

**FRESNO UNIFIED SCHOOL DISTRICT
2309 TULARE STREET
FRESNO, CALIFORNIA 93721-2287**

**NATIONAL SCIENCE FOUNDATION AWARD NUMBER
ESR-9452988**

**FINANCIAL AUDIT OF
FINANCIAL SCHEDULES AND
INDEPENDENT AUDITORS' REPORTS**

FOR THE PERIOD SEPTEMBER 1, 1995, TO AUGUST 31, 2000

This audit was performed by:

**Cotton & Company LLP
Auditors · Advisors
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Alexandria, Virginia 22314**

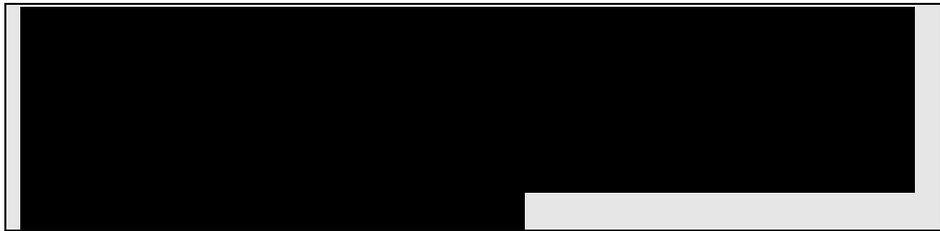


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EXECUTIVE SUMMARY

BACKGROUND

We audited the funds awarded by the National Science Foundation (NSF) to the Fresno Unified School District (FUSD) under Cooperative Agreement No. ESR-9452988 for the period September 1, 1995, to August 31, 2000. FUSD, as a federal awardee, is required to follow the cost principles specified in Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, and federal administrative requirements contained in OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments*. In addition, as a NSF awardee, FUSD is required to follow the provisions for financial management systems and cost sharing in OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*.

FUSD is California's fourth largest school district with approximately 88 schools, 9,200 employees, 79,000 students, and a \$600 million annual budget. It received more than \$72 million in federal funds in the fiscal year ending June 30, 2000.

NSF awarded Cooperative Agreement No. ESR-9452988 to FUSD on September 1, 1995, in the amount of \$15 million and included a \$12,229,578 cost-share requirement. FUSD claimed \$15 million of NSF funding and \$17,538,877 in cost sharing. The agreement expired on August 31, 2000.

The agreement was awarded under NSF Program Announcement No. 93-67, Urban Systemic Initiatives (USI) in Science, Mathematics and Technology Education: A New Paradigm for Urban Education. USI's mission is to implement a district-wide, comprehensive, systemic reform project in science and mathematics. The overall purpose of the USI program is to improve the scientific and mathematical literacy and achievement of all students; provide the mathematics and science fundamentals that will permit all students to participate fully in a technological society; and to enable a significantly greater number of students to pursue careers in mathematics, science, engineering, and technology.

The specific objective of the FUSD project is to stimulate dramatic improvement in the quality of the K-12 Science, Mathematics and Technology (SMT) instructional program, access to such programs, and student achievement. In accomplishing this objective, USI contributes to the quality of the national SMT workforce, the number and quality of students succeeding in SMT careers, and, over time, the general scientific literacy of the United States citizenry.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit engagement were to:

1. Determine if FUSD's Schedule of Award Costs presents fairly, in all material respects, costs claimed on the Federal Cash Transaction Reports (FCTR) – Federal Share of Net Disbursements, and if costs claimed, including cost sharing, are in conformity with NSF award terms and conditions.
2. Identify matters concerning instances of noncompliance with laws, regulations, and provisions of the award agreements pertaining to NSF awards and weaknesses in FUSD's internal control over financial reporting that could have a direct and material effect on the Schedule of Award Costs and FUSD's ability to properly administer, account for, and monitor its NSF awards.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, as revised, issued by the Comptroller General of the United States, 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 about whether amounts claimed to NSF as presented in the Schedule of Award Costs (Schedule A), are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule of Award Costs. An audit also includes assessing the accounting principles used and significant estimates made by FUSD, 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 financial reports submitted to the National Science Foundation (NSF) as well as the cost sharing provided by FUSD on Cooperative Agreement No. ESR-9452988. These costs are shown in the Schedule of Award Costs (Schedule A) and are summarized as follows:

Award No.	Source of Funding	Budget	Claimed Costs	Questioned Costs
ESR-9452988	NSF Funding	\$15,000,000	\$15,000,000	\$220,924
	Cost Sharing	<u>12,229,578</u>	<u>17,538,877</u>	<u>6,637,283</u>
	Total Project	<u>\$27,229,578</u>	<u>\$32,538,877</u>	<u>\$6,858,207</u>

Except for the questioned costs described below, we determined that the costs claimed by FUSD for the NSF funded award expenditures appear fairly stated and are allowable, allocable, and reasonable. However, we had to perform many alternative audit procedures, because payroll-related expenses amounting to \$5.1 million were not documented in accordance with federal cost principles and NSF award terms and conditions. Also, \$6.8 million (46 percent) of the \$15 million in total claimed NSF-funded costs were questioned primarily because FUSD could not readily identify in its accounting records or provide adequate documentation evidencing that it had met its \$12 million cost share obligation. In fact, to prepare for the audit, FUSD had to manually extract and reconstruct data, and prepare schedules to support its cost-sharing claims.

NSF funded \$15 million (55 percent) of the total budgeted projects costs, and FUSD was to provide cost share for the remaining \$12 million (45 percent). FUSD claimed to have cost-shared \$17.5 million, but we found that \$1.3 million of salary and wages were already included in the cost pool of FUSD's indirect cost rate; \$10.1 million was for unallowable building upgrades which were not supported by accounting records and were based on estimates; and \$6.1 million was for other unsupported expenditures, such as textbooks, library books, and other direct costs, which were not supported by accounting records and were based on estimates. Supporting documents consisted of various types of worksheets and memorandums assembled by FUSD, some of which were only handwritten papers. No documentation explained the relationship of the costs claimed to the NSF program objectives.

Because of FUSD's failure to provide its portion of the total project costs in cost share, \$6.6 million of the direct NSF funding was questioned. See Schedule B for the computation of questioned award costs resulting from FUSD's cost sharing shortfall. An additional \$0.2 million of indirect costs was questioned, because FUSD did not use the award-specified 5 percent indirect cost rate in all years and applied the rates used to total direct costs, including participant support costs which should have been excluded.

FUSD had a number of material control deficiencies that caused these questioned costs. In general, FUSD's systems of internal controls were not adequate to properly administer, account for, and monitor its NSF award in compliance with NSF and federal requirements, in the areas related to payroll, cost share, participant support, and indirect costs. Specifically:

- FUSD did not comply with a number of key federal and/or NSF award requirements, including requirements for properly certified employee time and labor effort reports for \$5.1 million claimed in salary and fringe benefit costs. FUSD representatives did not realize that NSF awards were subject to timesheet requirements under OMB Circular A-87. No costs were questioned, because alternative audit procedures were used to verify that the labor costs claimed were allowable and allocable to the NSF award.

