



**National Science Foundation**  
4201 Wilson Boulevard  
Arlington, Virginia 22230

Office of Inspector General

MEMORANDUM

Date: MAY 13 2008

To: Mary F. Santonastasso, Director  
Division of Institution and Award Support  
*Deborah H. Cureton*

Thru: Deborah H. Cureton  
Associate Inspector General for Audit

From: Laura Koren, Audit Manager, Office of Inspector General  
*Laura Koren*

Subject: Audit Report No. OIG-08-1-009  
School District of Philadelphia

Attached is the final report prepared by M.D. Oppenheim & Company, P.C., an independent public accounting firm, on the audit of NSF Award Nos. ESR-9453043 and ESI-0085055 awarded to the School District of Philadelphia (SDP). The audit covered NSF-funded costs claimed from July 1, 1999 to August 31, 2005 aggregating to approximately \$13.1 million of NSF direct funded costs and approximately \$1.6 million of cost sharing.

The auditors were unable to determine whether \$4,160,047 of the approximately \$13 million of direct and associated indirect costs (31% of total costs) claimed by SDP to NSF for NSF awards ESR-9453043 and ESI-0085055 were allowable, allocable, and reasonable in accordance with applicable Federal cost principles and NSF award terms and conditions. This occurred because SDP could not provide reliable information from its accounting system and could not provide adequate source documentation to support the amounts it claimed to NSF as incurred grant expenses for its NSF awards. The auditors were unable to test material portions of SDP's grant expenses, and thus, questioned \$4,160,047 of the costs SDP claimed to NSF as well as issued a disclaimer of opinion for the audit.

Moreover, the significant deficiencies identified with this disclaimer of opinion were previously identified at SDP in an earlier audit of SDP for NSF award number ESR-9453043 for the period September 15, 1995 to June 30, 1999. A report issued by M.D. Oppenheim, dated January 12, 2000, indicated that SDP had an inadequate system of record retention and retrieval, inadequate accounting and reporting of cost sharing, and a lack of monitoring of expenditures to NSF approved budget categories. The current audit confirmed that the deficiencies previously identified at SDP

were not only left uncorrected for the past several years, but, in fact, had become more egregious, even though SDP indicated to NSF during the resolution process for the January 2000 audit that these deficiencies had been corrected.

SDP still lacks an adequate record retention and retrieval system. SDP's system of record retention was in such a state of disarray, that SDP required an inordinate amount of time (4 ½ months) to produce records for this audit. Moreover, SDP could not locate time and attendance reports for employees charged to its NSF awards for the period July 1, 1999 to November 30, 2002, resulting in questioned salaries and wages of \$1,784,023 and associated fringe benefits of \$713,610. Of the time and attendance reports that SDP could locate, required documentation was missing for an additional \$108,412 of salaries, wages, and fringe benefits. These amounts represented 100% of the salaries and wages and fringe benefits for NSF award number ESR-9453043 and 44% for NSF award number ESI-0085055. In addition, SDP could not locate documentation to support certain fringe benefits and non-personnel costs totaling \$654,024. \$73,240 of indirect costs related to the questioned direct payroll costs was also questioned.

SDP also lacked a system to identify, account for, monitor and report cost sharing it contributed to both NSF awards. Because of the deficiencies in SDP's cost sharing system, and because of SDP's deficiencies in record retention, SDP could not provide any evidence that cost sharing was incurred or reported for the audit period July 1, 1999 to August 31, 2001 for award ESR-9453043. The auditors verified that \$32,334,375 in cost share expenses had been incurred during their prior audit of SDP in 2000. Nonetheless, a \$3,227,388 cost share balance remains unmet by SDP. We did not question the unmet \$3,227,388 cost share balance because the questioned NSF funded costs of \$1.5 million reduced NSF allowed costs such that the cost sharing of \$32,334,375 previously audited and accepted by the auditors placed SDP's current cost share at an acceptable proportionate level. However, if NSF allows all of the \$1.5 million of questioned costs, SDP would be below its required level of costs sharing, with the result being \$862,707 of excess Federal costs. We have attached to this memorandum the auditor's computation of excess federal costs should NSF allow all of the \$1.5 million of questioned costs for NSF award ESR-9453043.

Similarly, SDP still did not track or monitor the costs it incurred for its NSF grants by NSF budget category. Instead, SDP grouped the cost categories of materials and supplies, publication, consultant services, subawardees, and other direct costs into one general ledger account called "other." SDP could neither provide accounting system data nor explain the types of expenditures it had incurred for 18% of the costs claimed to NSF in the "other" account for Award No. ESR-9453043 and 27% of "other" account costs claimed to NSF for Award No. ESI-0085055. We did not question costs deemed unreliable due to SDP's inadequate tracking or monitoring of the costs it incurred for its NSF grants by NSF budget category. However, the auditors did question a significant amount of the aforementioned costs because SDP could not provide supporting documentation for the reclassified costs that the auditors subsequently selected as part of the engagement testing.

Moreover, SDP lacked an adequate system and policies and procedures for the fiscal monitoring and accounting of subawardee costs it incurred for its NSF awards. As indicated above, SDP commingled the accounting of subawardee costs with other expenses in an account entitled "other." Therefore, SDP could neither determine how much of its NSF funds it expended for subawardee costs, nor could it provide documentation from its accounting system to support the subawardee costs it claimed to NSF. As such, the auditors were required to perform significant alternative procedures both at SDP and at two of SDP's subawardees to ascertain the amounts of subawardee

costs SDP incurred, and to satisfy themselves that the subawardee costs charged to the NSF grants by SDP were allowable. The auditors questioned \$125,168 of SDP's subawardee costs.

Finally, SDP did not monitor its budget to actual participant support costs incurred for NSF award ESI-0085055. As a result, SDP utilized \$701,570 of participant support funds for other types of NSF related costs, but did not obtain prior NSF approval to do so, as required by the NSF grant terms and conditions. The auditors questioned \$701,570 of SDP's participant support costs.

### Recommendations

Because of the significant nature of the internal control deficiencies at SDP, and because these deficiencies were identified in a prior M.D. Oppenheim audit of SDP but were left uncorrected, we recommend that NSF make no future awards to SDP until corrective action has been implemented by SDP, and the successful implementation of these corrective actions has been verified by NSF. In addition, we recommend that NSF direct SDP to: (a) develop and implement written policies and procedures that delineate processes for accounting and reporting of NSF funded costs; (b) develop a process that allows SDP to readily identify costs incurred in its accounting system to the appropriate NSF budget categories; (c) develop and implement written policies and procedures for the preparation of Federal Cash Transaction Reports from SDP's official accounting records; (d) develop and implement written policies and procedures for conducting monthly budget to actual analysis of NSF expenses to assist SDP in aligning actual expenditures to approved NSF budgets; (e) develop and implement a system of record retention and retrieval that is easily comprehensible and that allows for access to SDP records in an efficient and timely manner; (f) develop and implement a system to identify, account for, monitor, and report cost-sharing expenses; (g) develop a comprehensive subawardee fiscal monitoring plan; and, (h) develop and implement a process to monitor its participant support costs against approved NSF budgets.

SDP, in its response, disputed the draft audit findings and recommendations and stated that it initially misunderstood the purpose of the request for documents for the audit. However, SDP subsequently provided additional documentation that, as a result, reduced the original amount of costs questioned by \$703,004 to \$4,160,047. SDP also stated that it has taken steps since 2005 to enhance its internal controls, other systems of accountability, policies and procedures, and record retention. Since these actions occurred subsequent to our audit period of August 31, 2005, the findings in the report remain as stated for you to address in your audit resolution process.

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

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

## OIG Oversight of Audit

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

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

M.D. Oppenheim is responsible for the attached auditor's report on the School District of Philadelphia and the conclusions expressed in the report. We do not express any opinion on the Schedules of Award Costs, internal control, or conclusions on compliance with laws and regulations.

We thank your staff for the assistance that was extended to the auditors during this audit. If you have any questions regarding this report, please contact me at 703-292-8456.

