

**Texas State Technical College - West Texas
300 College Drive
Sweetwater, Texas 79556**

**National Science Foundation Award Number
DUE - 9714435**

**Financial Audit
of
Financial Schedules
and
Independent Auditors' Reports**

For the Period October 1, 1997 to September 30, 2000

**Leon Snead & Company, P.C.
416 Hungerford Drive, Suite 400
Rockville, Maryland 20850**

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EXECUTIVE SUMMARY

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

EXECUTIVE SUMMARY

BACKGROUND

Texas State Technical College – West Texas at Sweetwater (TSTC West Texas) is an agency of the State of Texas located in Sweetwater, Texas. On October 1, 1997, the National Science Foundation (NSF) issued award DUE–9714435 to TSTC West Texas to fund the *Southwest Center for Advanced Technological Education* (SCATE) in the areas of experimenting and demonstrating how advanced technological education can be delivered over distance learning systems. During the award period, SCATE focused on the development of a distance learning infrastructure, professional development of faculty and revising materials for distance education delivery. Under this agreement, NSF awarded TSTC West Texas \$1,253,697 and the awardee agreed to cost share \$35,000 from October 1, 1997 to September 30, 2000. TSTC West Texas claimed \$1,253,697 of NSF funding and \$104,929 of cost sharing for the three-year award period.

TSTC West Texas follows the cost principles specified in Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions* and the Federal 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*.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine whether:

1. Costs charged to the NSF award by TSTC West Texas are allowable, allocable, and reasonable, in accordance with the applicable Federal cost principles and NSF award terms and conditions; and
2. TSTC West Texas' systems of internal control are adequate to properly administer, account for, and monitor its NSF award in compliance with NSF and Federal requirements.

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* (1994 Revision) issued by the Comptroller General of the United States, and the *National Science Foundation Audit Guide* (September 1996), as applicable. These standards, and the *National Science Foundation Audit Guide*, require that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed to the National Science Foundation as presented in the *Schedule of Award Costs* (Schedule A), are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in Schedule A. An audit also includes assessing the accounting principles used and significant estimates made by the TSTC West Texas, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

We used non-statistical sampling to test the costs claimed by TSTC West Texas for compliance with Federal and NSF award requirements. Based on this sampling plan, questioned costs in this report may not represent total costs that may have been questioned had all expenditures been tested. In addition, we made no attempt to project such costs to total costs claimed, based on the relationship of costs tested to total costs.

SUMMARY OF AUDIT RESULTS

We performed an audit of the financial reports submitted to NSF, as well as the cost-sharing amount claimed by TSTC West Texas for NSF Award No. DUE-9714435. These costs and the results of our audit are shown in Schedule A and are summarized as follows:

Award		Claimed	Questioned
DUE-9714435	Budget	Costs	Costs
NSF Funding	\$1,253,697	\$1,253,697	\$ 24,745
Cost Sharing	<u>35,000</u>	<u>104,929</u>	<u>0</u>
Total Project	<u>\$1,288,697</u>	<u>\$1,358,626</u>	<u>\$ 24,745</u>

The costs claimed by TSTC West Texas for the award expenditures generally appear allowable, allocable, and reasonable in accordance with the applicable Federal cost principles and the NSF award terms and conditions. However, we questioned \$24,745 of salaries and wages, and related fringe benefits. Additionally, we found two material weaknesses and three reportable conditions that could have an impact on TSTC West Texas' ability to administer, account for, and monitor claimed costs in compliance with NSF and Federal requirements.

Specifically, we found that TSTC West Texas improperly claimed costs for a portion of the project director's salaries and wages and related fringe benefits, prior to the costs being incurred. In addition, the awardee was not able to provide documentation to support the actual work performed by the project director, which according to the accounting records, occurred during the nine-month period after the award's expiration. As a result, we questioned \$24,745 of the project director's salaries and wages, and related fringe benefits charged to the award.

Additionally, TSTC West Texas did not always maintain employee activity reports to support approximately \$650,000 in salaries and wages and related fringe benefits charged to the award.

We believe that this deficiency, combined with the unallowable project director's salary costs, indicate material weaknesses in TSTC's internal controls for charging salaries and wages, and fringe benefits to NSF awards. As a result, neither TSTC West Texas nor NSF have any assurance that these funds were used to support NSF award activities, although they represented over 50 percent of the total costs claimed by TSTC West Texas. In order to substantiate the propriety of these costs, our review required significant amounts of testing of alternative records, although we eventually concluded that the costs appeared allowable and allocable to the NSF award. TSTC West Texas needs to establish control processes that will allow it to readily identify whether labor effort charges are proper and allocable to NSF awards.

We also found that TSTC West Texas did not obtain financial disclosure statements from investigators working on the NSF award, establish a system to track, record, and monitor its required cost sharing, or prepare contractual agreements with all of its consultants.

TSTC West Texas officials stated that these problems occurred because the project director of the award had been allowed to fully control the award activities with little or no oversight from other responsible TSTC West Texas officials. In addition, communication related to the award's financial activities between the project director and the accounting department officials was limited.

As a result of these material internal control weaknesses, NSF has less assurance that TSTC West Texas properly spent award funds for authorized purposes. In addition, neither NSF nor TSTC West Texas has any assurance that the investigators who worked on the award were free of any conflicts of interest.

We believe that if TSTC West Texas fails to address these weaknesses, similar problems may occur on other existing and future NSF awards. TSTC West Texas has one active NSF award for \$211,200, related to the *Technology Tomorrow Scholarship Program*, which is designed to attract more students to two-year technical programs in the computer science, computer technology and engineering technologies.

To address these material internal control weaknesses, we recommend that NSF's Division Directors of the Division of Institution and Award Support (DIAS) and the Division of Grants and Agreements (DGA) ensure that TSTC West Texas, for its current and future NSF award(s), (1) claims only costs that have actually been incurred and does not charge costs to NSF awards after the expiration of the award; (2) maintains employee activity reports for all employees whose salaries and wages, and related fringe benefits are charged to NSF awards; and (3) prepares, updates and maintains investigators' financial disclosure statements. In addition, we recommend that NSF Directors ensure that the awardee for any future NSF award with required cost sharing establish a system to identify, account for, monitor, and report cost-sharing expenses as they occur and ensure that contractual agreements are established for all consultants. Given the material nature of these control weaknesses, we also recommend that NSF recognize TSTC West Texas as a high risk awardee under its risk management program and not make additional awards to TSTC West Texas until corrective actions have been satisfactorily implemented and all recommendations have been adequately addressed.

TSTC West Texas officials did not comment on the questioned costs in their response but agreed with the internal control and compliance findings in the report and reported that they have implemented corrective actions. 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. TSTC West Texas' response has been summarized within the report and is included in its entirety in Appendix A.

EXIT CONFERENCES

An initial exit conference was held on November 30, 2001 at TSTC West Texas' office in Sweetwater, Texas. Preliminary findings and recommendations as well as other observations were discussed.

Representing TSTC West Texas were:

Name	Title
[REDACTED]	[REDACTED]

Representing Leon Snead & Company, P.C. was:

Name	Title
[REDACTED]	[REDACTED]

A second exit conference was held on December 9, 2004 by telephone. Findings and recommendations contained in this report were discussed.

Representing TSTC West Texas was:

Name	Title
[REDACTED]	[REDACTED]

Representing Leon Snead & Company, P.C. was:

Name	Title
[REDACTED]	[REDACTED]

Representing National Science Foundation, Office of Inspector General were:

Name	Title
[REDACTED]	[REDACTED]

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

INDEPENDENT AUDITORS' REPORT ON FINANCIAL SCHEDULES

We audited the costs claimed by the Texas State Technical College-West Texas at Sweetwater (TSTC West Texas) to the National Science Foundation (NSF) on the Federal Cash Transactions Report (FCTR) – Federal Share of Net Disbursements for the NSF award listed below. In addition, we audited the amount of cost sharing claimed by TSTC West Texas on this award. The FCTRs, as presented in the *Schedule of Award Costs* (Schedule A), are the responsibility of TSTC West Texas' management. Our responsibility is to express an opinion on *Schedule of Award Costs* (Schedule A), based on our audit.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
DUE-9714435	10/01/97 – 09/30/00	10/01/97 – 09/30/00

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* (1994 Revision) issued by the Comptroller General of the United States, and the *National Science Foundation Audit Guide* (September 1996), as applicable. These standards and the *National Science Foundation Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed to NSF as presented in the *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*. An audit also includes assessing the accounting principles used and significant estimates made by TSTC West Texas' management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

We used non-statistical sampling to test the costs claimed by TSTC West Texas for compliance with Federal and NSF award requirements. Based on this sampling plan, questioned costs in this report may not represent total costs that may have been questioned had all expenditures been tested. In addition, we made no attempt to project such costs to total costs claimed, based on the relationship of costs tested to total costs.