- FUSD lacked a system to properly identify, account for, monitor, and report cost sharing, resulting in FUSD submitting only 2 of the 5 required cost share certifications to NSF, claiming \$17.5 million in inaccurate, unsupported, and/or unallowable costs, and failing to meet the \$12.2 million cost sharing requirements of the award. FUSD's program personnel failed to notify the Accounting Department of the NSF award's cost sharing requirements.
- FUSD did not track and monitor the use of \$3.5 million claimed in participant support funds, (23 percent of total claimed costs) which was critical to ensure that those funds were not used for other categories of expense. FUSD's accounting system did not provide for proper recording and identification of participant support costs incurred under the award in accordance with federal requirements, resulting in FUSD misclassifying some of these costs as other categories of costs. FUSD representatives stated that they did not realize the need to separately identify participant support costs. FUSD had to manually review expenditure information in its financial records and prepare summaries solely for the purpose of the audit.
- FUSD did not have adequate policies and procedures for determining allowable indirect costs. Incorrect indirect cost rates were used and incorrectly applied to total direct costs without excluding participant support costs.

The failure to properly account for and maintain adequate documentation for payroll costs, participant support costs, indirect costs, and cost share makes it difficult if not impossible to monitor award expenditures for allowability; raises questions as to the reliability and integrity of the amounts claimed; and fails to evidence that the costs claimed benefited the NSF award.

Accordingly, we recommend that the NSF Directors of the Division of Institutional and Award Support (DIAS) and the Division of Grants and Agreements (DGA) direct FUSD to develop and implement a financial management system and adequate procedures to effectively administer and monitor NSF funds. These steps should include (1) ensuring that employees maintain the proper documentation to support salary and wage charges in compliance with OMB Circular A-87, (2) implementing proper systems to identify, track, and report cost sharing and participant support costs, and (3) providing training to appropriate personnel to properly calculate indirect costs.

FUSD officials stated that as a first-time NSF award recipient, they were not aware of the importance of these issues. FUSD submitted the required annual reports, attended all Principal Investigators/Project Directors (PI/PD) meetings, and hosted reverse site visits for the cognizant NSF program officer and team members. The content of these interactive functions never addressed acceptable accounting and documentation practices for NSF awards. As time passed and leadership changed both with NSF and in their district, new personnel focused simply on continuing what had been done before, as they learned their duties and roles, thus increasing their inability to catch these errors. FUSD officials further stated that they have implemented procedures to address each of the findings and staff have been trained and follow the appropriate procedures. Supervisors are responsible for employees' adherence to described procedures.

FUSD's comments are responsive to the recommendations. However, the findings cannot be resolved, nor should additional awards be made to FUSD, until NSF verifies that the proposed corrective actions have been satisfactorily implemented and all recommendations have been adequately addressed. FUSD's response has been summarized within the report and included in its entirety in Appendix A.

For a complete discussion of these findings, refer to the *Independent Auditors' Report on Compliance with Laws and Regulations and Internal Control over Financial Reporting*.

EXIT CONFERENCE

We conducted an exit conference on March 14, 2002, at FUSD's offices in Fresno, California during which we discussed findings and recommendations as well as other observations contained in this report with those attending.

Representing FUSD were:

[REDACTED]

Representing Cotton & Company LLP were:

[REDACTED]

We conducted a second exit conference on November 17, 2003, after we revisited FUSD to further evaluate the payroll charges and cost share claimed. During this exit conference, we discussed the findings and recommendations contained in this report with [REDACTED] and [REDACTED]

**AUDIT FINDINGS AND
RECOMMENDATIONS**

National Science Foundation
Office of Inspector General
4201 Wilson Boulevard
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INDEPENDENT AUDITORS' REPORT ON FINANCIAL SCHEDULES

We have audited the costs claimed by Fresno Unified School District (FUSD) to the National Science Foundation (NSF) on the Federal Cash Transaction Reports (FCTR) - Federal Share of Net Disbursements, for the NSF award listed below. In addition, we also audited the amount of cost sharing claimed on the award. The FCTRs, as presented in the Schedule of Award Costs (Schedule A), are the responsibility of FUSD's management. Our responsibility is to express an opinion on the Schedule of Award Costs based on our audit.

Award Number	Award Period	Audit Period
ESR-9452988	09/01/95 to 8/31/00	09/01/95 to 8/31/00

The NSF award required that FUSD provide minimum cost sharing of \$12,229,578. The Schedule of Cost Sharing (Schedule C) presents cost sharing expenses claimed by FUSD of \$17,538,877. FUSD could not properly account for or support any of the claimed cost sharing expenditures.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards, as revised*, issued by the Comptroller General of the United States, 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 Schedule of Award Costs are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule of Award Costs (Schedule A). An audit also includes assessing the accounting principles used and significant estimates made by FUSD's management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

The Schedule of Questioned Costs (Schedule B) explains the NSF funded costs in the amount of \$6,858,207 that we have questioned as to their allowability under the NSF award agreement ESR-9452988 due to the lack of supported cost share and incorrectly calculated indirect costs. Questioned costs are (1) costs for which documentation exists to show that 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

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

The \$6,858,207 amount represents 46 percent of the total costs claimed. The Schedule of Cost Sharing (Schedule C) explains the \$17.5 million of cost sharing (100 percent) that FUSD claimed that we have determined to be unacceptable expenditures under this award. Specifically:

1. FUSD could not properly account for or support \$17,538,877 of cost sharing claimed and as a result, FUSD did not meet the \$12.2 million in cost sharing required by the award agreement. Consequently, NSF's share of the total award costs was proportionately reduced by \$6,637,283; and
2. FUSD claimed unallowable indirect costs of \$220,924 because it used rates and an indirect cost base not specified in the award agreement.

In our opinion, except for \$6,858,207 of questioned NSF-funded costs and \$17,538,877 of unacceptable cost sharing expenditures, the Schedule of Award Costs (Schedule A) referred to above presents fairly, in all material respects, costs claimed on the Federal Cash Transaction Reports – Federal Share of Net Disbursements and cost sharing for the period September 1, 1995, to August 31, 2000, in conformity with the *National Science Foundation Audit Guide*, *NSF Grant Policy Manual* (GPM), and terms and conditions of the NSF award and on the basis of accounting policies described in the Notes to the Financial Schedules. This schedule is 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 the provisions of the *National Science Foundation Audit Guide*, we have also issued a report dated March 14, 2002, on our tests of FUSD's compliance with certain provisions of laws, regulations, and the NSF award terms and conditions and our consideration of FUSD's internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

COTTON & COMPANY LLP



March 14, 2002

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

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

We have audited the costs claimed as presented in the Schedule of Award Costs (Schedule A), which summarizes the financial reports submitted by the Fresno Unified School District (FUSD) to the National Science Foundation (NSF) and claimed cost sharing, for the award listed below and have issued our report thereon dated March 14, 2002.

Award Number	Award Period	Audit Period
ESR-9452988	09/01/95 to 8/31/00	09/01/95 to 8/31/00

We conducted our audit of the Schedule of Award Costs as presented in Schedule A in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards, as revised*, issued by the Comptroller General of the United States, 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 financial schedule is free of material misstatement.