Attachment

cc: Victor Santiago, Division Director, EHR/HRD  
A. James Hicks, Program Director, EHR/HRD  
K. Tiplady, Director, DGA

School District of Philadelphia  
National Science Foundation Award Number ESR-9453043  
Computation of Excess Federal Costs  
From July 1, 1999 to August 31, 2001

**Computation of Excess Federal Costs**

**Maximum % of NSF budgeted funding to total program budget:**

NSF award budget	\$14,975,401	
Cost sharing budget	35,561,763	
Total budget	<u>\$50,537,164</u>	
NSF % of total budget		<u>29.63%</u>

**Total actual program costs (NSF costs & cost sharing) reported:**

NSF costs (audited previously for the period 9/15/95-6/30/99)	\$ 9,857,278	
NSF costs (audited previously for the period 7/1/99-8/31/01)	4,985,040	
Cost sharing	29,185,590	
Sub-total	<u>44,027,908</u>	
Less: questioned NSF costs	-	
questioned cost sharing	-	
Plus: additional NSF costs	-	
Cost sharing - additional cost sharing per previous audit	<u>3,148,785</u>	
Adjusted base	47,176,693	
X maximum allowable NSF	<u>29.63%</u>	

Maximum allowable amount of NSF program costs to total	<u>\$13,979,611</u>
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**Computation of Excess Federal Costs:**

NSF costs claimed	\$14,842,318	
Less: questioned NSF costs	-	
Plus: additional NSF costs	<u>-</u>	
Net allowable NSF costs	14,842,318	
Less: maximum allowable amount of NSF costs to total	<u>13,979,611</u>	

Excess Federal Costs	<u>\$ 862,707</u>
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**THE SCHOOL DISTRICT OF PHILADELPHIA**  
440 North Broad Street  
Philadelphia, Pennsylvania 19130

National Science Foundation Award Numbers  
ESR-9453043  
ESI-0085055

Financial Schedules  
and  
Independent Auditors' Reports

For the Period July 1, 1999 to August 31, 2005

This audit was performed by:

M.D. Oppenheim & Company, P.C.  
Certified Public Accountants  
210 Lake Drive East, Suite 102  
Cherry Hill, New Jersey 08002

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## Acronyms

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<u>Acronym</u>	<u>Explanation of Acronym</u>
DACS	Division of Acquisition and Cost Support
DGA	Division of Grants and Agreements
DIAS	Division of Institution and Award Support
FCTR	Federal Cash Transactions Report
GPM	Grant Policy Manual
GSA	General Services Administration
MTDC	Modified Total Direct Costs
NSF	National Science Foundation
OIG	Office of Inspector General
OMB	Office of Management and Budget
PI	Principal Investigator
RFA	Research for Action
SDP	The School District of Philadelphia
USI	Urban Systemic Initiative

**EXECUTIVE SUMMARY**

## BACKGROUND

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We were engaged to audit the funds awarded by the National Science Foundation (NSF) to the School District of Philadelphia (SDP) under award numbers ESR-9453043 and ESI-0085055 for the period July 1, 1999 to August 31, 2005. The School District of Philadelphia is an independent home rule school district established by the Education Supplement to the Philadelphia Home Rule Charter in December 1965. For financial reporting purposes, SDP is a component unit of the City of Philadelphia's Comprehensive Annual Financial Report.

SDP, as an independent legal entity, and 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 the federal administrative requirements contained in OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments*, as well as the provisions for financial management systems and cost sharing contained in the federal administrative requirements in OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*. The following information is pertinent for each of the awards we were engaged to audit.

**No. ESR-9453043.** NSF awarded cooperative agreement number ESR-9453043 to SDP for the period September 15, 1995 to August 31, 2001 in the amount of \$14,975,401 to operate an Urban Systemic Initiative (USI) Program. The overall mission of the USI Program was to improve the scientific and mathematical literacy of all students in various USI cities; to provide mathematics and science fundamentals which would permit all students to participate fully in a technological society; and, to enable a significantly greater number of those students to pursue careers in mathematics, science, engineering and technology. Total cost share required for this award was \$35,561,763.

We were engaged to audit this award for the period July 1, 1999 to August 31, 2001, as a follow-up of a prior audit we performed for the period September 15, 1995 to June 30, 1999, and completed in January 2000. SDP reported cumulative expenses of \$4,985,040 for grant number ESR-9453043 to NSF for the audit period July 1, 1999 to August 31, 2001. Total expenditures for the entire award period were \$14,842,318. SDP also claimed \$29,185,590 of cost sharing to NSF for the period September 15, 1995 to June 30, 1999 but was required by the grant terms to incur total cost share of \$32,334,375. SDP could not provide any information on, or documentation for, an amount of cost sharing reported to NSF for the audit period July 1, 1999 to August 31, 2001.

**No. ESI-0085055.** NSF awarded cooperative agreement number ESI-0085055 to SDP for the period September 1, 2000 to August 31, 2005 in the amount of \$8,144,803 to operate an Urban Systemic Program (USP). SDP was required to provide \$1,406,887 in cost share for this award. The USP was the merger of the USI Program and the Comprehensive Partnership for Mathematics and Science Achievement Program. The overall mission of USP was to promote systemic reform of science and mathematics education for all students K - 12. The USP also included pragmatic components that sought to foster partnerships between urban school districts and two and four-year colleges and universities to enable research on educational practice and learning. SDP reported cumulative expenses of \$8,144,803 for award number ESI-0085055. SDP also claimed \$1,613,290 of cost sharing to NSF.

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

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The objectives of our audit engagement were to:

1. Determine whether SDP's Schedules of Award Costs present fairly, in all material respects, the costs claimed on the Federal Cash Transactions Reports (FCTR) and if the costs claimed, including cost sharing, are in conformity with Federal and NSF award requirements.
2. Identify matters concerning instances of noncompliance with laws, regulations, and the provisions of the award agreements pertaining to the NSF awards and weaknesses in SDP's internal control over financial reporting that could have a direct and material effect on the Schedules of Award Costs and SDP's ability to properly administer, account for, and monitor its NSF awards.
3. Determine whether the costs incurred under subawardee funds awarded by SDP to the Franklin Institute, LaSalle University and Research for Action, were documented and allowable under the terms and conditions of the subawardee agreements, and NSF and Federal regulations.

We were engaged to audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards (June 2003 Revision)* issued by the Comptroller General of the United States; and the *National Science Foundation Audit Guide*, September 1996, as applicable, and have issued our disclaimer of opinion dated September 25, 2006. Accordingly, we planned and attempted to perform an audit to obtain reasonable assurance about whether the amounts claimed to the National Science Foundation as presented in the Schedules of Award Costs (Schedules A-1 and A-2), were free of material misstatements.

We were unable to determine whether \$4,160,047 of the approximately \$13 million of direct and associated indirect costs claimed by SDP to NSF for NSF award ESR-9453043 and NSF award ESI-0085055 were allowable, allocable, and reasonable in accordance with applicable Federal cost principles and NSF award terms and conditions. This occurred because SDP could not provide reliable information from its accounting system to support the amounts it claimed to NSF as incurred grant expenses; and, could not provide adequate source documentation to support the costs claimed on its NSF awards. Consequently, we were unable to test material portions of claimed costs necessary to meet our objectives.

## SUMMARY OF AUDIT RESULTS

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We were engaged to perform an audit on the costs claimed in financial reports submitted to the National Science Foundation as well as cost sharing provided by SDP on the NSF awards audited. These costs and costs questioned are shown in the Schedules of Award Costs (Schedules A-1 and A-2) and are summarized as follows:

<u>Award Number</u>	<u>Award Budget</u>		<u>Claimed Costs</u>		<u>Questioned NSF Costs</u>	<u>Questioned Cost Sharing</u>
ESR-9453043	\$ 14,975,401	(A)	\$ 4,985,040	(B)	\$ 1,525,171	
ESI-0085055	<u>8,144,803</u>	(C)	<u>8,144,803</u>		<u>2,634,876</u>	
Total	<u>\$ 23,120,204</u>		<u>\$ 13,129,843</u>		<u>\$ 4,160,047</u>	
Cost Sharing on ESR-9453043	<u>\$ 35,561,763</u>	(A)	<u>\$ (D)</u>			<u>\$ -0-</u>
Cost Sharing on ESI-0085055	<u>\$ 1,406,877</u>	(C)	<u>\$ 1,613,290</u>			<u>\$ -0-</u>

- (A) For the award period September 15, 1995, to August 31, 2001.  
 (B) Costs claimed for the audit period July 1, 1999, to August 31, 2001.  
 (C) For the period September 1, 2000 to August 31, 2005. This period comprises both the award period and the audit period.  
 (D) SDP could not provide any evidence that cost sharing was incurred or reported for the audit period July 1, 1999 to August 31, 2001. However, we reviewed \$32,334,375 in cost sharing expenses during our prior audit of SDP performed in 2000. Therefore, \$3,227,388 of required cost share remains unmet by SDP. NSF will address unmet cost share during its audit resolution process.

We were unable to determine whether material amounts of claimed costs that SDP charged to NSF award numbers ESR-9453043 and ESI-0085055 for the audit period of July 1, 1999 to August 31, 2005 were allowable, allocable, and reasonable in accordance with Federal cost principles and the NSF award terms and conditions. For these reasons, we were unable to express an opinion on the claimed costs reflected on Schedules A-1 and A-2 of this report. We questioned \$4,160,047 of claimed federal costs, which represented 32% of the costs SDP reported to NSF.

SDP could not provide reliable information from its accounting system to support the amounts it claimed to NSF as incurred grant expenses; could not provide adequate source documentation to support the costs claimed on its NSF awards; and did not maintain a system to identify, account for, monitor and report cost sharing. Moreover, each of these deficiencies were already identified by us in an audit we conducted at SDP for NSF award number ESR-9453043 for the period September 15, 1995 to June 30, 1999. Our report dated

January 12, 2000 indicated that SDP had an inadequate system of record retention and retrieval, inadequate accounting and reporting of cost sharing, and a lack of monitoring of expenditures to NSF approved budget categories. Each of these deficiencies has been left uncorrected for the past several years and has, in fact, become more egregious since our previous audit.