The *Schedule of Questioned Costs* (Schedule B) explains the claimed costs totaling \$24,745 that are questioned as to their allowability under the NSF award agreement. Questioned costs are (1) costs for which there is documentation that the recorded costs were expended in violation of the 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). NSF will make the final determination as to 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, the *Schedule of Award Costs* (Schedule A) referred to above presents fairly, in all material respects, the costs claimed on the Federal Cash Transactions Reports – Federal Share of Net Disbursements and cost sharing claimed for the period October 1, 1997 to September 30, 2000, in conformity with the National Science Foundation Audit Guide, NSF Grant Policy Manual, and terms and conditions of the NSF award, and on the basis of accounting policies described in the Notes to the Financial Schedule. 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 *National Science Foundation Audit Guide*, we have also issued a report dated November 30, 2001, on our tests of TSTC West Texas' compliance with certain provisions of laws, regulations, and the NSF award terms and conditions, and our consideration of TSTC West Texas' 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 TSTC West Texas' management, NSF, the cognizant Federal agency for audit, 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.

Leon Snead & Company, P.C.
Rockville, Maryland 20850
November 30, 2001

AUDIT FINDINGS AND RECOMMENDATIONS

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 Texas State Technical College-West Texas at Sweetwater (TSTC West Texas) to the National Science Foundation (NSF) and claimed cost sharing for the award listed below. We have issued our report thereon dated November 30, 2001.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
DUE-9714435	10/01/97 – 09/30/00	10/01/97 – 09/30/00

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* (1994 Revision) issued by the Comptroller General of the United States, and the *National Science Foundation Audit Guide* (September 1996), as applicable. These standards, and the *National Science Foundation Audit Guide*, require that we plan and perform the audit to obtain reasonable assurance about whether the financial 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 TSTC West Texas' management. As part of obtaining reasonable assurance about whether the financial schedule is free of material misstatement, we performed tests of TSTC West Texas' compliance with certain provisions of 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 such 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* and are described in Findings No. 1 through 5 below.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of TSTC West Texas 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 controls 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 controls 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* (Schedule A) for the period October 1, 1997 to September 30, 2000, we considered TSTC West Texas' 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 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 TSTC West Texas' ability to record, process, summarize and report financial data in a manner that is consistent with the assertions of management in the financial schedule. We consider Finding Numbers 1 through 5 described below to be reportable conditions. A material weakness is a reportable condition in which the design or operation of one or more of internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial 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 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 material weaknesses. We consider the reportable conditions described below in Finding Numbers 1 and 2 to also be material weaknesses.

Finding No. 1 — Final Reimbursement Request Not Based on Actual Cash Disbursements and Represents Costs Incurred After the Award Expiration Date

TSTC West Texas claimed costs for future payroll costs prior to the award's September 30, 2000 expiration date, contrary to federal and NSF grant requirements. Specifically, the awardee's final expenditure report (Federal Cash Transactions Report for the quarter ended September 30, 2000) submitted to NSF reported \$44,109 of net disbursements, which included \$24,745 for the project director's salaries and wages and related fringe benefits for the nine-month period October 1, 2000 to June 30, 2001. In addition to the awardee claiming salaries and wages and related fringe benefits before the costs were actually incurred, TSTC West Texas was unable to provide documentation to support the work performed by the project director during the nine-month period following the award's expiration as benefiting NSF.

NSF's *Grant Policy Manual* (GPM) Section 434 requires that payments to reimburse an awardee be based on actual cash disbursements. In addition, the GPM Section 602.3 states that funds may not be expended subsequent to the expiration date of the grant except to liquidate valid commitments that were made on or before the expiration date. However, the Principal Investigator (PI), who is no longer employed at TSTC West Texas, initiated a payroll change after the award had expired that effectively charged one half of the project director's salary and related fringe benefits to the award for the nine months following the award's expiration. The project director is also no longer employed at TSTC West Texas. Current TSTC West Texas officials were not aware of the reason(s) why the PI initiated this change. We were told that the project director continued working on NSF award activities during the nine-month period, but TSTC West Texas officials were unable to provide documentation to support this assertion. Further, TSTC West Texas did not request an extension of the award as required by GPM Section 602.3. Accordingly, NSF was not aware and did not authorize work on the NSF award beyond the grant period.

As a result, NSF award funds were used after the award's expiration, and more importantly NSF has no assurance that the funds were used to support NSF award activities. Therefore, we questioned \$20,515 of project director's salary and wages and \$4,230 of related fringe benefits charged to the NSF award. (See Schedule B, Note B-1.)

Recommendation No. 1

We recommend that NSF's Division Directors of the Division of Institution and Award Support (DIAS) and the Division of Grants and Agreements (DGA) ensure that TSTC West Texas for its current and future award(s), establish internal control policies and procedures that require (1) costs claimed be based only on actual cash disbursements as required by the GPM Section 434, and (2) costs charged to NSF awards after the expiration period are used only to liquidate valid prior commitments as required by the GPM Section 602.3.

Awardee's Response

On March 16, 2005, TSTC West Texas officials responded to the revised draft audit report that they concur with the finding that internal control practices during the grant period were not adequate to prevent the unallowable charging of \$24,745 of the Director's salary and benefits to

the grant after expiration. These officials added that the Director was allowed to complete financial reports to the NSF without review by trained accounting staff, which resulted in the unallowable costs being billed prior to the actual expense. The officials responded that the College, after the audit, implemented a Grants Management policy (COP 461) which outlines that billings to grantor agencies must be reviewed by the Business Office prior to submission, and that progress reports are reviewed and maintained by the Resource Development Office. The officials believe that this system of “checks and balances” will prevent future billings as they will be balanced against actual expenditures on the College’s general ledger. The officials continued that regarding payroll actions related to grants, the Business Office reviews all payroll changes that affect grants as outlined in a memo by [REDACTED] and recently reissued by [REDACTED].

Auditor’s Comments

TSTC West Texas’s comments appear responsive to the recommendation. However, the finding cannot be resolved until NSF verifies that the proposed corrective actions have been satisfactorily implemented and all recommendations have been adequately addressed including the resolution of the \$24,745 charge of the Director’s salary and benefits to the grant after expiration.

Finding No. 2 — Employee Activity Reports Not Always Maintained

TSTC West Texas did not always maintain employee activity reports to support the \$652,894 in salaries and wages and related fringe benefits charged to the NSF award. OMB Circular A-21, Section J. 8. (c) (2) states the distribution of salaries and wages by an institution should be supported by activity reports. In addition, NSF’s GPM Section 350 on *Records Retention and Audit* states that financial records, supporting documents, statistical records and other records pertinent to a grant will be retained by the grantee for a period of three years from submission of the *Final Project Report*. Also, the awardee’s policy although unwritten, had been to prepare and maintain activity reports to support employee time allocations. For the NSF award, the project director (who is no longer working at the institution) was responsible for maintaining all activity reports for employees working on the award.

However, TSTC West Texas officials could not locate 29 employee activity reports (81 percent) out of the 36 employee activity reports we requested for our audit. As a result, neither TSTC West Texas, nor NSF had assurance that the funds were used to support the NSF award activities, although these costs represented over 50 percent of the total costs claimed by TSTC West Texas. Only after an extensive and time-consuming search and review of secondary documentation, were we able to determine that the employees appeared to have worked on the award. However, given the magnitude of the labor effort charges on most of NSF awards, TSTC West Texas needs to ensure labor effort records are maintained in order to readily determine the propriety of its charges to NSF. Since TSTC West Texas must certify to the accuracy of its claimed costs on its FCTR, this is an important control on which to base this certification. We consider the absence of a process to maintain labor effort records to be a material weakness in internal control over payroll charges to NSF awards.