COMPLIANCE WITH LAWS AND REGULATIONS

Compliance with applicable federal laws, regulations, and the NSF award terms and conditions is the responsibility of FUSD's management. As part of obtaining reasonable assurance about whether FUSD's financial schedule is free of material misstatement, we performed tests of FUSD'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, however, an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and *the National Science Foundation Audit Guide*; see Findings 1 through 4 below.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of FUSD is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial schedules in accordance with accounting principles prescribed by NSF. Because of inherent limitations in any internal control, misstatements due to errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation 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 Schedule of Award Costs for the period September 1, 1995, to August 31, 2000, we considered FUSD's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedule and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

We noted, however, certain matters involving the internal control over financial reporting and its operation that we consider 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 FUSD's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial schedule. Reportable conditions we found are described in Findings 1 through 4 below.

Material weaknesses are reportable conditions 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 in amounts that would be material in relation to the financial schedule 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 all of the reportable conditions described below to also be material weaknesses.

FINDINGS

Finding No. 1. Lack of Adequate Supporting Documentation for Salary and Fringe Benefit Costs.

FUSD lacked employee certifications and personnel activity reports that federal regulations and NSF requires to support \$5.1 million (100 percent) of total salary and fringe benefit costs charged to the NSF award.

OMB Circular A-87, Attachment B, Section 11h, states that, to be allowable, charges to federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payroll documented in accordance with the generally accepted practice of the governmental unit and approved by a responsible official of that unit. Specifically, when employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages must be supported by periodic certifications (at least semi-annually) indicating that the employees worked only on that program. The certification should be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. On the other hand, when employees work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports that reflect an after-the-fact distribution of the actual activity of each employee; account for the total activity for which each employee is compensated; be prepared at least monthly; and be signed by the employee.

FUSD representatives stated that timesheets detailing actual activities are required on all federal awards except for the NSF awards. Employees assigned to the NSF award were not required to prepare timesheets or certifications detailing their actual activities nor maintain other supporting records such as personal calendars. FUSD representatives explained that they did not realize that the NSF awards were subject to timesheet requirements stipulated in OMB Circular A-87. Each pay period, FUSD's accounting system allocated payroll charges to funding sources (grants or other cost objectives) based on personnel requisition forms initiated at the time the employee was first assigned to work on the NSF award. The requisition forms were submitted to the Payroll Department by each employee's supervisor. The requisition form detailed the percentage of salary costs to be allocated to each funding source based on the supervisor's estimate of the percentage of time the employee was expected to work on each grant or cost activity. As a result of not completing the required certifications, FUSD was unable to ensure the validity and accuracy of the estimated salary and benefit costs that FUSD's accounting system automatically charged to NSF Award No. ESR-9452988.

Without the after-the-fact time certifications or personnel activity reports required by NSF, FUSD was unable to support that the labor effort costs charged to NSF Award No. ESR-9452988 were actually incurred and benefited the NSF award. Consequently, we interviewed an appropriate sample of FUSD employees and supervisors and were able to verify that the employees whose salaries were charged to the award actually performed work on the award. However, while FUSD staff we interviewed confirmed the validity of the costs charged to NSF Award No. ESR-9452988, FUSD must immediately comply with the salary supporting documentation requirements of OMB Circular A-87 to provide assurance in the future that all salary charges to all NSF awards are allowable, allocable, and reasonable.

Recommendation No. 1: We recommend that the NSF Directors for the Division of Institution and Award Support (DIAS) and the Division of Grants and Agreements (DGA) direct FUSD to immediately implement policies and procedures to ensure that employees maintain semi-annual certifications and monthly personnel activity reports to support salaries and wages charged to NSF awards as required by OMB Circular A-87, Attachment B, Section 11h.

Awardee's Response: In its response to the draft audit report (Appendix A), FUSD stated that:

Each pay period, FUSD's accounting system allocated payroll charges to funding sources (grants or other cost objectives) based on personnel requisition forms initiated at the time the employee was first assigned to work on the NSF award. The requisition forms were submitted to the Human Resources department by each employee's supervisor. The requisition form detailed the percentage of salary costs to be allocated to each funding source based on the supervisor's estimate of the percentage of time the employee was expected to work on each grant or cost activity. A supervisor would change an employee's funding percentage if he or she deemed it necessary. Accordingly, this change would be initiated via a personnel requisition.

Former and current FUSD staff were interviewed and provided signature statements to Cotton & Company regarding effort charged to the NSF award. Both interviews and statements support the validity and the appropriateness of the costs charged to NSF Award No. ESR-9452988.

FUSD implemented the following procedures. NSF staff has been trained to follow procedures. Time Accounting Record reports are available for our current NSF award beginning August 2000.

Written procedures to track direct labor effort spent on NSF awards and all federal funds:

1. All employees involved in the grant keep Time Accounting Record reports. This is true for those charged to the project and for those used for cost share.
2. Employees record the percentage of time spent on the project. Employees who are split funded record the amount of time spent to each project.
3. Time Accounting Record reports are given to the Budget Manager and are entered in the computer to ensure the percentages are accurate for time required to the project.
4. Time Accounting Record reports are signed by the appropriate supervisors and returned to the Budget Manager to be filed for each fiscal year of the project.
5. The portion of the employee's salary, which is charged to the cost share of the NSF program, is charged to the budget: [REDACTED].

The activity code [REDACTED] has been designated as the District's cost share for NSF/USI/USP.

Auditors' Comments:

FUSD's comments appear responsive to the recommendation. However, the findings cannot be resolved until NSF verifies that the proposed corrective actions have been satisfactorily implemented and all recommendations have been adequately addressed.

Finding No. 2. Lack of a System to Identify, Account for, Monitor and Report Cost Sharing.

FUSD lacked a system to identify, account for, and monitor the cost sharing it attributed to the NSF award, raising questions as to the reliability and integrity of the \$12,203,161 FUSD claimed on its certified reports to NSF and the \$17,538,877 that FUSD claimed as its total cost-sharing to the auditors. Also, FUSD did not submit many of its required cost sharing certifications until the audit.

Lack of a System to Identify and Account for Cost Sharing

GPM Section 333.6, *Cost Sharing Records and Reports* and OMB Circular A-110, Section 23 require a grantee to maintain records of all costs claimed as cost sharing and those records are subject to audit. Those regulations also state that cost sharing expenses must be verifiable from the recipient's records, not be included as contributions to any other federal award, or funded by any other federal award. OMB Circular A-110, Section 23, states that to be accepted as part of the recipient's cost sharing, the expenditures must be necessary and reasonable for proper and efficient accomplishment of project or program objectives and allowable under the applicable cost principles.

However, FUSD's accounting system, while it captured all expenses, did not separately identify and track those expenses incurred as cost sharing nor is there an alternative manual system in place to identify, account for, or monitor cost sharing. As such, FUSD could not readily identify in its accounting records the cost sharing amounts it had claimed under the NSF award. In fact, to prepare for the audit, FUSD had to manually extract and reconstruct data, and prepare schedules to support its cost sharing claims.