SDP could not locate time and attendance reports for employees charged to its NSF awards for the period July 1, 1999 to November 30, 2002, resulting in questioned salaries and wages of \$1,784,023 and associated fringe benefits of \$713,610. Of the time and attendance reports that SDP could locate, documentation was still missing for \$108,412 of salaries, wages, and fringe benefits. These amounts represented 100% of the salaries and wages and fringe benefits for NSF award number ESR-9453043 and 44% for NSF award number ESI-0085055. In addition, SDP could not locate documentation to support certain fringe benefits and non-personnel costs totaling \$654,024. We also questioned \$73,240 of indirect costs related to the direct costs we questioned.

We also noted that SDP utilized \$701,570 of participant support funds for other program expenses without written approval from NSF as required and questioned this amount. Finally, SDP's lack of monitoring of subawardee activities resulted in \$125,168 of questioned subaward costs.

SDP had a number of internal control deficiencies which we consider to be material and that contributed to these questioned costs. In general, SDP's system of internal controls as it relates to accounting and record retention for its NSF awards is significantly deficient. Specifically:

- SDP did not track or monitor the costs it incurred for its NSF grants by NSF budget category. Instead, SDP grouped the cost categories of materials and supplies, publication, consultant services, subawardees, and other direct costs into one general ledger account called "other." SDP could neither provide accounting system data nor explain the types of expenditures it had incurred for \$1,007,459 (18%) of the costs it claimed for NSF grant ESR-9453043 and \$2,203,726 (27%) of the costs it claimed for NSF grant ESI-0085055. Because SDP could not obtain such information from its accounting system, it attempted to prepare electronic spreadsheets listing the NSF grant expenses that it had incurred. During this process, SDP made \$1,433,113 of adjustments and reclassifications of direct costs, and \$60,531 of adjustments and reclassifications to indirect costs for incurred expenses for NSF grants ESR-9453043 and ESI-0085055. However, after preparing several different electronic spreadsheets of NSF grant cost categories, SDP still could not provide a reliable accounting of how it spent all of the NSF grant funds. We did not question costs deemed unreliable due to lack of accounting system data, but did question a significant amount of the aforementioned costs because SDP could not provide supporting documentation for the costs it reclassified that were subsequently selected as part of our testing universe.
- SDP lacked an adequate record retention and retrieval system. SDP's system of record retention was in a state of disarray. SDP could not provide \$3.2 million (63%) of the \$5.1 million source documentation we requested to support the costs it claimed

on its NSF grants. Likewise, when SDP did provide requested documentation, the retrieval of that documentation required an inordinate amount of time (4 1/2 months), even though the documents were being retrieved from an off-site facility that was operated directly by SDP.

- SDP also lacked a system to identify, account for, monitor and report cost sharing it contributed to both NSF awards. Because of the deficiencies in SDP's cost sharing system, and because of SDP's deficiencies in record retention, SDP could not provide any evidence that cost sharing was incurred or reported for the audit period July 1, 1999 to August 31, 2001, for award ESR-9453043. We did verify that \$32,334,375 in cost share expenses had been incurred during our prior audit of SDP in 2000. Nonetheless, a \$3,227,388 cost share balance remains unmet by SDP. NSF will address unmet cost share during its audit resolution process.
- SDP lacked an adequate system and policies and procedures for the fiscal monitoring and accounting of subawardee costs it incurred for its NSF awards. As indicated above, SDP commingled the accounting of subawardee costs with other expenses in an account entitled "other." Therefore, SDP could neither determine how much of its NSF funds it expended for subawardee costs, nor could it provide documentation from its accounting system to support the subawardee costs it claimed to NSF. As such, we were required to perform significant alternative procedures both at SDP and at two of SDP's subawardees to ascertain the amounts of subawardee costs SDP incurred and to satisfy ourselves that the subawardee costs charged to the NSF grants by SDP were allowable. As a result of our on-site procedures, we questioned \$125,168 of SDP's subawardee costs.
- SDP did not monitor the budget to actual participant support costs it incurred for NSF award ESI-0085055. As a result, SDP utilized \$701,570 of participant support funds for other types of NSF related costs, and did not obtain prior NSF approval to do so, as required by the NSF grant terms and conditions. As a result, we questioned \$701,570 of SDP's participant support costs.

The pervasiveness of the financial management deficiencies at SDP suggests an overall control environment at SDP that warrants immediate corrective action toward establishing good internal controls and compliance with federal award terms and conditions. Until the corrective actions recommended in this report are addressed, NSF has little or no assurance that SDP has and will spend NSF award funds on authorized purposes. SDP's lack of adequate accounting systems and written policies and procedures for its NSF award financial activities place SDP's awards at a high risk that misstatements, in amounts that would be material in relation to the Schedules of Award Costs (Schedules A-1 and A-2), may occur and not be detected.

Accordingly, we recommend that (DIAS) direct SDP to: (a) develop and implement written policies and procedures that delineate processes for accounting and reporting of NSF funded costs; (b) develop a process that allows SDP to readily identify costs incurred in its accounting system to the appropriate NSF budget categories; (c) develop and implement written policies and procedures for the preparation of Federal Cash Transaction Reports from SDP's official accounting records (d) develop and implement written policies and

procedures for conducting monthly budget to actual analysis of NSF expenses to assist SDP in aligning actual expenditures to approved NSF budgets; (e) develop and implement a system of record retention and retrieval that is easily comprehensible and that allows for access to SDP records in an efficient and timely manner; (f) develop and implement a system to identify, account for, monitor, and report cost-sharing expenses; (g) develop a comprehensive subawardee fiscal monitoring plan; and, (h) develop and implement a process to monitor its participant support costs against approved NSF budgets.

SDP responded to the draft report on February 25, 2008. In its response, SDP disputed the draft audit findings and recommendations and stated that it initially misunderstood the purpose of the request for documents for the audit. However, SDP subsequently provided additional documentation that, as a result, reduced the original amount of costs questioned by \$703,004. SDP also stated that it has taken steps since 2005 to enhance its internal controls, other systems of accountability, policies and procedures, and record retention.

Since these actions occurred subsequent to our audit period of August 31, 2005, the findings remain as stated and will be addressed by NSF during its audit resolution process. We have reflected the revised amounts questioned in the executive summary section of the audit report however the discussions of the individual findings in most cases reflect the original amounts questioned. The adjustments to the questioned costs are discussed after each finding in the auditor's response to the awardee's comments.

SDP's response to each finding is included in its entirety in the text of the report following the auditor's recommendations. SDP's response is also presented in its entirety in Appendix A of this report. Attachments A through V, included in SDP's response contained proposed supporting documentation, policies and procedures, accounting reports, correspondence, and pedagogical documentation from SDP's Office of Curriculum, Instruction, and Professional Development. Because Attachments A through V of SDP's response are voluminous, they are contained in a separate volume of this report and are available upon request from the NSF OIG.

The findings in this report should not be closed until NSF has determined that all the recommendations have been adequately addressed and the corrective actions have been satisfactorily implemented.

For a complete discussion of the audit findings, refer to the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.

## **FOLLOW-UP OF PRIOR AUDIT FINDINGS**

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A prior year audit was performed by us on NSF award number ESR-9453043 for the period September 15, 1995 to June 30, 1999. Our report dated January 12, 2000 identified one internal control finding and four compliance findings. In particular, that report indicated that SDP had an inadequate system of record retention and retrieval, inadequate accounting and reporting of cost sharing, and a lack of monitoring of expenditures to NSF approved budget categories. Each of these deficiencies has been left uncorrected for the past several years and has, in fact, become more egregious since our previous audit.

### **Internal Control Finding:**

#### ***Inadequate System of Record Retention and Retrieval***

We previously reported that SDP did not maintain an adequate system of record retention and retrieval for its NSF grants. In particular, an inordinate amount of time was necessary for SDP to attempt to locate records needed for that audit, with some records remaining unlocated at the end of the engagement.

In response to our audit, SDP stated that it maintained records for a period of not less than six years. The District also stated that we conducted our review during the same time period that it was implementing a new financial system. This hampered the District's ability to fully concentrate on retrieving documentation to support our audit sample. Furthermore, the District stated that we had selected old transactions, which were no longer maintained on-site, and therefore needed to be retrieved from various locations involving many District employees.

#### ***Current Status: Unresolved***

Based upon our current audit, SDP has not resolved their record retention and retrieval system deficiencies. SDP's system of record retention was in a state of disarray. SDP could not provide 63% of the source documentation we requested for the current audit to support the costs it claimed on its NSF grants. Likewise, when SDP did provide requested documentation, the retrieval of that documentation required an inordinate amount of time (4 ½ months), even though the documents were being retrieved from an off-site facility that was operated directly by SDP. We requested documentation from SDP for \$5,132,828 of costs that it claimed on its NSF grants. Our request consisted of \$2,772,735 of salaries, wages and fringe benefits; and, \$2,360,093 of equipment, travel, participant support, and other costs. SDP could not locate documentation for \$3,211,916, or 63%, of the total transactions selected for the current audit. Further information on this deficiency is disclosed in audit Finding Number 2 of this report.