Recommendation No. 2

We recommend that NSF's Division Directors of DIAS and DGA ensure that TSTC West Texas, for its current and future award(s), establish written internal control policies and procedures that require activity reports to be prepared and retained for all employees whose salaries and wages, and related fringe benefits are charged to the NSF award(s) to demonstrate compliance with OMB Circular A-21 Section J.8. and the GPM Section 350 requirements.

Awardee's Response

On March 16, 2005, TSTC West Texas officials responded to the revised draft audit report that the College now maintains time-and-effort logs for all grants to which labor is charged, which are maintained by the grants office and reviewed by the Business Office. The response pointed out that this had been their practice for many years with ██████████ grant funds, but on the NSF grant, the proper checks and balances were not in place. Also, COP 461 requires this compliance action.

Auditor's Comments

TSTC West Texas's comments appear responsive to the recommendation. However, the finding 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 — Financial Disclosures Forms Not Prepared

TSTC West Texas did not obtain financial disclosure statements from investigators working on the NSF award. TSTC West Texas *Campus Operating Standard* (COS) 445 requires that all proposals for Federal grants include a signed Conflicts-of-Interest disclosure for each primary investigator, project director, or researcher associated with the grant proposal. The COS 445 also requires that each investigator disclose all significant financial interests of the investigator including those of the investigator's spouse and dependent children that would reasonably appear to be affected by the research or educational activities funded or proposed for funding by an agency or department of the Federal government, or in entities whose financial interests would reasonably appear to be affected by such activities. The COS 445 further requires that an investigator update his/her disclosure on an annual basis and as new reportable significant financial interests are obtained. NSF's GPM 510 on *Conflict of Interest Policies* requires awardees employing more than 50 persons to establish and enforce an institutional policy on conflict of interest, and similarly details what the policy should require.

We found that TSTC West Texas did not adhere to its COS 445 or NSF policy on financial disclosures. The awardee could not provide financial disclosure statements for any of the three principal investigators or the project director who worked on the award during its three-year term. A current TSTC West Texas official stated that the project director and others working on the award at the time apparently overlooked the COS financial disclosure policy. As a result, neither NSF nor TSTC West Texas had any assurance that investigators who worked on the NSF award were free of real or perceived conflicts of interests affecting NSF's award.

Recommendation No. 3

We recommend that NSF's Division Directors of DIAS and DGA direct TSTC West Texas to establish internal control policies and procedures that ensure investigators' financial disclosure statements are timely prepared, updated, and maintained as required by TSTC West Texas' COS 445 and NSF's GPM Section 510.

Awardee's Response

On March 16, 2005, TSTC West Texas officials responded to the revised draft audit report that COP 445 has always required financial disclosures be in place for those involved with grants, as applicable. The officials responded that unfortunately they were in violation of the College's written policy at the time. These same officials pointed out that they now maintain these statements, when applicable, in their Grants/Development Office.

Auditor's Comments

TSTC West Texas's comments appear responsive to the recommendation. However, the finding 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 — Cost-Sharing System Not Established To Identify, Account For, and Monitor Cost Sharing

TSTC West Texas lacked a system to identify, account for, and monitor its required cost sharing, which could result in the awardee failing to meet its required cost sharing. NSF's GPM Section 333, *NSF Cost Sharing Requirements*, requires a grantee to maintain records of all costs claimed as cost sharing and those records are subject to audit. The GPM also states that cost-sharing expenses must not be included as contributions to any other federal award or funded by any other federal award. In addition, OMB Circular A-110, Section 23, *Cost Sharing or Matching*, states that cost-sharing expenses must be verifiable from the recipient's records.

The NSF award required TSTC West Texas to cost share \$35,000. The awardee stated that it would cost share in the areas of technical support of the network, faculty development, new sites, and line leases. During the audit, the awardee was able to provide documentation totaling \$104,929 to support line lease costs that it claimed as cost sharing, however it did not have a cost sharing system established to identify, account for, and monitor cost sharing as it occurred. According to a current TSTC West Texas official, the awardee did not realize that a system to track cost sharing was necessary during the award period. In addition, communication between the accounting department officials and the project director was limited.

Although the awardee could provide documentation to support its required cost sharing, a system of collecting and monitoring specific amounts and categories of cost sharing is important to ensure that the cost sharing required is provided, that cost sharing is not claimed on other Federal awards, and the award objectives are met as originally anticipated. Accomplishment of the program objectives could be jeopardize, if promised cost sharing is not met.

Recommendation No. 4

We recommend that the NSF Directors of DIAS and DGA ensure that TSTC West Texas, for any future NSF award with required cost sharing, establishes a system to identify, account for, monitor and report cost-sharing expenses as it is incurred on the award, in accordance with GPM Section 333 and OMB Circular A-110, Section 23.

Awardee's Response

On March 16, 2005, TSTC West Texas officials responded to the revised draft audit report that at the time this grant was being prepared and implemented, the Business Office was not informed of the need to track cost sharing. The officials responded that COP 461 now requires that all grant applications be developed with full involvement of the Business Office and that separate accounts are established to track cost sharing items, which will prevent this specific problem from recurring.

Auditor's Comments

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

Finding No. 5 — Contractual Agreement with Consultant Not Established

TSTC West Texas did not establish a contractual agreement with one of its two consultants who worked on the award. The consultant worked on the award for four days during January and February 1998 at a fee of \$365 per day for a total fee of \$1,460. The consultant was hired by the awardee to provide evaluation services. NSF's GPM Section 616.1.d.8. states that in determining the allowability of consultant costs, the adequacy of the contractual agreement is one of the relevant factors. The GPM further provides components of an adequate contractual agreement, which includes a description of the service, estimate of time required, and rate of compensation and termination provisions. When asked, TSTC West Texas officials were unaware of the reasons a consultant agreement had not been established with the consultant despite the fact that an agreement with the same consultant had been established for a prior expired NSF award. The establishment of contractual agreements provides NSF with assurance that consultant's work was clearly defined and when compared to the contractual agreement the costs charged to the NSF award appear to be allowable, allocable, and reasonable and in compliance with the award terms and conditions.

Recommendation No. 5

We recommend that NSF's Division Directors of DIAS and DGA ensure that TSTC West Texas for its current and future award(s) establish adequate contractual agreements with its consultants including a description of the nature of the services to be performed, an estimate of time required, and the rate of compensation and termination provisions, as required in NSF's GPM Section 616.

Awardee's Response

On March 16, 2005, TSTC West Texas officials responded to the revised draft audit report that as a result of our audit COP 222 was developed which requires the Director of Purchasing or ■ designee sign all service contracts, and that a contract exist before any purchase order is issued. The officials pointed out that this process has worked well over the past three years and will prevent any recurrence.

Auditor's Comments

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

We considered these instances of noncompliance and internal control weaknesses in forming our opinion of whether the Schedule of Award Costs (Schedule A) presents fairly, in all material respects, the costs claimed by TSTC West Texas on the Federal Cash Transactions Reports – Federal Share of Net Disbursements and cost sharing claimed, for the period October 1, 1997 to September 30, 2000, in conformity with the *National Science Foundation Audit Guide, NSF Grant Policy Manual*, the Federal Laws and Regulations, and NSF award terms and conditions, and determined that this report does not affect our report dated November 30, 2001, on the Financial Schedule.