FUSD could not also provide any source documentation to evidence that the expenses included on its manually prepared schedules represented costs benefiting the NSF award, as opposed to other FUSD or federal programs. Cost sharing expenses claimed were not based on invoices, but on miscellaneous information accumulated outside FUSD's accounting system by FUSD's program officials. According to FUSD representatives, none of the costs claimed were identified in the accounting records as award expenditures. Supporting documents consisted of various types of worksheets and memoranda assembled by FUSD, some of which were only handwritten papers. No documentation explained the relationship of the costs to NSF program objectives. Further, many of the expenditures were based on unsupported allocations. For example, 25 percent of the cost of library books (\$147,438) was estimated to be related to science and mathematics and split between two NSF awards without any explanation. In addition:

- FUSD claimed \$1,289,763 in salaries and wages that were included in the cost pool of its negotiated indirect cost rates. FUSD representatives agreed that these costs should not have been claimed as cost-share expenses.
- FUSD claimed \$10,093,648 in cost-share expenses related to upgrading science labs and classrooms, networking schools, constructing a high school, and obtaining equipment. OMB Circular A-87, Section 19, states that capital expenditures for equipment, including replacement equipment, other capital assets, and improvements which materially increase the value or useful life of equipment or other capital assets, are allowable as a direct cost when approved by the awarding agency. NSF did not approve capital construction costs as direct costs or as cost-sharing expenses. According to NSF Program Announcement No. 93-67, upgrading or expanding equipment is not a priority in this program, and only items allowable under applicable cost principles, if charged to the project, may be included as the grantee's contribution to cost sharing and costs associated with buildings and equipment used during FUSD's normal operations would not be allowable as cost sharing. See the Schedule of Cost Sharing (Schedule C) and the related note No. 2.

FUSD's [REDACTED] Department Director stated that program personnel were responsible for informing the Accounting Department of cost share requirements on specific awards so that costs could be accumulated in the accounting system. However, the Accounting Department was never notified of the NSF award's cost sharing requirements. Program personnel were unable to explain why the Accounting Department was not notified.

As detailed in Schedules A and C, FUSD failed to meet NSF's award records requirement for any of the \$17.5 million in cost sharing expenses claimed to the auditor. We, therefore, disallowed the entire \$17.5 million of cost sharing claimed by FUSD. Having failed to meet the required \$12.2 million of cost sharing, we questioned \$6,637,283 representing costs exceeding NSF's proportionate share of the total project costs. As stated in GPM 333.3, a failure to provide the level of cost sharing reflected in the approved award may result in disallowance of award costs. See Schedule B for computation of the questioned award costs resulting from FUSD's cost sharing shortfall.

Cost Share Certifications Were Not Properly Submitted to NSF

NSF's award agreement requires FUSD to report and certify on an annual and cumulative basis, the amount of cost sharing it had contributed as part of the annual progress and final project reports.

However, FUSD only submitted to NSF 2 of the 5 required cost share certifications. Also, the certifications submitted to NSF did not report, as required, the cumulative cost share expenditure amounts claimed. FUSD representatives stated that new personnel hired during the award period did not understand or were not aware of the NSF award's cost-share certification requirements. Our audit prompted FUSD to prepare and submit to NSF a cumulative certification showing \$17.5 million in shared costs for the NSF award.

Recommendation No. 2: We recommend that the NSF Directors of DIAS and DGA direct FUSD to establish a system to identify, account for, monitor and report cost sharing expenses and, at a minimum, ensure that:

- a. Cost sharing is separately tracked, accounted for and verifiable in FUSD's records; is not included as contributions for any other federally-assisted project or program; is necessary and reasonable for proper and efficient accomplishment of project and program objectives; is allowable under applicable cost principles; and is not paid by the federal government under another award;
- b. All awards with cost sharing requirements are immediately identified and reported to the Accounting Department;
- c. Cost sharing costs incurred and claimed are appropriately reviewed, approved, and recorded as they occur to establish that they are reasonable, allocable, and allowable;
- d. Cost sharing records are adequately maintained and documented;
- e. Cost sharing certifications are submitted to NSF in a complete, accurate and timely manner; and
- f. Cost sharing policies and procedures are developed in writing consistent with NSF requirements, and communicated to appropriate FUSD staff.

Awardee's Response: In its response to the draft audit report (Appendix A), FUSD stated that:

Lack of a System to Identify and Account for Cost Sharing

The FUSD USI funded proposal referenced the improvement of mathematics, science, and technology facilities as local initiatives. The use of \$15 million bond earmarked for improvements were listed as cost sharing funds on the summary page as well as on pages 5 and 17 of the funded proposal. These funds were also referenced in the cost share signature page sent to NSF 5/14/96. In addition, NSF received a letter dated June 25, 1995 describing the use of \$15 million in capital improvement bond money for cost sharing. This letter was addressed to [REDACTED] NSF Program Officer and sent under signature by FUSD's [REDACTED] and FUSD's [REDACTED]. FUSD was never directed to implement the proposal differently than as written. After a successful bond election, the FUSD Board of Education honored the commitment to the program to use this money as cost sharing funds as stated in the funded proposal. Documents were provided to the auditors illustrating the science facilities expenditures. FUSD acted in good faith to the funded proposal and was never directed this action was not allowed for cost share.

Cost Share Certifications Were Not Properly Submitted to NSF

FUSD used the funding cycles to submit the cost share reports. NSF accepted these reports and never informed FUSD that submission was not sufficient. Funding for year 1 was for 1995-1996 (12 months). FUSD submitted Year 1 cost sharing on 5/14/96 under signature of [REDACTED]. Funding for year 2 was for 1996-1997 (12 months). FUSD submitted Year 2 cost share on 5/8/97 under signature of [REDACTED]. Funding for Years 3, 4, and 5 came in 2 18-month installments. FUSD submitted a 3rd report on 3/11/99 for 18 months of cost share under the signature of [REDACTED]. Copies of three cost sharing reports were provided to Cotton & Company representatives during their fieldwork visits.

As a result of added support from NSF for our current NSF award, FUSD receives annual reminders of the certification's due date. FUSD has been submitting this certification in a timely manner.

Beginning fiscal year 2003, FUSD implemented the following procedures. FUSD staff has been trained to follow these procedures. Cost share submission continues to be submitted on an annual basis to the cognizant NSF officer.

Written procedures for cost sharing requirements for NSF awards and all other awards with cost sharing requirements:

1. The Budget Manager submits a B20 form, award letter, and other documentation to Fiscal Services.
2. The Financial Analyst and the Budget Manager compile the necessary object lines (i.e. salaries, benefits, etc.) needed to administer the general operation of the program.
3. The Financial Analyst reads the award letter and other documentation to determine the program's allowable costs and cost sharing requirements.
4. If the program has a cost share requirement, the Financial Analyst will work with the Budget Manager to identify the budget representing the cost share.
5. If the cost share is a salary, a personnel requisition will be submitted to Human Resources to change the funding percentage of the employee to the budget containing the District's cost share.
6. All cost sharing requirements are coded to an activity code designated for the program.
7. For example, the [REDACTED] regular salary is charged to the budget: [REDACTED].
8. The portion of the [REDACTED] salary, which is charged to the cost share of the NSF program, is charged to the budget: [REDACTED]. The activity code [REDACTED] has been designated as the District's cost share for NSF/USI/USP.

9. The Financial Analyst and the Budget Manager will monitor to ensure the expenses, include in the cost share, are properly coded to the appropriate budget.
10. At the end of the fiscal year, the Financial Analyst and Budget Manager will ensure the District has met the required cost share.
11. If the cost share is materials that directly support of the program, then the activity and function codes are charged to the designated cost sharing code.