## **Compliance Findings:**

### **Inadequate Accounting and Reporting of Cost Sharing**

We previously reported that SDP did not maintain accounting records that adequately tracked or supported amounts that it claimed to NSF as cost sharing. Specifically, we reported that SDP a) did not maintain a general ledger or other subsidiary record to track amounts it claimed as cost sharing; b) submitted cost sharing reports to NSF that were based on budgeted rather than actual costs; and, c) did not maintain source documentation to support cost sharing. Additionally, we reported that the District did not maintain attendance sheets to support the cost shared salary costs associated with attendance at meetings and conferences by principals.

SDP responded to our finding by stating that in the future, it would a) track actual cost sharing dollars in a subsidiary log, or schedule; b) report actual cost sharing amounts to NSF; and, c) maintain accounting records to support cost sharing. Additionally, SDP specifically stated that with respect to cost shared salaries, each individual with some salary claimed as cost sharing will maintain a log identifying the time the individual spent on grant-related activities.

### **Current Status: Unresolved**

We found that SDP still lacked a system to identify, account for, monitor and report cost sharing it contributed to both NSF awards. Because SDP lacked a cost sharing system, and because of SDP's deficiencies in record retention, we could not audit the cost share balance of \$3,148,785 for NSF award ESR-9453043. Further information on this deficiency is disclosed in audit Finding Number 3 of this report.

### **Lack of Monitoring of Expenditures Compared to Budget**

According to our prior audit, the accounting system utilized by SDP did not account for all expenses by all of the categories specified in the NSF award budget. The account names and associated account codes utilized by SDP did not correlate to the NSF budget. In addition, SDP did not prepare any "cross-walk" (either computerized or manual) to allow the tracing of the expenses incurred in their accounting records to the NSF budget categories.

SDP responded to this finding by stating that the District's new accounting system could compare, by federal cost category, budget amounts with amounts that the District would actually obligate for each NSF award. Additionally, the District ensured that it would establish separate object codes for any NSF cost categories, such as participant support or subawardees, that were not reflected in the District's accounting system.

### **Current Status: Unresolved**

SDP still did not track or monitor the costs it incurred for its NSF grants by NSF budget category. Instead, SDP grouped the cost categories of materials and supplies, publication, consultant services, subawardees, and other direct costs into one general ledger account called "other." SDP could neither provide accounting system data nor explain the types of

“other” expenditures it had incurred for \$1,007,459 (18%) of the costs it claimed for NSF grant ESR-9453043 and \$2,203,726 (27%) of the costs it claimed for NSF grant ESI-0085055. Because SDP could not obtain such information from its accounting system, it attempted to prepare electronic spreadsheets listing the NSF grant expenses that it had incurred. During this process, SDP made \$1,433,113 of adjustments and reclassifications of direct costs, and \$60,531 of adjustments and reclassifications to indirect costs for incurred expenses for NSF grants ESR-9453043 and ESI-0085055. However, after preparing several different electronic spreadsheets of NSF grant cost categories, SDP still could not provide a reliable accounting of how it had spent all its NSF grant funds charged to the “other” cost category. Additional information on this deficiency is disclosed in audit Finding Number 1 of this report.

### **Excess Cash Balances Maintained**

In our prior audit, our review of SDP’s Federal Cash Transactions Report (FCTR) quarterly cash drawdown’s indicated five separate instances (quarters) where the cumulative cash balance on hand exceeded the five working days disbursement needs as determined by the U.S. Department of Treasury method for calculating daily cash needs.

In its response to our finding, SDP agreed that its cash balances exceeded its weekly disbursement needs, and offered several reasons. In one instance SDP stated that it drew down over \$1,000,000 to pay outstanding encumbrances, but did not make the payments as anticipated, while in another instance the excess balance was attributed to employee error. SDP stated that it believed these situations to be exceptions and not reflective of the District’s monitoring of cash balances.

### **Current Status: Resolved**

Based upon our current engagement, SDP has adequately resolved this issue and we noted that there were no excess cash drawdown’s made by SDP during the current audit period.

### **Subawardee Compliance Deficiencies**

In our prior audit, we reported that several of SDP’s subawardees reported costs to the District that were in excess of actual costs. This resulted from SDP’s lack of monitoring of costs reported to SDP by its subawardees. We also noted that invoices submitted to SDP by its subawardees lacked the proper itemization of charges.

SDP responded to this finding that it believed the subawardees in question were vendors performing under “fee-for-service” (i.e. fixed price) arrangements and that each had performed satisfactorily. Therefore, the subawardees were entitled to the full payment and were not accountable to the District for differences between actual costs and the total amount paid. Thus, SDP’s position was that the auditors should not have questioned these costs. SDP also stated that it was discussing with its legal counsel the necessary changes to its standard contract form to make a clear distinction between fee-for-service and cost-reimbursement arrangements.

### **Current Status: Unresolved**

During the current audit, we noted that SDP lacked an adequate system and policies and procedures for the fiscal monitoring and accounting of subawardee costs it incurred for its NSF awards. SDP commingled the accounting of subawardee costs with other expenses in an account entitled “other.” Therefore, SDP could neither determine how much of its NSF funds it expended for subawardee costs, nor could it provide documentation from its accounting system to support the subawardee costs it claimed to NSF. We also noted that two of the subawardees reported costs to SDP that were in excess of the actual costs per the books of account. More information on this deficiency is disclosed in audit Finding Number 4 of this report.

### **Questioned Costs**

Our prior audit noted \$403,410 of questioned costs including: costs transferred from another program with no documented rationale in the amount of \$193,424; indirect costs of \$14,898 in excess of the approved final rate; subawardee costs in the amount of \$189,727 that were unallowable; and, \$5,361 of indirect costs related to questioned subawardee costs.

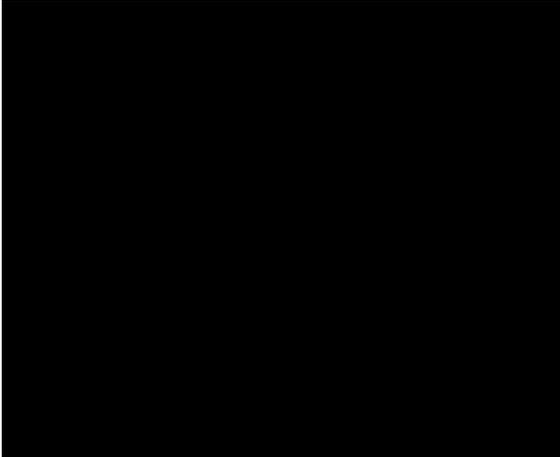
Based upon the written correspondence between NSF’s Audit Resolution Office and SDP, NSF’s Audit Resolution Office allowed \$270,327 of the questioned costs and sustained \$133,083. SDP repaid NSF \$133,083 of the sustained questioned costs.

## **EXIT CONFERENCE**

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We conducted an exit conference on January 17, 2008 at SDP. We discussed findings and recommendations as well as other observations contained in this report with those attending.

Representing SDP were:



Representing M.D. Oppenheim & Company, P.C. were:



Representing the U. S. National Science Foundation was:

Laura Koren CPA, Audit Manager - OIG

## **FINDINGS AND RECOMMENDATIONS**

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

## **INDEPENDENT AUDITORS' REPORT ON FINANCIAL SCHEDULES**

We were engaged to audit the costs claimed by The School District of Philadelphia (SDP) to the National Science Foundation (NSF) on the Federal Cash Transactions Reports (FCTR) for the NSF awards listed below for the period July 1, 1999 to August 31, 2005. In addition, we were also engaged to audit the amount of cost sharing claimed on these awards for the period July 1, 1999 to August 31, 2005. Schedule A-1 presents financial results for the period September 15, 1995 to June 30, 1999 that were previously audited by us in a report dated January 12, 2000. These amounts have not been audited as part of the current audit period. The Federal Cash Transactions Reports, as presented in the Schedules of Award Costs (Schedules A-1 and A-2) are the responsibility of SDP's management.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
ESR-9453043	09/15/95 to 08/31/01	07/01/99 to 08/31/01
ESI-0085055	09/01/00 to 08/31/05	09/01/00 to 08/31/05

We were unable to determine whether \$4,160,047 (32%) of direct and associated indirect costs claimed by SDP to NSF for NSF award ESR-9453043 and NSF award ESI-0085055 (for the audit periods indicated above) were allowable, allocable, and reasonable in accordance with applicable federal cost principles and NSF award terms and conditions. This occurred because SDP could not provide reliable information from its accounting system to support the amounts it claimed to NSF as incurred grant expenses; and, could not provide adequate source documentation to support the costs claimed on its NSF awards. Accordingly, we have questioned \$4,160,047 of direct and associated indirect costs claimed by SDP to NSF for NSF award ESR-9453043 and NSF award ESI-0085055.

Since SDP could not provide reliable information from its accounting system to support the amounts it claimed to NSF as incurred grant expenses; could not provide adequate source documentation to support the costs claimed on its NSF awards; and, because we were unable to apply other auditing procedures to satisfy ourselves concerning the allowability, reasonableness and allocability of expenditures SDP claimed to NSF; the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Schedules of Awards Costs (Schedule A-1 and A-2).