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

Leon Snead & Company, P.C.
Rockville, Maryland 20850
November 30, 2001

FINANCIAL SCHEDULES AND SUPPLEMENTAL INFORMATION

Schedule A

Texas State Technical College – West Texas
National Science Foundation Award Number DUE-9714435
Schedule of Award Costs
October 1, 1997 to September 30, 2000
Final

<u>Cost Category</u>	<u>Approved Budget</u>	<u>(A) Claimed Costs</u>	<u>Reclassi- fications</u>	<u>Claimed Costs After Reclassi- fications</u>	<u>Questioned Costs Amount</u>	<u>Schedule Reference</u>
<i>Direct Costs</i>						
Salaries and Wages			\$ -		\$ 20,515	B-1
Fringe Benefits			-		4,230	B-1
Permanent Equipment			-			
Travel			-			
<i>Subtotal</i>	\$ 840,082	\$ 828,676	\$ -	\$ 828,676	\$ 24,745	
<i>Other Direct Costs</i>						
Materials and Supplies			\$ -		\$ -	
Publications Costs			-		-	
Consultant Services			-		-	
Computer Services			-		-	
Other			-		-	
<i>Subtotal</i>	\$ 286,086	\$ 333,670	\$ -	\$ 333,670	\$ -	
<i>Total Direct Costs</i>	\$1,126,168	\$1,162,346	\$ -	\$ 1,162,346	\$ 24,745	
<i>Total Indirect Costs</i>	\$ 127,529	\$ 91,388	-	\$ 91,388	-	
<i>Costs Incurred in Excess of Claimed Costs</i>		(37)		(37)		
<i>Total Costs</i>	\$1,253,697	\$1,253,697	\$ -	\$ 1,253,697	\$ 24,745	
<i>Cost Sharing</i>	\$ 35,000	\$ 104,929	\$ -	\$ 104,929	\$ -	

(A) The total representing costs claimed agreed with the expenditures reported on the Federal Cash Transactions Report – Federal Share of Net Disbursements as of the quarter ended September 30, 2000. Claimed costs reported above are taken from Texas State Technical College West Texas' books of accounts. See Schedule B and accompanying notes to this financial schedule.

**Texas State Technical College - West Texas
National Science Foundation Award Number DUE-9714435
Schedule of Questioned Costs
From October 1, 1997 through September 30, 2000**

1. Salaries and Wages and Related Fringe Benefits — \$24,745

As described in Finding 1 in the *Independent Auditors' Report on Compliance With Laws and Regulations and Internal Control Over Financial Reporting*, TSTC West Texas requested reimbursement for future payroll costs prior to award's expiration, resulting in overstated expense reporting and improper reimbursement charges to the NSF award. Specifically, the awardee's final reimbursement request (Federal Cash Transactions Report for the quarter ended September 30, 2000) submitted to NSF reported \$44,109 of net disbursements, which included \$24,745 of the project director's salaries and wages and related fringe benefits for the nine-month period October 1, 2000 to June 30, 2001. In addition to the awardee claiming salaries and wages and related fringe benefits before the costs were actually incurred, TSTC West Texas was unable to provide documentation to support the work performed by the project director during the nine-month period following the award's expiration as benefiting NSF.

NSF's *Grant Policy Manual* (GPM) Section 434 requires that payments to reimburse an awardee be based on actual cash disbursements. In addition, the GPM Section 602.3 requires that funds may not be expended subsequent to the expiration date of the grant except to liquidate valid commitments that were made on or before the expiration date. This situation occurred because the Principal Investigator (PI) initiated a payroll change after the award had expired that effectively charged one half of the project director's salary and related fringe benefits to the award for the nine months following the award's expiration. Current TSTC West Texas officials were not aware of the reason(s) why the PI initiated this change. We were told that the project director continued working on NSF award activities during the nine-month period, but TSTC West Texas officials were unable to provide documentation to support this assertion.

As a result, NSF award funds were used after the award's expiration, and more importantly NSF has no assurance that the funds were used to support NSF award activities. Therefore, we questioned \$20,515 of project director's salary and wages and \$4,230 of related fringe benefits charged to the NSF award after its expiration date.

(a) The questioned project director's salaries and wages were calculated as follows:

<u>Pay Period Ending Dates</u>	<u>Payroll Charged</u>
October 31, 2000	[REDACTED]
November 30, 2000	
December 31, 2000	
January 31, 2001	
February 28, 2001	
March 31, 2001	

April 30, 2001	
May 31, 2001	
June 30, 2001	
Total	<u>\$20,515</u>

(b) The questioned project director's fringe benefits were calculated as follows:

<u>Pay Period</u> <u>Ending Dates</u>	<u>Payroll</u> <u>Charged</u>
October 31, 2000	
November 30, 2000	
December 31, 2000	
January 31, 2001	
February 28, 2001	
March 31, 2001	
April 30, 2001	
May 31, 2001	
June 30, 2001	
Total	<u>\$4,230.40</u>

**Texas State Technical College – West Texas
Summary Schedules of Award Audited and Audit Results
October 1, 1997 to September 30, 2000**

Summary of Award Audited

Award Number	Award Period	Audit Period
DUE-9714435	10/01/97 – 09/30/00	10/01/97 – 09/30/00

Award Number	Type of Award	Award Description
DUE-9714435	Grant	The purpose of the award is to fund the <i>Southwest Center for Advanced Technological Education (SCATE)</i> in the areas of experimenting and demonstrating how advanced technological education can be delivered over distance learning systems. During the award period, SCATE focused on the development of a distance learning infrastructure, professional development of faculty and revising materials for distance education delivery.

Summary of Questioned Costs by Award

NSF Award Number	Award Budget	Claimed Costs	Questioned Costs	Unsupported Costs
DUE-9714435	\$1,253,697	\$1,253,697	\$24,745	\$0

Summary of Questioned Cost by Explanation

Condition	Questioned Costs	Unsupported Costs	Non-Compliance	Internal Control Weaknesses
1. TSTC West Texas charged a portion of the project director's salaries and wages, and related fringe benefits to the award after its expiration. In addition, TSTC West Texas did not	\$ 24,745	No	Yes	Yes

Condition	Questioned Costs	Unsupported Costs	Non-Compliance	Internal Control Weaknesses
provide documentation to support the work performed by the project director during the nine-month period following the award's expiration.				
Total Costs Questioned	\$ 24,745			

Summary of Non-Compliance Issues and Internal Control Weaknesses

Condition	Non-Compliance	Internal Control	Is Internal Control Weakness Material or Reportable?
1. TSTC West Texas improperly requested reimbursement for a portion of the project director's salaries and wages and related fringe benefits prior to the costs being incurred. Additionally, these cost were incurred after the award expiration date.	Yes	Yes	Material
2. TSTC West Texas did not always maintain employee activity reports to support salaries and wages and related fringe benefits charged to the award.	Yes	Yes	Material
3. TSTC West Texas did not obtain financial disclosure statements from investigators working on the NSF award.	Yes	Yes	Reportable
4. TSTC West Texas lacked a system to identify, account for, and monitor its required cost sharing.	Yes	Yes	Reportable
5. TSTC West Texas did not establish a contractual agreement with one of its two consultants who worked on the award.	Yes	Yes	Reportable

Texas State Technical College – West Texas at Sweetwater
Notes to the Financial Schedules
October 1, 1997 to September 30, 2000

Note 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 used 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 did 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 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 *Schedule 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.

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

Note 2: Income Taxes

TSTC West Texas is an agency of the State of Texas. The awardee is exempt from Federal income taxes under the Internal Revenue Code. It is also exempt from Texas franchise or income tax.

APPENDIX A

**TEXAS STATE TECHNICAL COLLEGE WEST TEXAS
COMMENTS TO THE REPORT**

leon snead & company

From: [REDACTED]
To: [REDACTED]
Sent: Wednesday, March 16, 2005 1:05 PM
Attach: nsf_audit [REDACTED]
Subject: Re: Draft Report - TSTS

See attached. I put in links to to our COPs, but the hard copy response will have them attached, as well as the memos from our [REDACTED] concerning payroll actions (item 1).

[REDACTED]
[REDACTED]
Texas State Technical College West Texas
300 College Drive
Sweetwater, Texas 79556
voice: [REDACTED]
fax: [REDACTED]
e-mail: [REDACTED]
[REDACTED]

>>> "leon snead & company" [REDACTED] 01/28/05
1:47 PM >>>
[REDACTED]

Attached is Draft Report for TSTC West Texas. Hard copy will follow, please provide the comments by February 28, 2005. If you have any questions pleas give me a call [REDACTED]
[REDACTED]

TSTC West Texas Response to Recommendation No. 1

TSTC West Texas concurs with the finding that our internal control practices during this grant period were not adequate to prevent the unallowable charging of \$24,745 of the Director's salary and benefits to the grant after expiration. In addition, the Director was allowed to complete financial reports to the NSF without review by trained accounting staff, which resulted in the unallowable costs being billed prior to the actual expense.