Auditors' Comments:

FUSD could not provide any specific evidence that NSF had approved capital construction costs as cost sharing expenditures, nor did NSF make any specific provision for capital construction costs in its award documents. Otherwise, the corrective actions that FUSD provided appear responsive to the recommendations. However, the findings cannot be resolved until NSF verifies that the proposed corrective actions have been satisfactorily implemented and all recommendations have been adequately addressed.

Finding No. 3. Lack of Appropriate Guidance Resulted in Excessive Indirect Costs Claimed.

FUSD did not have adequate policies and procedures for determining allowable indirect costs under NSF Award No. ESR-9452988. The award provided for a predetermined, fixed 5-percent indirect cost rate applicable to total direct costs less participant support costs. However, FUSD applied rates that ranged from 4.95 to 6.39 percent to total direct costs including participant support costs. As a result, FUSD overcharged the NSF award by \$220,924 for indirect costs.

According to FUSD representatives, its accounting personnel were not notified of the special award provisions or the NSF regulations related to indirect costs. FUSD should have provided, at a minimum, the NSF award terms for indirect costs to the staff assigned to determine the prescribed indirect costs for the NSF award. We questioned the \$220,924 in overcharged indirect costs. See further explanation of how the questioned amount was calculated in Schedule B, Note 2.

Recommendation No. 3: We recommend that the NSF Directors of DIAS and DGA direct FUSD to develop and implement written policies and procedures to ensure that appropriate personnel are made aware of accurate indirect cost terms of all NSF awards, and that indirect costs claimed are calculated in accordance with those terms.

Awardee's Response: In its response to the draft audit report (Appendix A), FUSD stated that:

Historically, the indirect rate for the district has been less than 5 percent. However, with time the rate eventually increased to over 5 percent. Changes in the department staff at all levels may have played a role in applying the incorrect indirect rate.

Upon learning this error, FUSD immediately implemented the following procedures for the NSF award. FUSD staff has been trained to follow the procedures.

Procedures for indirect cost computation for NSF awards:

1. At the end of fiscal year, Financial Analyst ensures that the expenditures in the District's mainframe are complete for the NSF Program.
2. The Financial Analyst will inquire to the NSF staff the amount of the expenditures to be excluded from the computation of indirect cost. This amount is in addition to the expenditures for capital outlay (if any), which are excluded from the calculation.
3. NSF staff will send Fiscal Services supporting documentation for the amount they are requesting to be excluded from the computation of indirect cost. The supporting documentation should include where the participant costs were charged in the NSF budget.
4. After review of the documentation, the Financial Analyst will decrease the total expenses for the NSF grant in the database used to compile the fiscal year end information for the District's grants and entitlements. The database is used to report the revenues and expenditures as well as calculate accounts receivable, deferred revenue, accounts payable, and indirect cost.
5. The final step is to produce a journal voucher document that will debit the NSF's programs indirect cost object – 7315 and credit the revenue in the District's General Fund.

Auditors' Comments:

FUSD's comments appear responsive to the recommendation. However, the findings cannot be resolved until NSF verifies that the proposed corrective actions have been satisfactorily implemented and all recommendations have been adequately addressed.

Finding No. 4. Lack of a System to Track, Document, and Monitor the Use of Participant Support Funds.

FUSD did not have an adequate system to track, document, and monitor the use of participant support funds.

NSF's Grant General Conditions (GC-1, 10/98), Article 2.b, state that funds provided for participant support may not be used for other categories of expense without the written prior

approval of the cognizant NSF program officer. To comply with this requirement, an awardee must be able to identify and track its participant support expenditures.

FUSD did not have such a tracking system. According to FUSD representatives, they did not see the need to separately identify participant support costs in the accounting system. To support the \$3.5 million of participant support costs, representing 23 percent of total claimed cost, FUSD had to manually review expenditure information in its financial records and prepare summaries solely for the purpose of the audit. Our testing, for the most part, found that FUSD was able to eventually show that it spent the funds solely for participant support costs, except for the following instances of misclassifications of participant support costs that we found in FUSD's summaries:

- \$119,531 – recorded as participant support stipends, but were actually salaries and wages;
- \$101,759 – recorded as participant support stipends, but were actually non-participant support travel costs; and
- \$151,214 – recorded as salaries and wages, but were actually fringe benefit costs allocable to participant support stipends.

No questioned costs resulted because the misclassified participant support costs were allowable costs for the other cost categories in which they were expended. However, the failure to separately record and account for participant support costs makes it difficult or impossible to monitor participant support expenditures for allowability and could result in funds budgeted for such costs being used to pay for other categories of expense without proper NSF approval.

Recommendation No. 4: We recommend that the NSF Directors of DIAS and DGA direct FUSD to establish a system and appropriate policies and procedures to track, document and ensure the allowability of participant support costs and ensure that all FUSD staff working on NSF awards are adequately trained and made aware of the federal and NSF requirements for seeking NSF approval to spend participant support funds for other purposes.

Awardee's Response: In its response to the draft audit report (Appendix A), FUSD stated that:

During the award period, the participant support costs were identified by the District's accounting system. These amounts are categorized in the object code of the budget. The USI office staff kept back up information to support expenditures identified as participant support costs, because there is not a specific object code for participant support. Excluding participant support is not consistent with how procedures were conducted. Common practice for FUSD is to exclude capital outlay only from the indirect cost calculation for most grants and entitlements. As a first time NSF award recipient, cognizant NSF program officers did not advise us of the importance of this issue.

Upon learning this error, FUSD immediately implemented the following procedures. FUSD staff has been trained on these procedures.

Procedures for claiming participant support costs for NSF awards:

1. A request for supplies, conference registration, other services, etc. is put into the system by a number automatically by the District's accounting system.
2. The Budget Manager will enter the RX, PD, PG, or SR document number into the USI/USP database along with the vendor name, amount and description of what the order is for.
3. The Budget Manager checks to see where it fits in the NSF Form 1030 and includes the item letter and number. This includes travel, publication of materials etc.
4. For example, when the item is a supplemental/extra pay contract, the Budget Manager places it under F1 for Participant Stipends.
5. During May and June, the Budget Manager checks to see what items are still open that need to be paid. Once that is done, a review of the F180 screens is made to ensure the total amounts are correct.
6. The Budget Manager then sorts the items by the NSF Form1030 lines to find out what has been expended for all participant costs.
7. The Budget Manager then reports the amounts to the Budget Analyst by object lines. The amount of participant costs is subtracted from the amount of expenditures done throughout the year and the indirect is then calculated.

Auditors' Comments:

FUSD's comments appear responsive to the recommendation. However, the findings cannot be resolved until NSF verifies that the proposed corrective actions have been satisfactorily implemented and all recommendations have been adequately addressed.