Accordingly, we have questioned \$4,160,047. Questioned costs are (1) costs for which there is documentation that the recorded costs were expended in violation of the laws, regulations or specific award conditions, (2) costs that require additional support by the awardee, or (3) costs that require interpretation of allowability by NSF's 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 accompanying financial schedules were prepared to comply with the requirements of the *National Science Foundation Audit Guide* as described in the Notes to the Financial Schedules, using a comprehensive basis of accounting other than generally accepted accounting principles, and are not intended to be a complete presentation of SDP's 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 our report dated September 25, 2006, on our consideration of SDP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, the NSF award agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the *National Science Foundation Audit Guide* and should be considered in assessing the results of our audit.

This report is intended solely for the information and use of SDP's management, NSF, SDP's 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.

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

September 25, 2006

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

**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS**

We were engaged to audit the costs claimed as presented in the Schedules of Award Costs (Schedules A-1 and A-2), which summarize financial reports submitted by The School District of Philadelphia (SDP) to the National Science Foundation (NSF) for the awards listed below and claimed cost sharing and have issued our report of disclaimer thereon dated September 25, 2006.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
ESR-9453043	09/15/95 to 08/31/01	07/01/99 to 08/31/01
ESI-0085055	09/01/00 to 08/31/05	09/01/00 to 08/31/05

We did not express an opinion on the Schedules of Award Costs because we were unable to determine whether \$4,160,047 (32%) of direct and associated indirect costs claimed by SDP to NSF for NSF award ESR-9453043 and NSF award ESI-0085055 (for the audit periods indicated above) were allowable, allocable, and reasonable in accordance with applicable federal cost principles and NSF award terms and conditions. This occurred because SDP could not provide reliable information from its accounting system to support the amounts it claimed to NSF as incurred grant expenses; and, could not provide adequate source documentation to support the costs claimed on its NSF awards.

We attempted to conduct our audit of the Schedules of Award Costs as presented in Schedules A-1 and A-2 in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards* (2003 revision), issued by the Comptroller General of the United States; and guidance provided in the *National Science Foundation Audit Guide*, September 1996, as applicable. We were unable to obtain sufficient documentation to support the financial activity and the costs claimed to NSF and we were unable to satisfy ourselves by other auditing procedures that those financial activities were supported.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and attempting to perform an audit of the Schedules of Award Costs (Schedules A-1 and A-2) for the period July 1, 1999 through August 31, 2005, we considered SDP's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express such an opinion.

We noted, however, certain matters described below involving internal control over financial reporting and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect SDP's ability to record, process, summarize and report financial data consistent with management's assertions in the financial schedules. Reportable conditions we found are described in Finding Numbers 1 through 5 in the following pages.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control elements does not reduce, to a relatively low level, the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters related to internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions also considered to be material weaknesses. We consider all of the reportable conditions described above to be material weaknesses.

## **COMPLIANCE AND OTHER MATTERS**

Compliance with applicable Federal laws, regulations, and NSF award terms and conditions is the responsibility of SDP's management. As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatement, we performed tests of SDP's compliance with certain provisions of applicable laws, regulations, and NSF award terms and conditions, noncompliance with which could have a direct and material effect on the determination of the financial schedule amounts. However, providing an opinion on compliance with these provisions is not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the following pages.

This report is intended solely for the information and use of SDP's management, the National Science Foundation, 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.

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

September 25, 2006

## FINDINGS

### **Finding 1. Lack of an Adequate Financial Management System for Accounting and Reporting of NSF Costs**

The School District of Philadelphia (SDP) did not have an adequate financial management system and internal control process for the accounting and reporting of NSF award costs, even though SDP maintained a sufficient *overall* financial management system to account for all other types of SDP costs. Indeed, SDP could not provide reliable information from its accounting system to support the amounts claimed to NSF as incurred grant expenses.

As stated in NSF's Grant Policy Manual (GPM), Section 301, SDP is responsible for prudent management of all expenditures and actions affecting its NSF grants. Moreover, GPM Section 410 states that NSF grantees are required to have financial management systems that meet requirements of Section 21 of OMB Circular A-110. That circular requires awardee financial management systems to provide:

- Accurate, current, and complete disclosure of the financial results of each award;
- Records that adequately identify the source and application of funds;
- Effective control over accountability of all funds, assuring that all funds are used solely for authorized purposes;
- Comparison of outlays with budget amounts for each cost category in accordance with provisions of applicable federal and award requirements; and,
- Accounting records, including cost accounting records, supported by source documentation.

OMB Circular A-102 also requires accurate disclosure of the financial results and the records that identify adequately the source and application of funds and effective control over and accountability for all funds.

We began our audit by requesting that SDP provide us with a listing from its accounting system of all the expenses it claimed to NSF on its Federal Cash Transaction Report (FCTR) for NSF grants ESR-9453043 and ESI-0085055 for the period July 1, 1999 through August 31, 2005. SDP could not provide this information from its accounting system. In fact, SDP attempted several times throughout this engagement, without success, to provide a listing of grant expenses incurred from its accounting system that equaled the total amount it had claimed to NSF by cost category.

Instead, we learned that SDP did not track or monitor the costs it incurred for its NSF grants by NSF budget category. SDP grouped the cost categories of materials and supplies, publication, consultant services, subawardees, and other direct costs into one general ledger account called "other." SDP could neither provide accounting system data nor explain the types of expenditures it had incurred for \$1,007,459 (18%) of the costs it claimed for NSF grant ESR-9453043 and \$2,203,726 (27%) of the costs it claimed for NSF grant ESI-0085055. Thus, the listing of expenses that SDP provided to us for this engagement was deficient because we could not determine the types of expenses SDP had incurred for its NSF grants.

When we explained to SDP that it should provide us with a breakdown of expenses by cost category, SDP could not determine how they spent their NSF grant funds. Because SDP could not obtain such information from its accounting system, it attempted to prepare a “crosswalk” of its NSF grant expenditures, e.g., an electronically prepared spreadsheet listing by cost category the NSF grant expenses that SDP had incurred. During the process of preparing these spreadsheets, SDP made \$1,433,113 of adjustments and reclassifications of direct costs, and \$60,531 of adjustments and reclassifications to indirect costs for the expenses it incurred for NSF grants ESR-9453043 and ESI-0085055. However, after several attempts, and preparing several different “crosswalk” spreadsheets of NSF grant cost categories, SDP still could not provide a reliable accounting of how it had spent its NSF grant funds.

This circumstance was further exacerbated by the fact that SDP could not provide us with any worksheets, expenditure reports or other documentation that it claimed it used to prepare the FCTRs it submitted to NSF. Likewise, of the FCTR records SDP did provide to us, we did not see any indication of reviews or other processes conducted by SDP management to validate that what it had claimed on the FCTR it submitted to NSF was accurate. The [REDACTED] did advise us that [REDACTED] had reviewed and verbally approved the FCTR SDP submitted to NSF each quarter prior to its submission to NSF. The [REDACTED], however, could not produce any documentation to support these actions.

Despite the several attempts SDP made to provide information from its accounting system to support the amounts it claimed to NSF, there were numerous unexplained variances between the NSF approved budget and the costs incurred per SDP’s books and records. As indicated above, SDP could not account for a significant percentage of the expenses it had claimed to NSF for the grant funds it received. Moreover, this circumstance existed even though we previously reported in our 2000 audit that SDP did not utilize its accounting system to monitor budget to actual expenditures, that it did not account for its grant expenses by NSF budget categories, and that SDP had advised NSF’s Audit Resolution Office it had taken appropriate steps to correct these deficiencies.

Although we attempted to determine the causes for the continued deficiencies in SDP’s grant accounting, we were unable to do so. The fiscal personnel that were associated with the NSF grants under audit were no longer employed by SDP, and as such, we were unable to interview these individuals to obtain information on the processes they utilized to obtain NSF grant expenditure data from SDP’s accounting system or to prepare the FCTRs submitted to NSF. Current SDP personnel were unable to explain why these accounting deficiencies still remained unchanged or how they had calculated the amounts of expenditures by cost category that were claimed to NSF.

SDP’s inability to provide us with a reliable accounting of the costs it incurred for its NSF grants ESR-9453043 and ESI-0085055 resulting in material questioned costs, coupled with the fact that this same deficiency remained unchanged from our prior 2000 audit of SDP, contributed to our disclaiming an opinion on this audit.

### ***Recommendation 1***

We recommend that prior to NSF making any further awards to SDP, NSF's Director of the Division of Institution and Award Support verify that SDP has:

1. Developed and implemented written policies and procedures that delineate processes for accounting and reporting of NSF funded costs.
2. Developed a process that allows SDP to readily identify costs incurred in its accounting system to the appropriate NSF budget categories. Such process could include either an enhancement to SDP's current accounting code structure to coincide with NSF budget categories or the preparation of supplemental accounting worksheets which would link data from SDP's current accounting system to NSF budget categories.
3. Developed and implemented written policies and procedures for the preparation of Federal Cash Transaction Reports from SDP's official accounting records. Additionally, these written policies and procedures should include processes for maintaining all source data and worksheets that support all costs reported on the FCTR.
4. Developed and implemented written policies and procedures for conducting monthly budget to actual analysis of NSF expenses to assist SDP in aligning actual expenditures to approved NSF budgets.