The College, after this audit, implemented a Grants Management policy (COP 461-attached) which outlines that billings to grantor agencies must be reviewed by the Business Office prior to submission, and that progress reports are reviewed and maintained by the Resource Development Office. This system of "checks and balances" will prevent future billings as they will be balanced against actual expenditures on the College's general ledger.

Regarding payroll actions related to grants, the Business Office reviews all payroll changes that affect grants as outlined in a memo by [REDACTED] and recently reissued by our [REDACTED]

TSTC West Texas Response to Recommendation No. 2

The College now maintains time-and-effort logs for all grants to which labor is charged, which are maintained by our grants office and reviewed by our Business Office. This had been our practice for many years with [REDACTED] grant funds, but on this particular grant, the proper checks and balances were not in place. COP 461 requires this compliance action.

TSTC West Texas Response to Recommendation No. 3

Our COP 445 has always required that financial disclosures be in place for those involved with grants, as applicable. Unfortunately, we were in violation of the College's written policy at this time. We now maintain these statements, when applicable, in our Grants/Development Office.

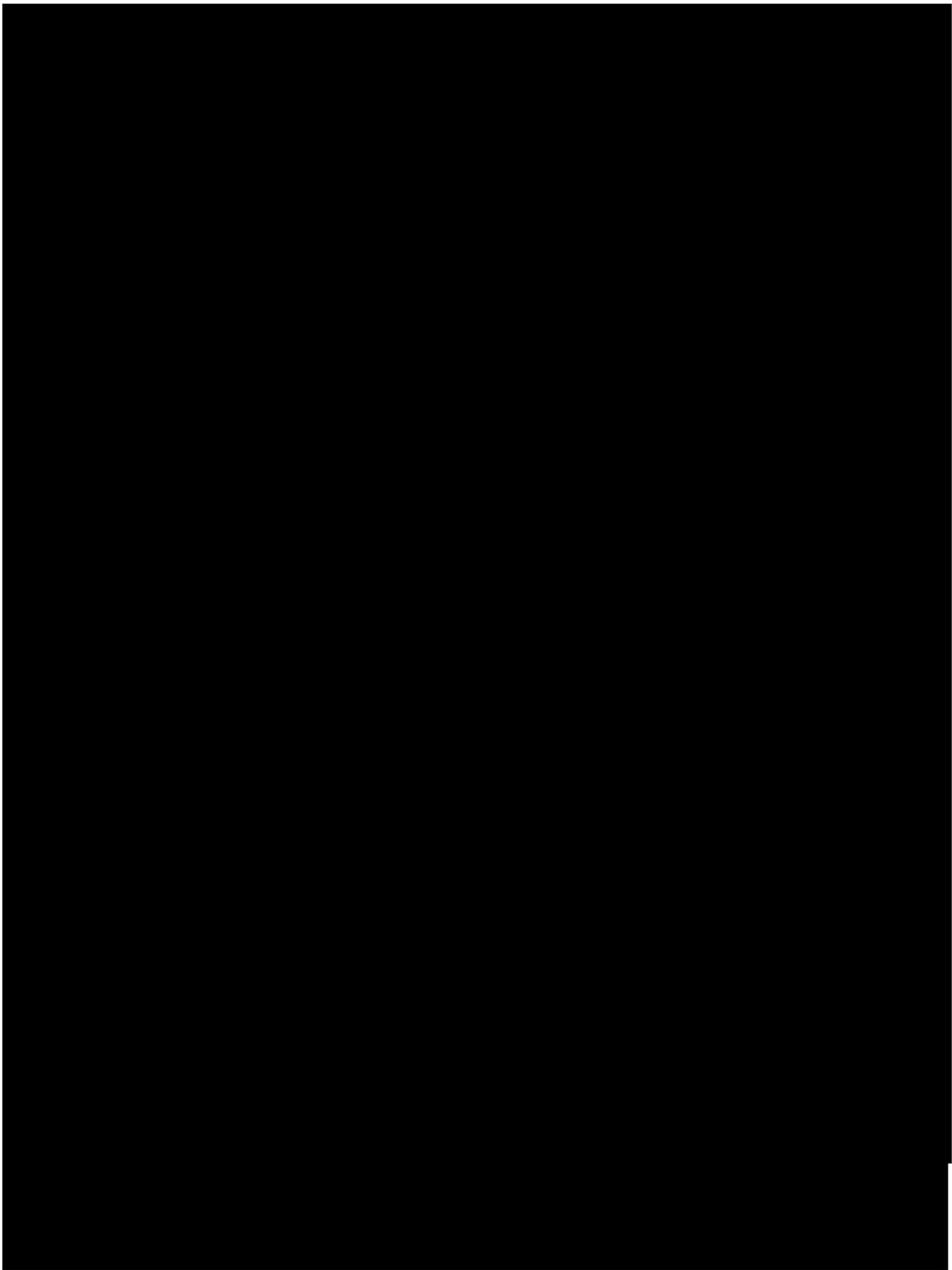
TSTC West Texas Response to Recommendation No. 4

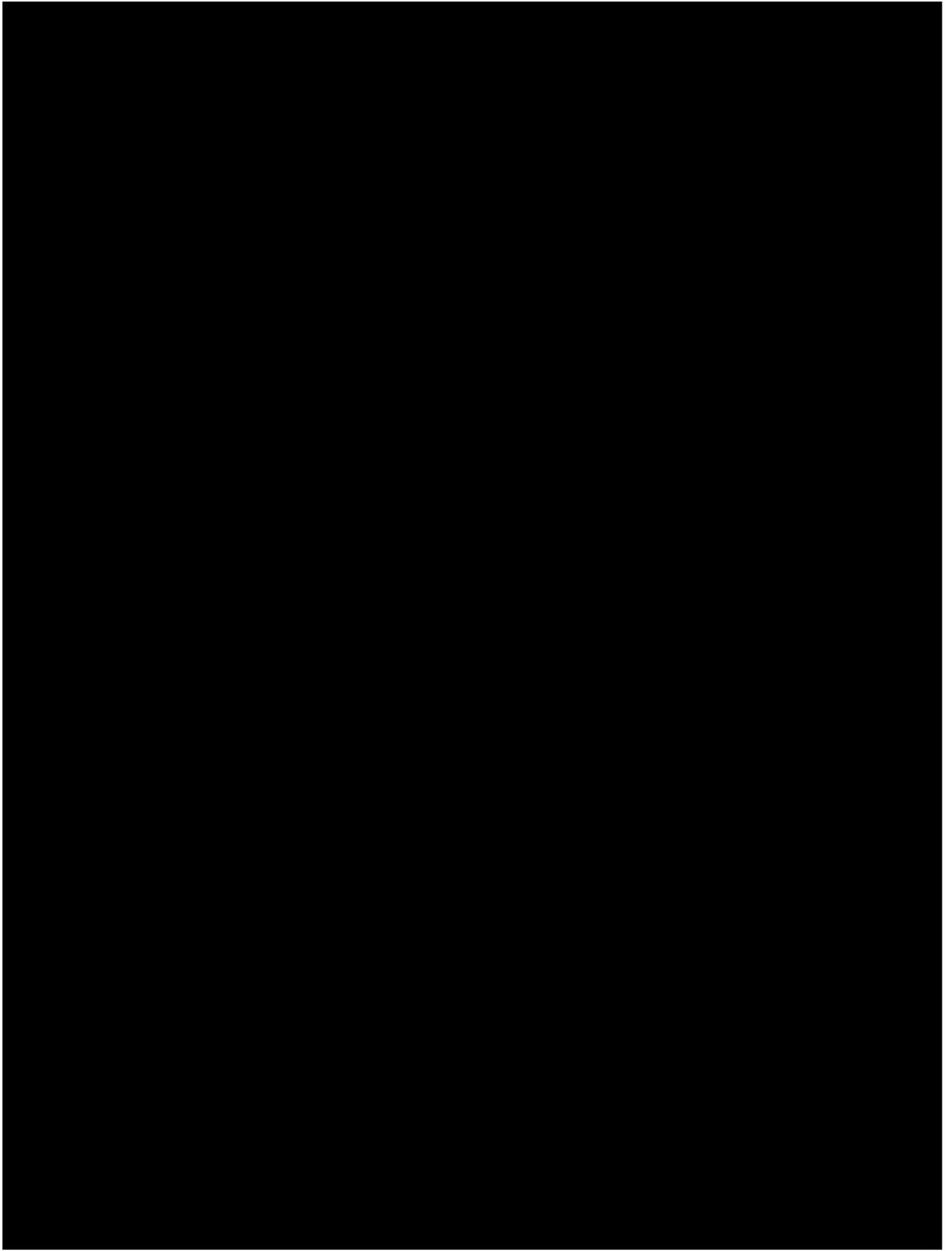
When this grant was being prepared and implemented, the Business Office was not informed that we need to be tracking cost sharing. Our COP 461 now requires that all grant applications are developed with full involvement of the Business Office. Separate