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

COTTON & COMPANY LLP

March 14, 2002

**FINANCIAL SCHEDULES
AND SUPPLEMENTAL
INFORMATION**

SCHEDULE A

FRESNO UNIFIED SCHOOL DISTRICT
FRESNO, CALIFORNIA

NATIONAL SCIENCE FOUNDATION AWARD NO. ESR-9452988
SCHEDULE OF AWARD COSTS
SEPTEMBER 1, 1995, TO AUGUST 31, 2000
Final

Cost Category	Approved Budget	Claimed Costs	Reclassifications	Claimed Costs After Reclassification	Questioned NSF-Funded Costs	Schedule Reference
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]

SCHEDULE B

**FRESNO UNIFIED SCHOOL DISTRICT
FRESNO, CALIFORNIA**

**NATIONAL SCIENCE FOUNDATION AWARD NO. ESR-9452988
SCHEDULE OF QUESTIONED COSTS
SEPTEMBER 1, 1995, TO AUGUST 31, 2000**

1. **Reclassifications.** While preparing the Summary of Claimed Costs, FUSD representatives incorrectly included some expenditures in the wrong NSF cost category. We reclassified costs as follows:
- \$119,531 of participant support stipends were actually salaries and wages.
 - \$101,759 of participant support stipends were actually non-participant support travel costs.
 - \$151,214 of fringe benefits were actually fringe benefit costs allocable to participant support stipends.
 - \$2,436 of equipment costs were actually materials and supplies.
2. **Indirect Costs.** FUSD did not claim indirect costs in accordance with award terms. Section III, B1, of the award states that indirect costs will be based on a fixed 5-percent indirect rate applied to direct costs less participant support costs. FUSD did not use the 5-percent rate in all years and applied the rates to total direct costs, including participant support costs.

GPM 632.2 states that NSF generally provides no amounts for indirect costs for participant support costs. According to FUSD representatives, its accounting personnel were not notified of special provisions in the award or the NSF regulations related to indirect costs. We calculated questioned costs as follows:

Total direct costs claimed	\$14,238,818
Less: Participant support costs per audit	<u>3,432,671</u>
Indirect cost base per audit	\$10,806,147
Fixed indirect cost rate	<u>5%</u>
Indirect costs per audit	\$540,307
Less: Claimed indirect costs	761,231
Questioned costs	<u>\$220,924</u>

3. **Costs Incurred in Excess of Costs Claimed.** Net disbursements reported on the September 30, 2000, FCTR were \$49 less than costs recorded on FUSD's books of accounts.

4. **Questioned because of Cost-Sharing Shortfall.** As detailed in Schedule C, FUSD claimed cost-share expenses of \$17,538,877, all of which we classified as unacceptable because of inadequate supporting accounting records. In accordance with GPM 333.3, grantees must cost share at the level of cost sharing included in the award. Because of the unacceptable costs, FUSD did not cost share allowable costs at the level required (or \$12.2 million) in the award. Using guidelines contained in NSF's Auditing for Cost Sharing and Matching on NSF Grant Awards, we calculated excess funding NSF provided as a result of inadequate cost sharing as follows:

Maximum Percentage of NSF Funding to Total Project Costs

NSF Share Budgeted	\$15,000,000
FUSD Cost-sharing Required	<u>12,229,578</u>
Total Project costs	<u>\$27,229,578</u>

Maximum NSF Share (NSF share-\$15,000,000/Total project costs-\$27,229,578)	<u>55.09%</u>
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Audit Results

Claimed NSF Costs – Questioned NSF Costs (\$15,000,000 - \$220,924)	\$14,779,076
Claimed Cost-sharing – Unacceptable cost sharing (\$17,538,877- \$17,538,877)	<u>0</u>
Adjusted Project Costs	<u>\$14,779,076</u>

Questioned Costs

Adjusted Project Costs	\$14,779,076
Less: Maximum NSF Share (55.09% of \$14,779,076)	<u>8,141,793</u>
Questioned NSF Costs Due to FUSD's Cost-sharing Shortfall	<u>\$6,637,283</u>

Note: The amount of questioned cost sharing shortfall will ultimately depend on the amount of questioned direct and direct costs sustained which will be determined by NSF.

SCHEDULE C

FRESNO UNIFIED SCHOOL DISTRICT
 FRESNO, CALIFORNIA

NATIONAL SCIENCE FOUNDATION AWARD NO. ESR-9452988
 SCHEDULE OF COST SHARING
 SEPTEMBER 1, 1995, TO AUGUST 31, 2000

Cost Category	Cost Sharing Claimed	Unacceptable Costs	Notes
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]

**FRESNO UNIFIED SCHOOL DISTRICT
FRESNO, CALIFORNIA**

Notes To Schedule C

1. **Salary and Wages.** FUSD claimed \$1,289,763 in salaries and wages that were included in the cost pool of its negotiated indirect cost rates. Costs claimed were based on estimates by FUSD representatives who prepared the cost-share certifications and were not identified in the accounting records as grant expenditures. OMB Circular A-87, Attachment A, Part C, states that to be allowable under federal awards, costs must be accorded consistent treatment; a cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost. FUSD representatives agreed that these costs should not have been claimed as cost-share expenses. We questioned the \$1,289,763 claimed as cost sharing salary and wages.

2. **Building Upgrades and Equipment.** FUSD claimed \$10,093,648 in cost-share expenses related to upgrading science labs and classrooms, networking schools, constructing a high school, and obtaining equipment. According to FUSD representatives, none of the costs claimed were identified in the accounting records as grant expenditures. Support consisted of various types of worksheets and memorandums assembled by FUSD representatives to support cost-share expenditures reported to NSF. FUSD did not provide accounting reports or other documentation to substantiate the claimed costs. Further, many of the expenditures were also based on unsupported allocation percentages.

NSF Program Announcement No.93-67 for Urban Systemic Initiatives in Science, Mathematics and Technology Education, states that upgrading or expanding equipment is not a priority in this program and that only items allowable under applicable cost principles, if charged to the project, may be included as the grantee's contribution to cost sharing. It further states that the use of school buildings, equipment, and materials during normal hours of operation is not considered cost sharing.

OMB Circular A-110 Section 23, states that to be accepted as part of the recipient's cost sharing, the expenditures must be necessary and reasonable for proper and efficient accomplishment of project or program objectives and allowable under the applicable cost principles.

OMB Circular A-87, Section 19, states that, capital expenditures for equipment, including replacement equipment, other capital assets, and improvements which materially increase the value or useful life of equipment or other capital assets, are allowable as a direct cost when approved by the awarding agency. NSF did not approve capital construction costs as direct costs or as cost-sharing expenses. Based on the cited regulations applicable to NSF Award No. ESR-9452988, costs associated with buildings and equipment used during FUSD's normal operations are not allowable as cost sharing. Accordingly, we questioned these costs.

3. **Unsupported Expenditures.** FUSD claimed \$6,155,466 in cost-share expenses not supported by accounting records or invoices. According to FUSD representatives, none of the costs claimed were identified in the accounting records as grant expenditures. Support consisted of various types of worksheets and memorandums assembled by FUSD representatives to support cost-share expenditures reported to NSF. FUSD did not provide accounting reports or other documentation. Further, many of the expenditures were based on unsupported percentages; for example 25 percent of the cost of library books was estimated to be related to science and mathematics, and then that resulting amount was split between FUSD's two NSF grants. No documentation was available to support the relationship of the costs to NSF program objectives.

OMB Circular A-110, Section 23, states that cost-sharing expenses are allowable when they are verifiable from the recipient's records and are necessary and reasonable for proper and efficient accomplishment of project or program objectives. NSF Program Announcement No. 93-67 states that the normal use of materials during normal school hours of operation is not considered cost sharing. We questioned the \$6,155,466 in unsupported cost share expenditures.