### ***Auditee's Response 1***

The SDP disputes this finding and the accompanying recommendations.

The SDP has in place the internal controls and accounting systems necessary to meet its obligations under its funding agreements with federal grantor agencies. Indeed, as acknowledged at page 21 of the draft audit report, "SDP maintained a sufficient overall financial management system to account for all other types of SDP costs." Accordingly, there is no call for remedial actions on the SDP's part and/or further oversight by NSF. This is particularly true given that the SDP no longer receives any financial assistance from NSF.

The SDP has also taken the following steps to enhance its internal controls and other systems of accountability:

- As of 2005, the SDP completed phasing in the Advantage accounting software system. This system allows the SDP to track expenditures according to both federal and non-federal grant requirements. For example, the coding structure used by Advantage is arranged according to "Fund-Agency-Organization-Activity-Object-Reporting Category." The Advantage system's chart of accounts is based on the Commonwealth of Pennsylvania's Chart of Accounts. Specifically, the four digit activity code (describing the type of expenditure according to Instructional, Professional Development, Parental Involvement, *etc.*) and the four digit object code (differentiating expenditures by major object, *e.g.*, Salaries - 1000, Contracted Services - 3000, Supplies - 6000, *etc.*) provide ample opportunity to classify grant expenditures according to the particular requirements

of each award. This flexibility in use is evident in the Advantage structure for the SDP's federal Individuals with Disabilities Education Act (IDEA) grant, where the SDP has created twelve separate activity codes to track and report expenditures. *See* Exh. A (sample IDEA tracking report).

- The SDP has developed written procedures related to cash draw downs (*see* Exh. B) as part of a comprehensive grant management policy and procedure document. For all grants, source data and worksheets are maintained and are traceable to the support costs reported on the FCTR.
- The SDP has developed and implemented policies providing for generation of budget-to-actual reports and policies that are distributed monthly to all program managers across the SDP. *See* Exh. C (budget to actual instructions to managers and sample report). Managers at all levels of the organization are required to review those reports in addition to more detailed systems typically maintained at the program level. In addition, grant managers review and approve periodic financial reporting required by the grantor. These procedures permit accurate, current, and complete disclosure of the financial results of The SDP's federally-funded activities in compliance with the specific financial reporting requirements of each of its federal awards.

In light of the above, the SDP maintains a system of accounting and internal controls sufficient to safeguard federal funds against loss and/or misuse, that permits current and accurate reporting of financial status, enhances accountability, and ensures that awarded funds are expended for their intended purposes.

### ***Auditors' Response to Auditee's Response 1***

SDP provided in their response documents intended to illustrate SDP's "steps to enhance its internal controls and other systems of accountability". All of the provided documents (Exhibits A to C) are for processes and controls for periods subsequent to the end date of the NSF awards audit period of August 31, 2005. Exhibit A (sample of IDEA tracking report) illustrates a "cross walk" from the IDEA accounting records to a program budget on a Commonwealth of Pennsylvania, Department of Education program for fiscal year 2008. Exhibits B (written procedures related to cash drawdowns) and C (budget to actual instructions to managers and sample report) dated August 2007 and October 2005, respectively, are subsequent to the NSF audit end date of August 31, 2005. Apparently, SDP has presented these exhibits to illustrate the adequacy of SDP's internal controls and accounting systems. However, these documents and implied procedures (which are subsequent to the audit period) have not been audited by us and therefore we have no opinion as to whether they would correct the deficiencies noted in the finding.

With regard to the comment that "SDP maintained a sufficient overall financial management system to account for all other types of SDP costs" (which is stated in the finding), SDP has not addressed the finding statement regarding the specific lack of accounting controls for NSF funded program costs. We acknowledge our acceptance of SDP's overall controls related to processing of accounting transactions. However, we found that SDP's processes for accounting for specific NSF costs by award budget category was not adequate.

Therefore, the finding remains as stated and should not be closed until this recommendation has been adequately addressed and NSF determines that the corrective actions have been satisfactorily implemented.

**Finding 2. Lack of an Adequate Record Retention and Retrieval System**

SDP failed to provide 63% of the source documentation we requested to support the costs it charged to its NSF grants. As such, SDP could not demonstrate that the NSF funds it expended and claimed to NSF actually supported its NSF grant programs.

CFR Title 2, Part 215 (OMB Circular A-110), Subpart C, 215.21 (b) (7) states that recipients’ financial management systems shall provide for “accounting records including cost accounting records that are supported by source documentation.” NSF’s Grant Policy Manual (GPM) Section 350, *Records Retention and Audit*, requires grantee’s financial records, supporting documents, statistical records and other records pertinent to the grant to be retained by the grantee for three years from submission of the Final Project Report. In addition, the NSF Director and the Comptroller General of the United States, or any of their duly authorized representatives shall have access to any pertinent books, documents, papers and records of the grantee organization to make audits, examinations, excerpts and transcripts.

SDP’s system of record retention was in a state of disarray. SDP could not provide 63% of the source documentation we requested to support the costs it claimed on its NSF grants. Likewise, when SDP did provide requested documentation, the retrieval of that documentation required an inordinate amount of time, even though the documents were being retrieved from an off-site facility that was operated directly by SDP. SDP’s retrieval process encompassed a period of four and a half months to locate only 36% of the documentation requested to support costs SDP claimed on its NSF grants.

For this audit, we requested documentation from SDP for \$5,132,828 of costs that it claimed on its NSF grants. Our sample consisted of \$2,772,735 of salaries, wages and fringe benefits; and, \$2,360,093 of equipment, travel, participant support, and other costs. However, SDP could only provide adequate documentation for \$1,835,002 or 36% of the total transactions we selected. Thus, SDP could not locate documentation for \$3,297,826, or 63%, of the total transactions selected. The following is a summary of the missing documentation and the resulting \$3,297,826 of questioned costs (see Schedules B-1 and B-2 for the questioned costs details):

Cost Category	Award Number ESR-9453043	Award Number ESI-0085055
Salaries and wages	\$ 783,759	\$ 1,000,264
Fringe benefits	388,187	463,371
Permanent equipment	8,022	41,742
Travel	2,849	1,436
Participant support costs	239,464	211,290
Other	81,336	76,106
Total costs missing documentation	<u>\$ 1,503,617</u>	<u>\$ 1,794,209</u>

SDP management advised us that its inadequate record retention and retrieval system resulted from the relocation of SDP's administrative offices to a new building approximately one year prior to our audit. As a result of this relocation, thousands of archived file boxes were in the storage facility in a haphazard manner.

Additionally, all non-personnel cost source documentation was filed alphabetically by the name of the SDP accounts payable staff person who prepared the documents for payment processing. Therefore, in order to retrieve these documents, SDP staff needed to know who had prepared the specific document requested and the date it was prepared. SDP staff turnover, coupled with the death of the long-time Director of Accounts Payable (who created this record retention system), left this document retrieval process onerous at best for the current SDP staff.

More importantly, this inadequate record retention and retrieval system existed even though we previously reported in our 2000 audit of SDP that SDP lacked an adequate record retention system, and that SDP had advised NSF's audit resolution it had taken appropriate steps to correct the deficiencies. Indeed, SDP's failure to produce significant amounts of source documentation to support the costs it claimed to NSF resulting in material questioned costs, coupled with its inaction to correct this previously reported deficiency, was yet another factor that contributed to our disclaimer of opinion for this audit.

### ***Recommendation 2***

We recommend that prior to NSF making any further awards to SDP, NSF's Director of the Division of Institution and Award Support verify that SDP has developed and implemented a system of record retention and retrieval that is easily comprehensible and that allows for access to SDP records in an efficient and timely manner.

### ***Auditee's Response 2***

#### ***A. Questioned Costs***

The SDP disputes this finding.

The questioned costs associated with this finding appear to fall into six categories: (1) salaries and wages, (2) fringe benefits, (3) permanent equipment, (4) travel, (5) participant support costs, and (6) other. The following addresses the questioned costs in each of these categories in turn:

1. Salaries and Wages – \$783,759.00 (ESR-9453043), \$1,034,659.00 (ESI-0085055)

The lion's share of the costs questioned as part of Finding #2 relate to employee salaries charged to the two awards. The report indicates that the SDP failed to produce any original time and attendance records for the entire period audited for ESR-9453043 and for September 1, 2000 through November 30, 2002 under ESI-0085055. See Draft Report at 36, 39. Given the absence of this or similar documentation, the auditors conclude that all salaries and wages paid out of the

awards during the subject time periods are unsupported. At the SDP's request during the exit conference, the auditors provided to the SDP a list of employees whose time records were missing. *See* Exh. D. Of the SDP staff members identified, all but two were allocated 100% to the awards.

This finding rests largely on the misapplication of federal cost principles. Although it is not explicit in the text of the draft report, it appears that the finding relies on the requirement in OMB Circular A-122 that an awardee support salary charges through “[r]eports reflecting the distribution of activity of each employee . . . whose compensation is charged, *in whole or in part*, directly to awards.” OMB Circ. A-122, Att. B, § 8.m(2) (emphasis added).

