budget, WGBH would have been forced to shut down the project entirely and pay, with WGBH's own funds, for obligations that had already been made.

With these serious concerns in mind, we solicited guidance from the NSF program and finance officials on how WGBH should proceed. We knew that if this grant funding were to be deobligated, we would not be able to complete our work under the grant.

[REDACTED] in our Budget Department, reached out to Ms. Battle to clarify her June 4, 2004 email and get advice from NSF on how to deal with this impending problem. During several conversations with Mr. Bradbury, Ms.

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Battle repeated the statement in her June 4, 2004 email that WGBH could report "encumbrances" as costs on the FCTR when a grant is due to be closed. On June 14, 2004, Ms. Battle advised [REDACTED] that, "in order that [WGBH] not forfeit the award," WGBH should "first inform Val [(NSF grant official Ms. Valentine Kass)] where we are and when we think we'll expend the funds that are going to expire in September." See Attachment C ([REDACTED]'s contemporaneous summary of a June 14, 2004 conversation between [REDACTED] and Ms. Battle). [REDACTED] further summarized Ms. Battle's advice: "Then, for the September 30th FCTR, I will report that we have spent the \$900k; however, I will not draw down the cash. (They are two separate steps.)" *Id.* [REDACTED] further stated that "Dorothy did let me know that we should try to be as accurate as possible when reporting our 'expenditures' on the September 15 FCTR. *Id.* If we under-request, we will not be able to request the remaining funds at a later time. If we over request, she said that isn't too much of a problem." *Id.* [REDACTED] recognized that the procedure being recommended by Ms. Battle differed substantially from normal WGBH cost-reporting procedures for the FCTR forms, and that if WGBH's outside auditor examined the FCTR, WGBH might have "a bit of explaining to do." *Id.*; see also, e.g., Attachment D (Affidavit of Mr. [REDACTED] regarding his June 14, 2004 conversation with Ms. Battle); Attachment E at pp. 2-3 (informing Ms. Kass at NSF that WGBH intended to proceed as "suggested" in the conversation between Ms. Battle and [REDACTED]. "we will declare that \$906,324 has been obligated (we are underway with the project, and the costs are committed, just not expended yet).").

At the time, Ms. Battle and the other NSF officials understood that WGBH was ramping up production and they were aware from WGBH's detailed budgets for the project that a substantial amount of the expenses that WGBH was set to incur in fiscal year 2005 would be for salary and rent. Thus, the NSF officials understood that as a result of the advice given to [REDACTED] by Ms. Battle, WGBH would report some \$906,324 in costs as obligated prior to the expiration of the appropriation on September 30, 2004, and that the vast majority of those costs represented salaries and rent that would actually be paid during fiscal year 2005. See also Attachment D ¶¶ 5-6 (Affidavit of [REDACTED]).

Despite Ms. Battle's specific assurances to [REDACTED] that we could report WGBH committed future expenses as "encumbrances" on the FCTR prior to the expiration of the relevant appropriation, we sought to obtain written confirmation of this understanding. We recognized that this was a departure from our customary accounting practices and wanted to make sure that the NSF guidance, and this exception to our customary practice, was fully documented in the grant file in the event of later confusion.

In a July 8, 2004 email to Valentine Kass, the NSF Program Director, [REDACTED], explained our understanding of the NSF advice and specifically how we intended to follow that advice:

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Regarding the Pompeii cash:

We are planning to do the following, which was suggested in a conversation with [REDACTED] and Dorothy Battle.

The issue was \$906,324 from the old Pompeii grant (ESI-9804615) that is close to expiration.

For the June 30 FTCR, we will declare that \$906,324 has been obligated (we are underway with the project, and the costs are committed, just not expended yet). We will not draw down the cash until later (closer to when it's actually spent), so that we avoid the problem of accumulating interest.

[REDACTED] will do this as soon as the June 30 FTCR is open (which may be today, but he's out today). He will also submit the no-cost extension per your email today.