SCHEDULE D

**FRESNO UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF AWARDS AUDITED AND AUDIT RESULTS
SEPTEMBER 1, 1995, TO AUGUST 31, 2000**

Summary of Awards Audited

Award Number	Award Period	Audit Period
ESR-9452988	09/01/95 – 08/31/00	09/01/95 – 08/31/00

Award Number	Type of Award	Award Description
ESR-9452988	Cooperative Agreement	Urban Systemic Initiatives Program

Summary of Questioned, Unresolved, and Unsupported Costs by Award

NSF Award Number	Award Budget	Claimed Costs	Questioned Costs	Unresolved Costs	Unsupported Costs
ESR-9452988	\$15,000,000	\$15,000,000	\$6,858,207	\$0	\$0

Summary of Questioned Cost by Explanation

Category	Questioned Costs	Internal Control Finding	Noncompliance Finding
Cost Sharing Shortfall	\$6,637,283	Yes	Yes
Indirect Costs	220,924	Yes	Yes
Total Questioned Cost	\$6,858,207		

Summary of Noncompliance and Internal Control Findings

Findings	Noncompliance or Internal Control?	Material or Reportable?
Salaries and Wages	Both	Material
Cost Sharing	Both	Material
Indirect Costs	Both	Material
Participant Support	Both	Material

**FRESNO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL SCHEDULES
SEPTEMBER 1, 1995, TO AUGUST 31, 2000**

1. **Summary of Significant Accounting Policies**

Accounting Basis

The accompanying financial schedules have been prepared in conformity with National Science Foundation (NSF) instructions. Schedule A has been prepared from the reports submitted to NSF. 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 award terms, 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, an awardee does not maintain any equity in the award, and any excess of cash received from NSF over final expenditures is due back to NSF.

B. Equipment

Equipment purchases were not provided for in the NSF award.

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 schedule.

2. **Income Taxes**

FUSD is a local governmental entity and is exempt from income taxes under the Internal Revenue Code.

3. **NSF Cost Sharing and Matching**

As set forth in the grant award, the approved cost sharing was as follows:

Cost Sharing	National Science Foundation	Total Project Budget
\$12,229,578	\$15,000,000	\$27,229,578

4. **Indirect Cost Rates**

- Type of rate authorized for award: Predetermined fixed rate of 5 percent.
- Period of rate: September 1, 1995, to August 31, 2000.
- Indirect cost rate used to claim cost: Based on total direct costs less participant support costs.

APPENDIX A

AWARDEE'S COMMENTS TO REPORT

**FRESNO UNIFIED SCHOOL DISTRICT
2309 TULARE STREET
FRESNO, CALIFORNIA 93721-2287**

**NATIONAL SCIENCE FOUNDATION AWARD NUMBER
ESR-9452988**

**FINANCIAL AUDIT OF
FINANCIAL SCHEDULES AND
INDEPENDENT AUDITORS' REPORTS**

FOR THE PERIOD SEPTEMBER 1, 1995, TO AUGUST 31, 2000

**Written Comments on the Findings
(Received Draft Report September 20, 2004)**

Prepared by:

Fresno Unified School District
Fiscal Services
Instruction Division
September 2004

Preface

The National Science Foundation (NSF) awarded cooperative agreement No.ESR-9452988 to the Fresno Unified School District (FUSD) for the period of September 1, 1995 to August 31, 200 in the amount of \$15 million.

In the Draft for Discussion purposes only, the auditors noted the following findings:

1. Lack of adequate supporting documentation for salary and fringe benefit costs
2. Lack of a system to identify, account for, monitor and report cost sharing
3. Lack of appropriate guidance resulted in excessive indirect costs claimed
4. Lack of a system to track, document, and monitor the use of participant support funds

FUSD submitted the required annual reports, attended all PI/PD meetings, and hosted reverse site visits for the cognizant NSF officer and team members. The content of these interactive functions never addressed acceptable accounting and documentation practices for NSF awards. In the first three years of the award, FUSD was assigned different cognizant officers and compliant procedures were never discussed. Communication was mostly spent on learning about our proposal and how the implementation was effecting student achievement. Reviews by NSF were conducted regarding the six drivers of the NSF evaluation process.

As a first time NSF award recipient, we were not aware of the importance of these issues. As time passed and leadership changed both with NSF and in our district, new personnel focused simply on continuing what had been done before, as they learned their duties and roles, thus increasing our inability to catch these errors.

FUSD has implemented procedures in each of the findings. FUSD staff has been trained and follows the appropriate procedures. Supervisors are responsible for employee's adherence to described procedures.

Finding No. 1. Lack of adequate supporting documentation for salary and fringe benefit costs.

Recommendation No. 1: We recommend that the NSF Directors for the Division of Institution and Award Support (DIAS) and the Division of Grants and Agreements (DGA) direct FUSD to immediately implement policies and procedures to ensure that employees maintain semi-annual certifications and monthly personnel activity reports to support salaries and wages charged to NSF awards as required by OMB Circular A-87 Attachment B, Section 11h.

District's Comments

Each pay period, FUSD's accounting system allocated payroll charges to funding sources (grants or other cost objectives) based on personnel requisition forms initiated at the time the employee was first assigned to work on the NSF award. The requisition forms were submitted to the Human Resources Department by each employee's supervisor. The requisition form detailed the percentage of salary costs to be allocated to each funding source based on the supervisor's estimate of the percentage of time the employee was expected to work on each grant or cost activity. A supervisor would change an employee's funding percentage if he or she deemed it necessary. Accordingly, this change would be initiated via a personnel requisition.

Former and current FUSD staff were interviewed and provided signature statements to Cotton & Company regarding effort charged to the NSF award. Both interviews and statements support the validity and the appropriateness of the costs charged to NSF Award No. ESR-9452988.

FUSD implemented the following procedures. NSF staff has been trained to follow procedures. Time Accounting Record reports are available for our current NSF award beginning August 2000.

Written procedures to track direct labor effort spent on NSF awards and all federal funds:

1. All employees involved in the grant keep Time Accounting Record reports. This is true for those charged to the project and for those used for cost share.
2. Employees record the percentage of time spent on the project. Employees who are split funded record the amount of time spent to each project.
3. Time Accounting Record reports are given to the Budget Manager and are entered in the computer to ensure the percentages are accurate for time required to the project.
4. Time Accounting Record reports are signed by the appropriate supervisors and returned to the Budget Manager to be filed for each fiscal year of the project.
5. The portion of the employee's salary, which is charged to the cost share of the NSF program, is charged to the budget: [REDACTED]. The activity code [REDACTED] has been designated as the District's cost share for NSF/USI/USP.

Finding No. 2. Lack of a system to identify, account for, monitor and report cost sharing.

Recommendation No. 2: We recommend that the NSF Directors of DIAS and DGA direct FUSD to establish a system to identify, account for, monitor and report cost sharing expenses and, at a minimum, ensure that:

Cost sharing is separately tracked, accounted for, and verifiable in FUSD's records; is not included as contributions for any other federally-assisted project or program; is necessary and reasonable for proper and efficient accomplishment of project and program objectives, is allowable under applicable cost principles; and is not paid by the federal government under another award;

All awards with cost sharing requirements are immediately identified and reported to the Accounting Department;

Costs sharing costs incurred and claimed are appropriately reviewed, approved, and recorded, as they occur to establish that they are reasonable, allocable, and allowable;

Cost sharing records are adequately maintained and documented;

Cost sharing certifications are submitted to NSF in a complete, accurate and timely manner; and

Cost sharing policies and procedures are developed in writing consistent with NSF requirements, and communicated to appropriate FUSD staff.