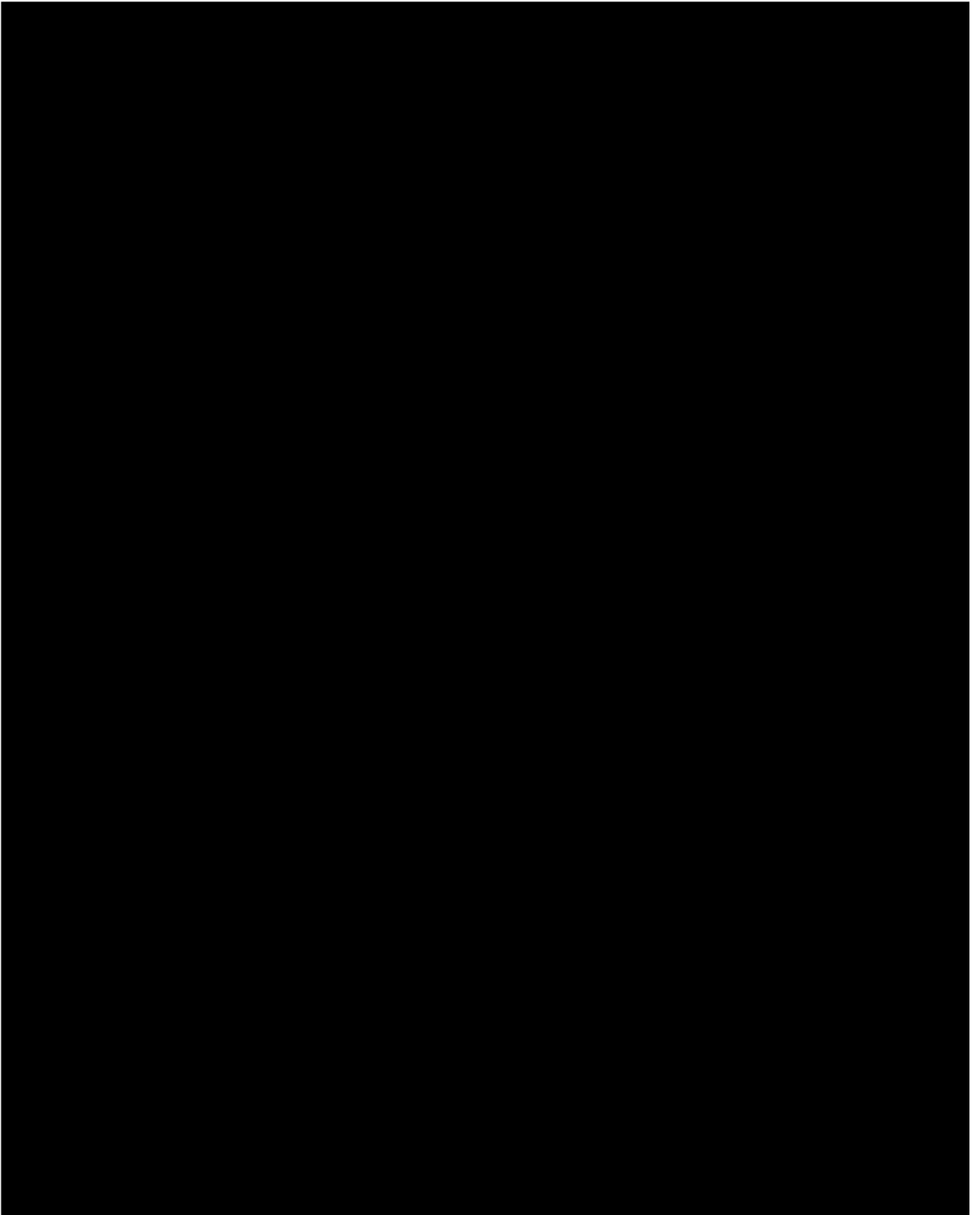
accounts are now setup to track cost sharing items, which will prevent this specific problem from reoccurring.

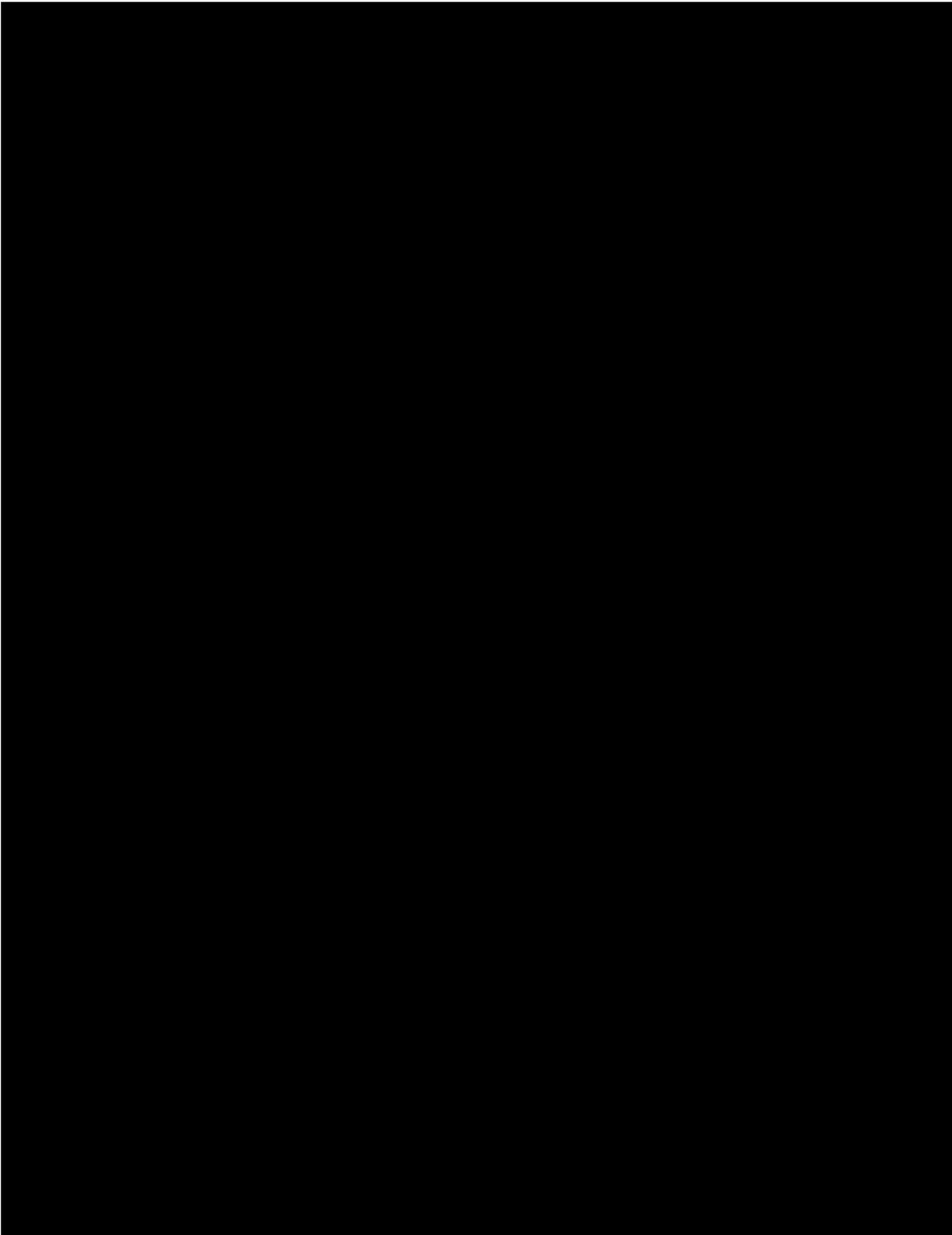
TSTC West Texas Response to Recommendation No. 5