See Attachment E at pp. 2-3. This email to Ms. Kass was sent at the suggestion of Ms. Battle. See Attachment D ¶¶ 6-7 (Affidavit of [REDACTED]). The next day, Ms. Kass sent a response to Ms. Curran in which NSF again counseled WGBH to report the obligated funds as costs on its FCTR prior to September 30, 2004. Ms. Kass' July 9, 2004 email reiterated: [T]he FY98 funds . . . must be spent for expenses *incurred PRIOR to Sept[.] 30, [20]04*. See Attachment E at p. 1 (emphasis added). Also, attached to that July 9, 2004 email was an email from Ms. Battle in which she explained that "[t]he expenditures for FY98 funds have to be incurred and reported on the fctr [sic] report before Sept[.] 30, 2004. . . . *There is not a time limit on [WGBH] drawing the cash.*" *Id.* (emphasis added).

At the time, we believed that NSF had recognized how we arrived at this position and had found an exception in this case that would allow the project to survive and move forward. Our precise understanding of the NSF advice is evidenced in an internal WGBH email that I sent on August 12, 2004 to [REDACTED] and others at WGBH. In that email, I set forth our understanding of the instruction received from NSF and our resulting plan of action:

Based on the information that we have received, in this case and this case only, we are allowed to report encumbrances as cost [sic] on the FCTR due to the de-obligation [sic] of funds (Dorothy Battle's email of June 4, 2004).

To do this we would need signed agreements, employment contracts, leases[,] etc. You would need to accrue for these encumbrances as you would any accrual. This, of course, needs to be done in a timely manner so that we meet the early September deadline.

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Please keep this email and the related documents we looked at as part of the file for audit purposes.

See Attachment F. From the text of this email, it is clear that we understood the NSF instruction to be an exception. And, in keeping with our long-standing commitment to produce prompt and reliable programming results with NSF grant funds, WGBH filed the FCTR on time and in a manner that was consistent with NSF's instructions.

With respect to the recommendations proposed in the draft audit report, WGBH respectfully submits that none of these recommendations are appropriate in this case.

First, WGBH should not be forced to reimburse the Government for money that NSF instructed WGBH to claim. As discussed above, we claimed these disputed costs after receiving specific advice from NSF. Prior to acting on that advice, WGBH worked to confirm its understanding to ensure that there was no confusion. Had we not received specific and multiple assurances from NSF, we would not have claimed these expenses in this manner, because such a practice departs from our customary accounting procedures. We respectfully submit that NSF must share at least some of the responsibility in this case. Simply put, it would be an injustice if WGBH were forced to reimburse the Government for nearly \$800,000 of funds that were ultimately spent to complete the project, when such costs were otherwise allocable and allowable and contributed to an excellent and well-received science education program which NSF continues to fund to this day.

Next, in terms of the recommended additional controls, WGBH believes that its current policies and procedures are sufficient to prevent WGBH from charging future expenses to an expired appropriation. In this instance, WGBH received specific instructions from NSF to depart from its customary accounting practices for this particular grant. At the time, WGBH believed that this exception was the result of the unique history of this particular grant funding. In the end, WGBH executed the NSF advice as provided. Absent those instructions, our normal, stringent controls would have prevented us from claiming such expenses and series production would have been halted.

B. Finding and Recommendation No. 2 -- Transactions Lacking Supporting Documentation

1. Summary of the Draft Audit Report

Finding No. 2 of the draft audit report alleges that three transactions totaling \$9,395 (of which \$6,737 would be allocable to NSF) lacked sufficient source

documentation to support that the expenditures were allocable and allowable to the NSF grants.¹

As a consequence, the draft audit report recommends that we develop and implement written policies and procedures to ensure that all source documentation supporting transactions charged to NSF awards are properly maintained and evidence that the costs claimed are in support of the NSF award.

2. WGBH's Response

WGBH has written policies and procedures regarding source documentation for supporting transactions. *See Attachment G* for the relevant section from WGBH's Travel and Expense Policies & Procedures and WGBH's policy on Purchasing Card – Controls and Documentation. We have reviewed these documents, and respectfully assert that our existing policies and procedures are fully compliant with federal documentation requirements.

As noted in the draft audit report, you tested a total of 651 transactions, and were unable to find supporting documents for three transactions during the audit. Subsequent to the audit, WGBH was able to locate supporting documentation for two of these transactions. For your reference, this documentation is attached hereto as Attachments H and I.