District Comments

Lack of a system to identify and account for cost sharing

The FUSD USI funded proposal referenced the improvement of mathematics, science and technology facilities as local initiatives. The use of \$15 million bond earmarked for improvements were listed as cost sharing funds on the summary page as well as on pages 5 and 17 of the funded proposal. These funds were also referenced in the cost share signature page sent to NSF 5/14/96. In addition, NSF received a letter dated June 25, 1995 describing the use of \$15 million in capital improvement bond money for cost sharing. This letter was addressed to [REDACTED] NSF Program Officer and sent under signature by FUSD's [REDACTED] and FUSD's [REDACTED]. FUSD was never directed to implement the proposal differently than as written. After a successful bond election, the FUSD Board of Education honored the commitment to the program to use this money as cost sharing funds as stated in the funded proposal. Documents were provided to the auditors illustrating the science facilities expenditures. FUSD acted in good faith to the funded proposal and was never directed this action was not allowed for cost share.

Cost Share Certifications Were Not Properly Submitted to NSF

FUSD used the funding cycles to submit the cost share reports. NSF accepted these reports and never informed FUSD that submission was not sufficient. Funding for year 1 was for 1995-1996 (12 months). FUSD submitted Year 1 cost sharing on 5/14/96 under signature of [REDACTED]. Funding for year 2 was for 1996-1997 (12 months). FUSD submitted Year 2

cost share on 5/8/97 under signature of [REDACTED]. Funding for Years 3, 4, and 5 came in 2 18-month installments. FUSD submitted a 3rd report on 3/11/99 for 18 months of cost share under the signature of [REDACTED]. Copies of three cost sharing reports were provided to Cotton & Company representatives during their fieldwork visits.

As a result of added support from NSF for our current NSF award, FUSD receives annual reminders of the certification's due date. FUSD has been submitting this certification in a timely manner.

Beginning fiscal year 2003, FUSD implemented the following procedures. FUSD staff has been trained to follow these procedures. Cost share submission continues to be submitted on an annual basis to the cognizant NSF officer.

Written procedures for cost sharing requirements for NSF awards and all other awards with cost sharing requirements:

1. The Budget Manager submits a B20 form, award letter, and other documentation to Fiscal Services.
2. The Financial Analyst and the Budget Manger compile the necessary object lines (i.e. salaries, benefits, etc.) needed to administer the general operation of the program.
3. The Financial Analyst read the award letter and other documentation to determine the program's allowable costs and cost sharing requirements.
4. If the program has a cost share requirement, the Financial Analyst will work with the Budget Manager to identify the budget representing the cost share.
5. If the cost share is a salary, a personnel requisition will be submitted to Human Resources to change the funding percentage of the employee to the budget containing the District's cost share.
6. All cost sharing requirements are coded to an activity code designated for the program.
7. For example, [REDACTED] regular salary is charged to the budget: [REDACTED].
8. The portion of the Superintendent's salary, which is charged to the cost share of the NSF program, is charged to the budget: [REDACTED]. The activity code [REDACTED] has been designated as the District's cost share for NSF/USI/USP.
9. The Financial Analyst and the Budget Manager will monitor to ensure the expenses, include in the cost share, are properly coded to the appropriate budget.
10. At the end of the fiscal year, the Financial Analyst and Budget Manager will ensure the District has met the required cost share.
11. If the cost share is materials that directly support of the program, then the activity and function codes are charged to the designated cost sharing code.

Finding No. 3. Lack of appropriate guidance resulted in excessive indirect costs claimed.

Recommendation No. 3: We recommend that the NSF Directors of DIAS and DGA direct FUSD to develop and implement written policies and procedures to ensure that appropriate personnel are made aware of accurate indirect cost terms of all NSF awards, and that indirect costs claimed are calculated in accordance with those terms.

District Comments

Historically, the indirect rate for the district has been less than 5 percent. However, with time the rate eventually increased to over 5 percent. Changes in the department staff at all levels may have played a role in applying the incorrect indirect rate.

Upon learning this error, FUSD immediately implemented the following procedures for the NSF award. FUSD staff has been trained to follow the procedures.

Procedures for indirect cost computation for NSF awards:

1. At the end of fiscal year, Financial Analyst ensures that the expenditures in the District's mainframe are complete for the NSF Program.
2. The Financial Analyst will inquire to the NSF staff the amount of the expenditures to be excluded from the computation of indirect cost. This amount is addition to the expenditures for capital outlay (if any), which are excluded from the calculation.
3. NSF staff will send Fiscal Services supporting documentation for the amount they are requesting to be excluded from the computation of indirect cost. The supporting documentation should include where the participant costs were charged in the NSF budget.
4. After review of the documentation, the Financial Analyst will decrease the total expenses for the NSF grant in the database used to compile the fiscal year end information for the District's grants and entitlements. The database is used to report the revenues and expenditures as well as calculate accounts receivable, deferred revenue, accounts payable, and indirect cost.
5. The final step is to produce a journal voucher document that will debit the NSF's programs indirect cost object – 7315 and credit the revenue in the District's General Fund.

Finding No. 4. Lack of a system to track, document, and monitor the use of participant support funds.

Recommendation No. 4: We recommend that the NSF Directors of DIAS and DGA direct FUSD to establish a system and appropriate policies and procedures to track, document and ensure the allowability of participant support costs and ensure that all FUSD staff working on NSF awards are adequately trained and made aware of the federal and NSF requirements for seeking NSF approval to spend participant support funds for other purposes.

District Comments

During the award period, the participant support costs were identified by the District's accounting system. These amounts are categorized in the object code of the budget. The USI office staff kept back up information to support expenditures identified as participant support costs, because there is not a specific object code for participant support. Excluding participant support is not consistent with how procedures were conducted. Common practice for FUSD is to exclude capital outlay only from the indirect cost calculation for most grants and entitlements. As a first time NSF award recipient, cognizant NSF program officers did not advise us of the importance of this issue.

Upon learning this error, FUSD immediately implemented the following procedures. FUSD staff has been trained on these procedures.

Procedures for claiming participant support costs for NSF awards:

1. A request for supplies, conference registration, other services, etc. is put into the system by a number automatically by the District's accounting system.
2. The Budget Manager will enter the RX, PD, PG, or SR document number into the USI/USP database along with the vendor name, amount and description of what the order is for.
3. The Budget Manager checks to see where it fits in the NSF Form 1030 and includes the item letter and number. This includes travel, publication of materials etc.
4. For example, when the item is a supplemental/extra pay contract, the Budget Manager places it under F1 for Participant Stipends.
5. During May and June, the Budget Manager checks to see what items are still open that need to be paid. Once that is done, a review of the F180 screens is made to ensure the total amounts are correct.
6. The Budget Manager then sorts the items by the NSF Form1030 lines to find out what has been expended for all participant costs.
7. The Budget Manager then reports the amounts to the Budget Analyst by object lines. The amount of participant costs is subtracted from the amount of expenditures done throughout the year and the indirect is then calculated.

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