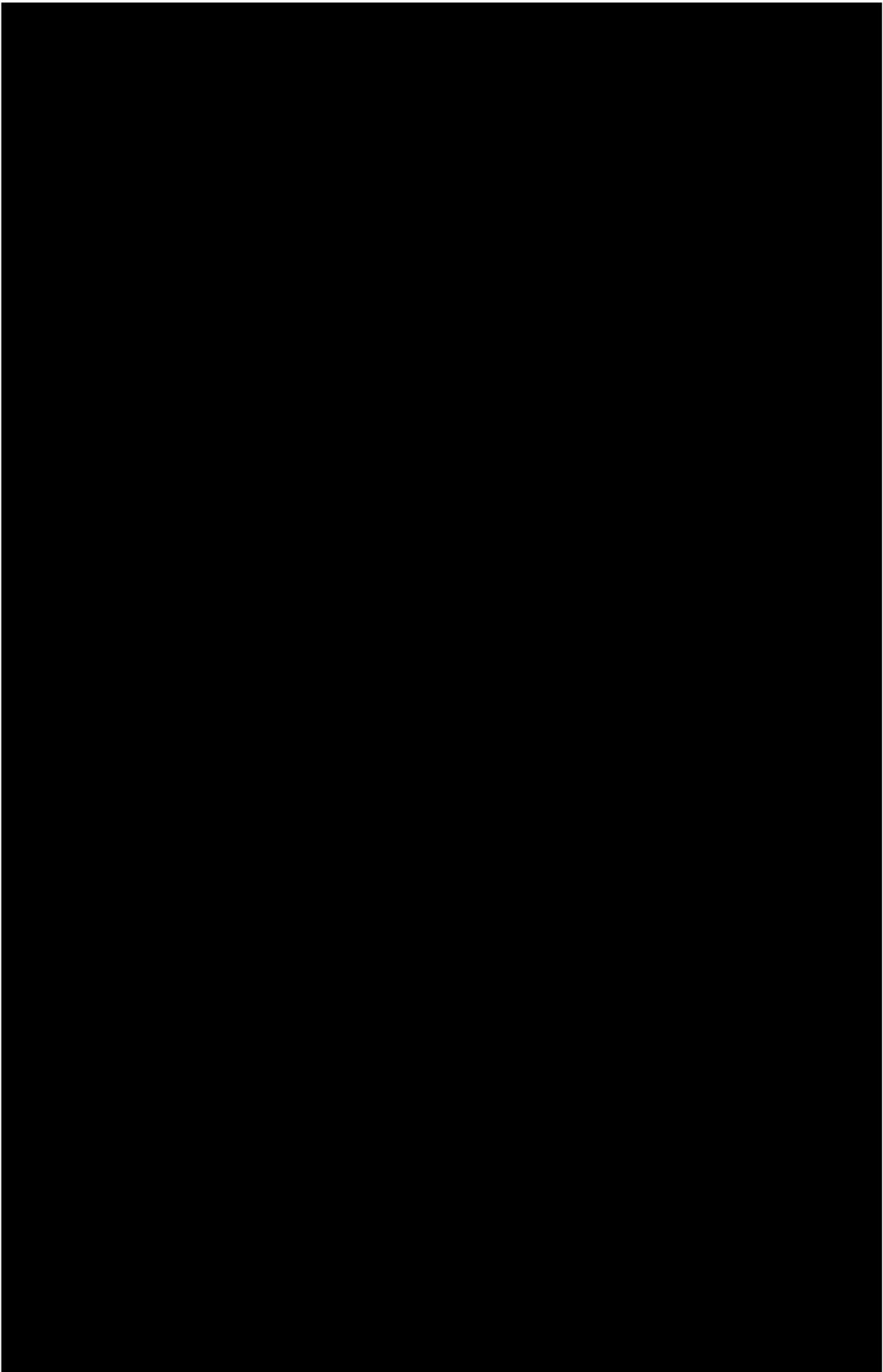
After this audit, COP 222 was developed, which now requires that the Director of Purchasing or [REDACTED] designee sign all service contracts, and that a contract exist before any purchase order is issued. This new process has worked well for us over the past three years, and will prevent any reoccurrence.