With this additional documentation, we can offer the following explanation for each transaction:

- Transaction #1 -- We have the following supporting documentation for this transaction: a journal entry of Pcard (purchasing card) charges for \$301.00; a Pcard statement with a charge of \$301.00 for ground transportation; a charge slip for \$301.00; an invoice for \$301.00; individual (2) trips slips for \$149.10 and \$146.00. *See Attachment H.*
- Transaction #2 -- This transaction for \$2,721 (NSF amount \$898) had only the expense report as part of the documentation. The expense report indicated that a transaction receipt (American Express) was attached to the report. We suspect that during the process of converting our files to digital media, the receipt was lost or misfiled. However, we can assure you that the employee's supervisor and the Manager of Accounting Services approved the payment of the expenses in accordance with our Travel policy, which requires original receipts to be attached when an expense report is submitted. We believe that given the circumstances outlined above, the expense should be allowed.

¹ According to the draft audit report, this finding was a result of your testing of 651 expenditures, representing 39.60% (\$3,641,554) of the total costs charged to the NSF grants.

- Transaction #3 -- We have the following supporting documentation for this transaction: a production insurance list for period 7/01/04 through 9/30/04 (showing dates of production, estimated production costs, insured costs, rate, total per production); a journal entry showing charge of \$6,373.00 to NOVA *scienceNOW*; an accounts payable payment request and invoice that covered this expense. See Attachment I.

The overhead of \$894 is a function of applying the federally approved rates to the direct expenses in the transactions noted above.

We respectfully dispute the recommendation in the draft audit report, as we believe that these three transactions represent exceptional circumstances and our current record retention policies and procedures are adequate and in accordance with applicable requirements.

C. Finding and Recommendation No. 3 -- Transactions Not Related to the Award

1. Summary of the Draft Audit Report

Finding No. 3 of the draft audit report alleges that WGBH claimed \$25,707 in costs on award Nos. ESI-9804615/ESI-0229297 that were not related to the awards. These costs were claimed in three transactions.²

The draft audit report recommends that we expand controls to include a second review by the supervisory accountant to better identify and correct errors made to the award. Additionally, the draft audit report recommends that we reinforce current policies and procedures to ensure Principal Investigators are properly reviewing costs charged to the award to ensure costs are related to and benefit the award.

2. WGBH's Response

WGBH respectfully disputes a portion of this finding. As such, we will respond in turn with respect to each of the three transactions:

- Transaction #1 -- a payroll transaction (pay period ending 3/25/07) in the amount of \$8,505, NSF portion \$6,302

WGBH does not dispute the finding with respect to this transaction, as the expense (while part of the NOVA project) should not have been charged to this grant.

² According to the draft audit report, this finding was a result of your testing of 159 transactions, amounting to \$852,893 (35.7%) of the total costs charged to NSF award nos. ESI-9804615/ESI-0229297.

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- Transaction #2 -- a payroll transaction (pay period ending 8/31/03) in the amount of \$11,340, NSF portion \$8,403

WGBH respectfully disputes the finding with respect to this transaction. Although this transaction took place outside of the grant period, the expense was for research and development related to the ESI-9804615/ESI-0229297 grants and was incurred within ninety days of the start of the grant period. We believe that this expense should be allowed under § 602.2 of the Grant Policy Manual. *See Attachment J.*

- Transaction #3 -- a fee for a musician in the amount of \$6,209, NSF portion \$4,601

WGBH does not dispute the finding with respect to this transaction, as the expense (while part of the NOVA project) should not have been charged to this grant.

As such, Finding No. 3 in the draft audit should be reduced from \$25,707 to \$14,048.³

D. Finding and Recommendation No. 4 -- Service Center Charges Review Not Documented

1. Summary of the Draft Audit Report

Finding No. 4 of the draft audit report alleges that WGBH failed to document its review of service center charges in compliance with OMB Circular A-122. According to the draft audit report, although WGBH's finance department undertakes an annual review of the rates used by its internal service centers, WGBH does not document the review that it performs to determine its service center usage rates. According to the draft audit report, "[f]ailure to properly document the review of rates charged by service centers limits [our] ability to ensure costs charged to NSF are equitable and based on actual costs." The draft audit report, however, makes clear that while it was unable to ensure the accuracy or reasonableness of the rates, "[t]here was no indication that the rates discriminated against NSF or federal awards, or that the rates were designed to recover more costs unallocable to the NSF awards."