OMB Circular A-122, however, do not apply to the SDP's awards from NSF, and the applicable cost principles contain no similar requirement for personnel time and activity reporting. Cost allowability for federal award expenditures by units of state, local, and tribal governments is determined in accordance with OMB Circular A-87 – not OMB Circular A-122, which applies to awards to private not-for-profit entities. *See* 45 C.F.R. § 602.22(b).<sup>1</sup> Under OMB Circular A-87, salary and wage charges “will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.” OMB Circ. A-87, Att. B, § h(1). Grantees need only maintain “personnel activity reports or equivalent documentation” to support the allocation of salaries and wages for “employees work[ing] on multiple activities or cost objectives . . .” *Id.* at § h(4). By contrast, an awardee may support salary charges for employees working exclusively on “a single Federal award or cost objective” through certifications prepared by the employee or his/her supervisor at least every six months stating that the employee worked solely on that program for a particular period. *Id.* at § h(3).

The SDP maintains documentation in its files sufficient to meet the salary support standards in OMB Circular A-87. The SDP runs its payroll processing functions through its Advantage accounting software system. SDP payroll staff enters all employee time and attendance information for each pay period into Advantage. *See* Exhs. E (Advantage Payroll manual), F (payroll histories for 2000, 2002; leave history for pay periods covered by OIG request). Such data is then stored in Advantage for later retrieval as necessary. The SDP thus relies on an electronic method of recording employee time and attendance for payroll purposes, and the absence of paper records showing the same information is in no way inconsistent with either institutional policies or the SDP's obligations under OMB Circular A-87.

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<sup>1</sup> The SDP notes that the OIG relies throughout the draft report on OMB Circular A-110 – OMB's “Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations” – as authority governing the SDP's operation and administration of the subject awards. The SDP, however, is a special purpose unit of state government, and is therefore subject to the requirements of OMB Circular A-102 – “Grants and Cooperative Agreements with State and Local Governments” (codified in NSF regulations at 45 C.F.R. Part 602) – rather than those of A-110. As set forth in the text above, the SDP is likewise subject to the cost principles in OMB Circular A-87.

The SDP otherwise satisfied the salary documentation requirements in the cost principles, having prepared “Summary Proposal Budgets” for submission to NSF (and at NSF’s behest) throughout the course of both awards covering budget periods of varying lengths. *See* Exh. G (budgets and budget details). Each of these proposals showed that the individuals and/or positions listed in the SDP’s earlier budgets as working exclusively on NSF-related activities continued to do so. In addition, the periodic budget proposals were prepared and submitted to NSF by these employees’ direct supervisor – *i.e.*, the program director(s) for the NSF awards – thus meeting the authentication criterion under the cost principles.

Accordingly, the salary charges for those SDP employees working 100% on the two NSF awards are properly supported and are therefore allowable. These charges represent \$1,677,405.00 of the \$1,818,418.00 in questioned salary costs in the draft audit report, leaving \$141,013.00 (*i.e.*, the amount comprising the salaries and wages allocated to the NSF awards without contemporaneous time records showing the distribution of employee effort) in undocumented salary costs.

2. Fringe Benefits – \$388,187.00 (ESR-9453043), \$477,129.00 (ESI-0085055)

The draft audit identifies the above amounts as questionable costs paid out of the SDP’s two NSF awards based largely on the same rationale as that underlying the questioned salary costs.

In light of the discussion in Section A.1., above, \$670,963.00 of the \$865,316.00 in questioned employee fringe benefits charged to the two awards were all properly documented. This \$670,963.00 figure consists of the fringe benefit costs attributable to employees devoted exclusively to NSF-related activities, less the \$137,948.00 in health insurance premiums listed at pages 36 and 40 of the draft report.

3. Permanent Equipment – \$8,022.00 (ESR-9453043), \$41,742.00 (ESI-0085055)

The draft audit report states that the SDP failed to produce vendor invoices for two equipment purchases paid out of ESR-9453043 and for three paid out of ESI-0085055. The two payments under ESR-9453043 were to Fisher Scientific (\$██████████ on December 8, 2000), School Mart (\$██████████ on March 23, 2000), and the three payments under ESI-0085055 were all to Dell Marketing LP (\$██████████, \$██████████, and \$██████████, paid on November 29, 2001, May 14, 2003, and August 26, 2002, respectively).

The SDP has performed a renewed search of files, this time to locate evidence of the obligations (other than vendor invoices) underlying each of the identified transactions. This search revealed purchase orders and proof of receipt of goods for the Dell Marketing LP transactions of November 29, 2001 (\$██████████) and August 26, 2002 (\$██████████). *See* Exh. H (Dell Marketing documentation). This documentation is sufficient to support the \$██████████ of the subject permanent equipment costs.

4. Participant Support Costs – \$239,464.00 (ESR-9453043), \$211,290.00 (ESI-0085055)<sup>2</sup>

OIG further asserts that the SDP lacked supporting documentation for forty-seven payments relating to “participant support” under ESR-9453043, seven payments for similar purposes under ESI-0085055, and payments to nineteen SDP employees for time in attending NSF-funded trainings. The expenditures under ESR-9453043 total \$239,464.00, and consist (with one exception) of payments to vendors identified in the ledger. The remaining payment represents disbursements to vendors aggregated in a single ledger entry as a “journal voucher” totaling \$15,754.00. Similarly, \$154,728.00 of the total \$211,290.00 in questioned participant support costs under ESI-0085055 relate to two journal vouchers recorded on the SDP’s books.

The SDP has performed a renewed search of files, this time to locate evidence of the obligations (other than vendor invoices) underlying each of the identified transactions. The SDP has retrieved from those files documentation to support all of the transactions with a document prefix of “PV” listed at page 59 of the draft report, as well as the following “PV” documents listed at page 58: PV AV700033182 01 (April 25, 2000 \$ [REDACTED] payment to National Council of Teachers); PV AV700057610 01 (September 28, 2000 \$ [REDACTED] payment to Texas Instruments); PV AV700109263 01 (September 17, 2001 \$ [REDACTED] payment to D&H Distributors); PV AV700015939 01 (December 21, 1999 \$ [REDACTED] payment to D&H Distributors). *See* Exh. I (participant support cost documentation). This documentation is sufficient to support \$28,802.00 of the subject participant support costs under ESR-9453043 and \$50,545.00 under ESI-0085055.

As to the journal vouchers (the transactions with a document prefix of “JV”) relating to participant support costs under ESI-0085055, those entries are comprised of numerous vendor payments individually listed elsewhere on the SDP’s ledger which the SDP has aggregated for the purpose of redistributing costs among budget periods. That is, where certain costs paid out of a given budget year were eligible charges under the prior budget year, the SDP would aggregate those eligible charges, move them to the prior budget year in a single journal voucher entry, then record an offsetting entry on the ledger for the budget year in which the costs originally appeared. By way of illustration, “JV GFS00006368” is a journal voucher entered on August 7, 2003 in the amount of \$130,883.00. *See* Draft Report at 59. That journal voucher appears on the SDP’s books along with an offsetting entry on the same date and under the same transaction number. Exh. J (justification for JV GFS00006368). The SDP has confirmed that JV GFS00006368 consists of 190 payment vouchers paid out of Year 2 ½ funds that were eligible expenditures for the first six months of Year 2. Similarly, “JV OMBG0000664” (September 24, 2004 for \$23,845.00) represents numerous payment vouchers initially paid from Year 4 funds that were moved to

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<sup>2</sup> The \$211,290.00 figure does not include \$701,570.00 in participant support costs questioned on the grounds that the SDP failed to obtain prior agency approval for rebudgeting of that amount. The SDP addresses that matter separately in the response to Finding #5.

Year 3. Exh. K (listing of payment vouchers under JV OMBG0000664). The documentation for each of these two journal vouchers is therefore in the ledger itself.<sup>3</sup>

Finally, the SDP has located supporting records for all but two of the payments to employees listed at page 60 of the draft audit report, thus reducing the original amount of questioned costs from \$6,017.00 to \$768.00. *See* Exh. L.

5. Travel – \$2,849.00 (ESR-9453043), \$1,436.00 (ESI-0085055)

The SDP has located supporting documentation for both of the questioned travel expenditures. *See* Exh. M.

6. Other – \$81,336.00 (ESR-9453043), \$76,106.00 (ESI-0085055)

OIG states that the SDP was unable to produce backup invoices for four expenditures under ESR-9453043 totaling \$81,336.00, and six expenditures under ESI-0085055 totaling \$71,106.00.

The SDP has performed a renewed search of files, this time to locate evidence of the obligations (other than vendor invoices) underlying each of the identified transactions. The SDP has retrieved from those files documentation to support the three transactions with a document prefix of “PV” listed at page 59 of the draft report. *See* Exh. N (“other cost documentation”).

The remaining three “other” transactions listed for ESI-0085055 are journal voucher entries. Two of these fall under JV OMBG0000664 and consist, once again, of re-recording costs initially paid out of Year 4 funds as costs payable out of the SDP’s Year 3 account. *See* Exh. K. The third journal voucher, JV CPCHR 343, represents charges for copying services performed by the SDP’s print shop at a cost of 3.85 cents per page. *See* Exh. O (print shop documentation).