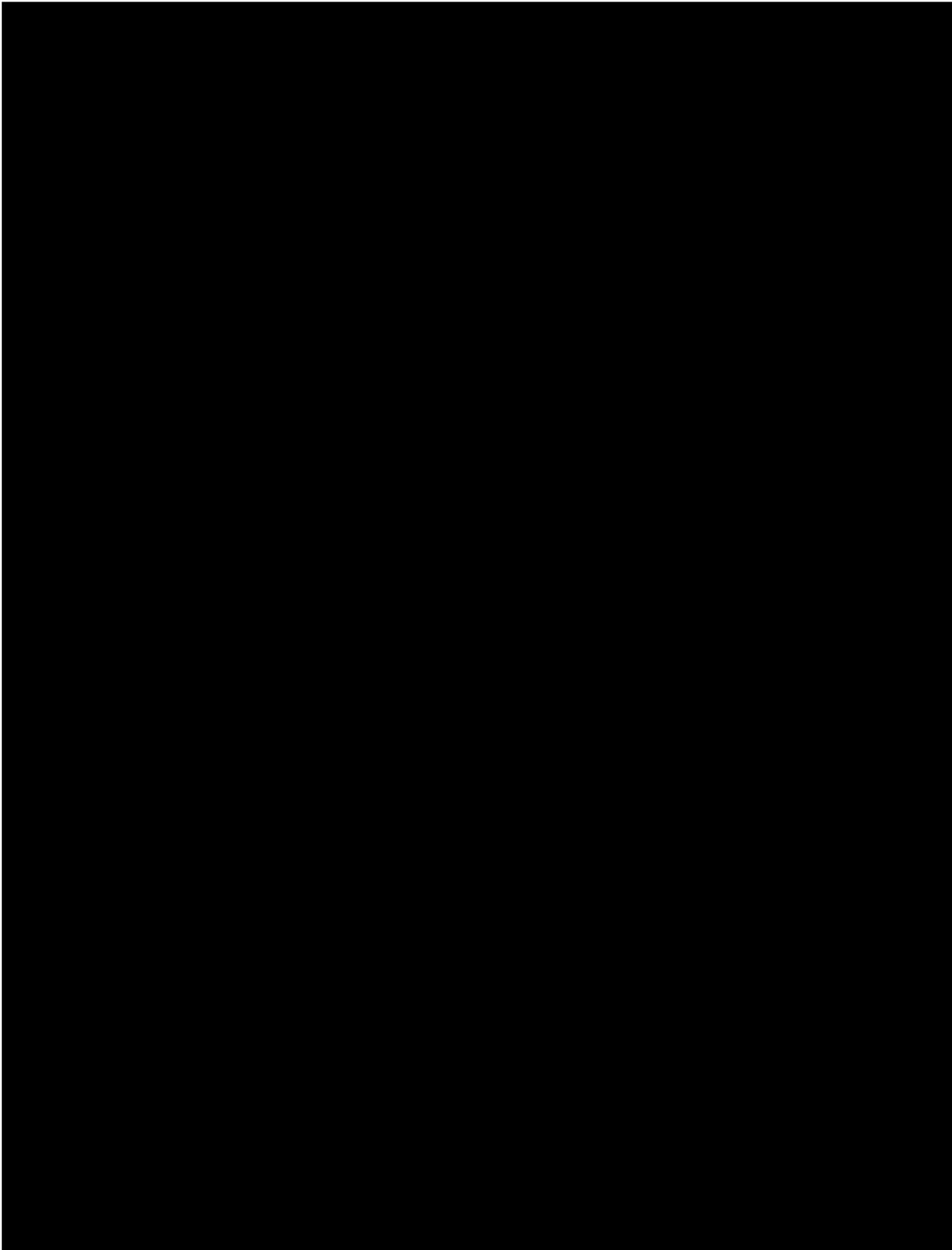


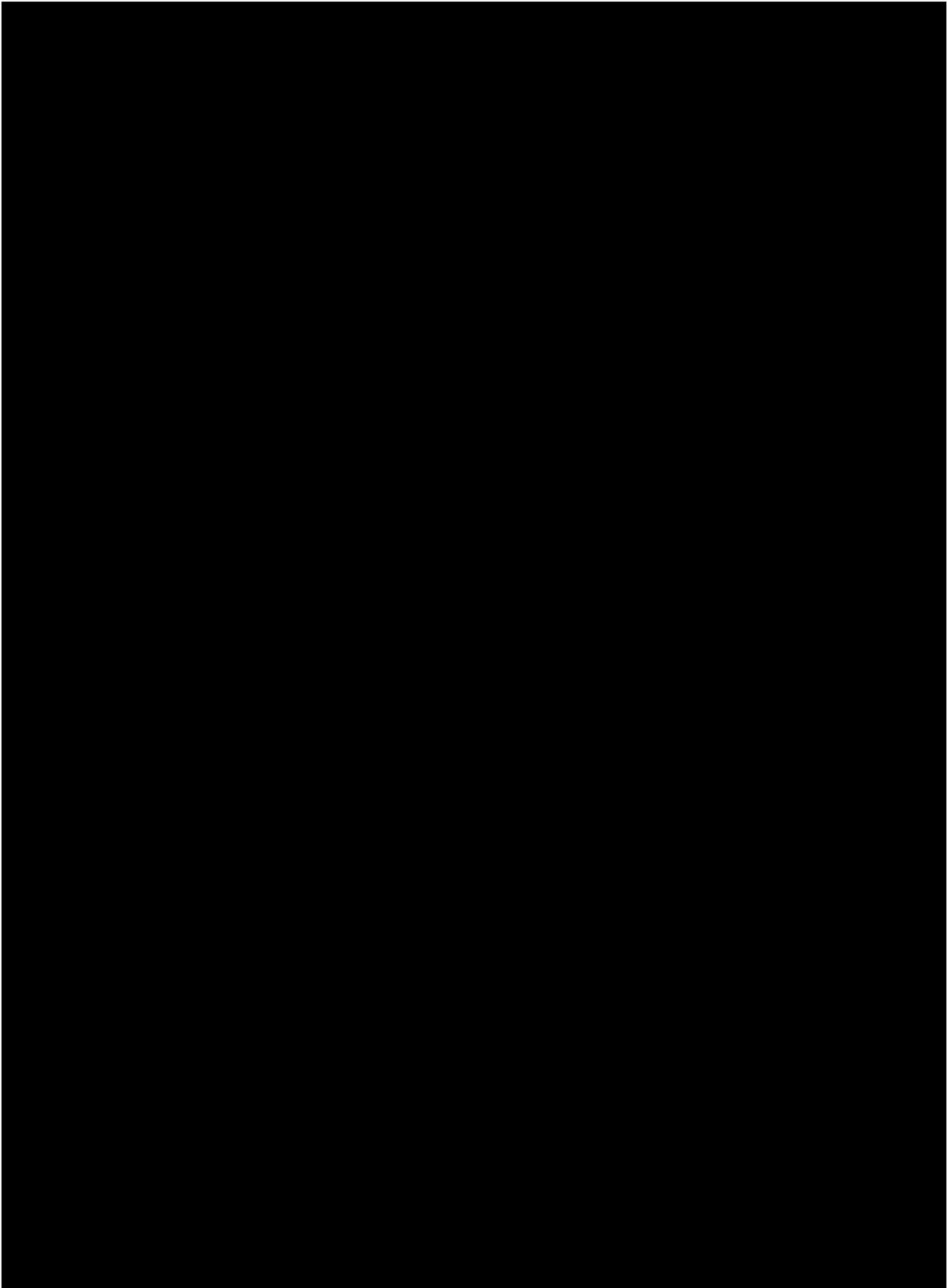


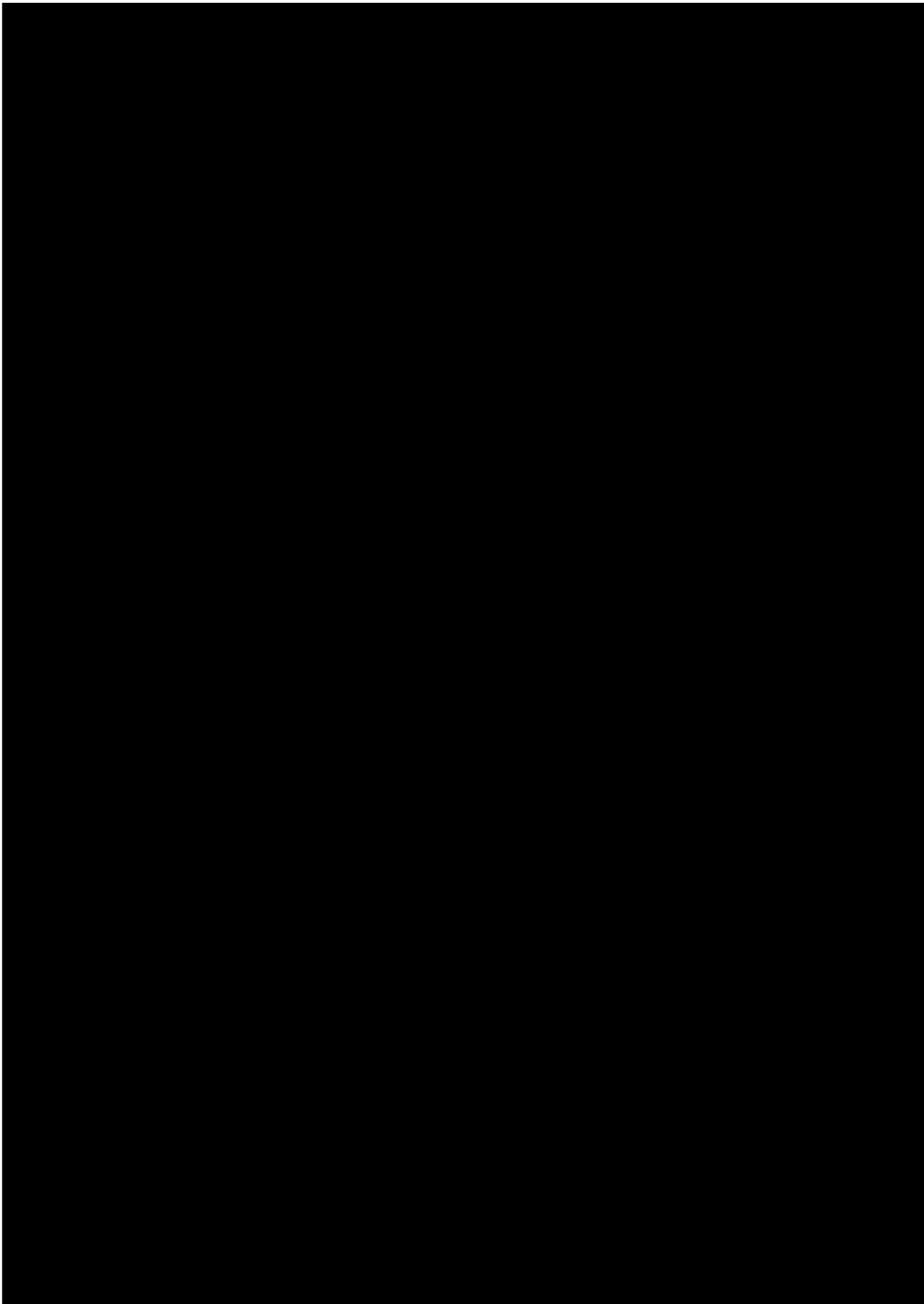












HOW TO CONTACT
THE OFFICE OF INSPECTOR GENERAL

Internet

www.oig.nsf.gov

Email Hotline

oig@nsf.gov

Telephone

703-292-7100

Toll-free Anonymous Hotline

1-800-428-2189

Fax

703-292-9158

Mail

Office of Inspector General
National Science Foundation
4201 Wilson Blvd., Suite 1135
Arlington, VA 22230