The draft audit report recommends that we develop and implement policies and procedures to ensure service center rates are periodically reviewed and documented.

³ This reduction is based on \$6,302 of payroll transactions funded by NSF plus \$1,281 of fringe benefits on that transaction, plus \$4,601 of additional direct cost for the musician, for a total direct amount of \$12,184 attributable to NSF. With indirect costs of \$1,864, the total amount that WGBH incorrectly claimed is \$14,048.

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2. WGBH's Response

We do not dispute that WGBH was unable to provide the auditors with full documentation of our review. One of our four service centers did not adequately document the review that was performed on its rate setting procedures.

Recognizing this problem, WGBH Management has instituted a procedure to ensure that the rates charged by its service centers are reviewed annually and that each review is adequately documented. As WGBH's Controller, I have created a new managerial position in the Accounting Department that is specifically responsible for compliance with federal administrative requirements. Annually, this compliance manager will meet with the service center departments to review and document the methodology behind the rate cards. This annual review will include a review of the prior year's recovery results and a review of the assumptions used in the current year's rate setting process. In addition, as part of the annual budget process, the service center departments will be required to submit projected costs and income associated with their areas of responsibility. We are confident that these changes will ensure that our service center rates are periodically reviewed and sufficiently documented.

E. Finding and Recommendation No. 5 -- Inadequate Procedures to Monitor Exchange Rates for Subaward Costs

1. Summary of the Draft Audit Report

Finding No. 5 of the draft audit report alleges that WGBH did not have adequate procedures to reconcile \$3.2 million of advances that it made to a subcontractor in U.S. dollars with the actual costs incurred by the subcontractor in Canadian dollars. According to the draft audit report, this limits our ability to ensure costs claimed on the NSF awards are accurate. However, the draft audit report specifically notes that "no costs were questioned" on the basis of the audit.

The draft audit report recommends that we develop policies and procedures to periodically perform and document an overall reconciliation of the actual costs incurred in foreign currency by subcontractors versus advances paid by WGBH in U.S. dollars. According to the draft audit report, such a reconciliation "should allow for a comparison of the expenditures and advances in U.S. dollars."

2. WGBH's Response

We respectfully dispute this finding. WGBH has adequate procedures and processes in place to monitor and reconcile the expenditures to ensure that the costs for the project are accurate and valid and, therefore, that the costs claimed on the NSF awards are accurate and valid.

In this particular case, the budget from the sub-awardee was prepared in Canadian currency, and the sub-award advances were paid in Canadian currency. We specifically

[REDACTED], CPA, CFE

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monitored and reconciled the sub-awardee's expenses in the same currency in order to eliminate exchange rate fluctuations as a variable. WGBH's books indicated that the advances paid were recognized in U.S. dollars at the exchange rate existing at the time of each payment. WGBH monitored expenses for the sub-award on a weekly basis. The sub-awardee submitted weekly cost reports and trial balances, which were reviewed by WGBH's Coordinating Producer/Business Director for completeness, accuracy, and expense validity. Each review also included a review of the cash flow schedule for possible adjustments to future advances. In addition, WGBH's Coordinating Producer made several visits to the sub-awardee's office to further ensure the accuracy and validity of the information being sent. This weekly reconciliation created no unresolved discrepancies.

WGBH's practice for all funded projects is that each project perform an overall reconciliation on a quarterly basis in U.S. dollars, prepare a quarterly estimate to complete report, and meet with staff from our Budget Office to discuss the project's progress. Each quarterly report contains a reconciliation of WGBH's overall expenditure in U.S. dollars. In the case of the Canadian sub-awardee, each payment request form submitted for processing included the Canadian currency amount to be paid, the conversion rate, and the U.S. Dollar equivalent.

We are confident that our policies and monitoring activities for sub-awardee advances far exceeds the requirements of OMB Circular A-110.

* * *

Should you have any questions, please do not hesitate to contact me.

Sincerely,

[REDACTED]

Treasurer

Enclosures

cc: Mr. David Eid, Audit Manager, NSF-Office of Inspector General

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