Similarly, three of the four “other” transactions for ESR-9453043 are journal vouchers. The first, JV GFS00000838, relocated \$7,294.00 in Year 6 costs to Year 5. *See* Exh. P. The second and third journal vouchers, JV BGXGR803473 and JV BGXGR803441, represent aggregated costs recorded individually under the SDP’s old accounting system. These journal voucher entries were included on the SDP’s books to ensure accuracy and consistency in fund accounting when it commenced implementation of its new Advantage accounting system some time after the start of the NSF budget period. That is, rather than having portions of the funds available and incurred expenditures for that budget period reported on two different systems of accounting, the SDP opted to show the previously recorded costs grouped by category in Advantage, thus creating a complete picture of the relevant NSF budget year expenditures in the Advantage system.

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<sup>3</sup> Although the SDP believes that documentation for certain of the purchase vouchers listed in Exhibits J and K were previously provided in the course of the audit, the SDP stands ready to provide any additional documentation that OIG might like to review as support for these costs.

## *B. Policy Recommendations*

Regarding the propriety of OIG's recommendation that NSF withhold all further awards pending resolution of the record retention finding, the SDP refers to its response to Finding #1.

In addition, the SDP amended its Accounts Payable manual filing system in FY07 and implemented an electronic scanning and retrieval application in FY08. The specific steps implemented are as follows:

*Documents Processed in FY 2007 (July 1, 2006 – June 30, 2007)*—Documents were manually filed as follows: 1) Payment Vouchers by payment voucher number, 2) Purchase order invoices in alphabetical order by vendor name, and 3) Employee reimbursement documents in alpha order by the employee's last name.

*Current Document Retention and Retrieval Process in FY08 (July 1, 2007 to current)*—All payment vouchers (PV) (excluding imprest fund and employee reimbursement transactions) and purchase order (PO) invoices are imaged by an outside contractor, Data Management Internationale ("DMI"), and available for retrieval via the Application Xtender software. Any supporting payment documentation submitted is also scanned and available for retrieval.

Imprest fund documents are filed manually by payment voucher number and employee reimbursement documents are still filed manually in alphabetical order by the employee's last name.

Documents are imaged weekly and available one week later for on demand desktop retrieval by Accounts Payable. Documents can be retrieved from the application using payment voucher number and/or purchase order number. In addition, the hard copies of documents are currently being retained by the SDP.

To ensure all processed payments have been imaged, there is a reconciliation process of imaged documents by DMI to the financial system (Advantage) file from the SDP. An exception report is produced weekly and submitted to Accounts Payable for resolution.

Since implementing the document retention and retrieval system in July of 2006, the SDP has been able to retrieve all requested documents required for the City of Philadelphia Controller's Year-end audits. In addition, the SDP has been successful in manually retrieving documents processed during fiscal 2007.

### ***Auditors' Response to Auditee's Response 2***

In Part B of SDP's response, they indicated various "steps implemented to amend its accounts payable manual filing system" in fiscal years 2007 and 2008. These steps for processes and controls are for periods subsequent to the end date of the NSF awards audit period of August 31, 2005. These procedures have not been audited by us and therefore we

have no opinion as to whether they would correct the deficiencies noted in the finding in regards to record retention and retrieval.

In Part A of SDP's response, they provided explanations and documents which they purport to eliminate the questioned costs. The following is our response to the SDP explanations and documentation for the questioned costs by category:

Salaries and Wages:

SDP asserts that OMB Circular A-122 was the criteria utilized as the basis for the questioning of salaries and wages related to SDP's inability to locate time and attendance records.. No where in the audit report do we state or infer that OMB Circular A-122 was the criteria we used for the questioning of salaries and wages. Instead, we cited OMB Circular A-110 (Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations) as the criteria for sufficiency of record retention requirements. SDP further asserts that OMB Circular A-87 (Cost Principles for State, Local and Indian Tribal Governments) should have been the criteria cited. They go on to state that "SDP maintains documentation in its files sufficient to meet the salary support standards in OMB Circular A-87". SDP cited several sections from OMB Circular A-87 relative to salary and wage charges. One SDP citation was Attachment B (Selected Items of Cost), Section 8, paragraph h (Support of Salaries and Wages) subparagraph (1) which states "Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit." In addition, SDP cites paragraph h(3) and h(4) which require either "periodic certifications ... signed by the employee or supervisory official having first hand knowledge of the work performed by the employee" (for employees working solely on a single Federal award) or "a distribution of their salaries or wages ... supported by personnel activity reports or equivalent documentation" (for employees working on multiple activities).

SDP's utilization of the above OMB Circular A-87 references did not include the following pertinent OMB Circular A-87 requirements related to the documentation of salaries and wages:

- Section 8, paragraph h(5) *Personnel activity reports or equivalent documentation must meet the following standards:*
  - (a) *They must reflect an after the fact distribution of the actual activity of each employee,*
  - (b) *They must account for the total activity for which each employee is compensated,*
  - (c) *They must be prepared at least monthly and must coincide with one or more pay periods, and*
  - (d) *They must be signed by the employee.*

We will clarify the misconception on the part of SDP regarding the interpretation and application of the OMB Circular A-87, Section 8 as it pertains to SDP's salary and wage processes. SDP's usual practices did not include the preparation of personnel activity reports or equivalent documentation. Instead, SDP utilized a "time and attendance" record wherein an employee only recorded whether or not they were present at the school for the day. The SDP employee did not record specific activities in which they participated on the time and attendance record. It is the recordation of the specific activities of the employee that constitutes a personnel activity report and not whether or not the employee was present for the day at the school. We audited such time and attendance records for the period December 1, 2002 to the end of award number ESI-0085055. Therefore, citing OMB Circular A-87 Section 8, paragraph h(1) which states "Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit" is not applicable since SDP did not maintain personnel activity reports or equivalent documentation for its employees.

SDP submitted various documents in Exhibits E to G which they believed met the criteria of OMB Circular A-87. Our review of these documents determined that they consisted of a payroll users guide (Revised October 2005), payroll histories, leave histories and NSF budget and budget details. None of these documents meet the source documentation criteria of OMB Circular A-110 or the requirements of OMB Circular A-87. Therefore, the questioned costs totaling \$1,784,023 remain as stated.

#### Fringe Benefits:

The questioned costs remain as stated because we did not accept the documents and explanations provided by SDP for the questioned costs for salaries and wages. Additionally, there was \$137,948 of questioned costs related to missing documentation for employee health insurance premiums. SDP did not provide an explanation or documentation related to this questioned costs, therefore, they remain as stated.

#### Permanent Equipment:

SDP's submission of the documentation contained in Exhibit H, related to two purchases from Dell Marketing LP, was accepted as adequate support for questioned costs totaling \$ [REDACTED]. The receiving reports from Dell did include the amount of the purchases; therefore, these were accepted in lieu of invoices from Dell. Since no other documentation was submitted for the balance of the missing equipment purchases, the questioned costs now total \$ [REDACTED].

#### Participant Support Costs:

SDP provided three Exhibits (I to K) which they believe addresses \$234,075 of questioned costs. Based upon our review of the documents provided we accepted documentation for \$22,625, explained as follows:

- Exhibit I included acceptable documentation for two purchases totaling \$17,924 for award number ESR-9453043. The other documents submitted were not acceptable

since they included only bills of lading and packing receipts (without dollar amounts) and “Print Screens” from SDP’s Advantage accounting system (which does not constitute source documentation for an expenditure of NSF funds).

- Exhibits J and K, which related to the lack of documentation for two journal vouchers, were not acceptable. SDP only provided the “Print Screen” from SDP’s Advantage accounting system (which does not constitute source documentation for an expenditure of NSF funds) and the detail to the journal vouchers for \$130,883 and \$23,845. This detail is only a listing of the various vendors which were included in the transfer of costs from one NSF program year to another. The documentation that would support these individual vendor details (vendor invoices and receiving reports) were not provided by SDP. If this listing had been provided during the course of the audit we would have requested (on a sample basis) documentation to support the allowability of these participant support costs.
- Exhibit L contained attendance/sign-in sheets, of which we accepted as documentation sixteen of the nineteen payments questioned, resulting in acceptable support of \$4,701 of the total \$6,017 from award number ESI-0085055.

#### Travel:

SDP provided as part of Exhibit M certain documentation that they believe would support the total questioned costs of \$4,285. Based upon our review of the documents provided we accepted documentation for \$3,594, explained as follows:

- For the expenditure of \$2,849 we accepted the documentation provided.
- For the expenditure of \$1,436 (which had not been identified by SDP during the audit), SDP submitted acceptable documentation in the form of a hotel bill for an employee’s out of town travel totaling \$745. The balance of the questioned amount of \$691 represents payments to three other individuals, for which no detailed travel documents were submitted. Therefore, the \$691 remains questioned.

#### Other:

SDP provided three Exhibits (K and N to P) which they believe addresses \$157,442 of questioned costs. Based upon our review of the documents provided by SDP, we accepted documentation for \$25,667, explained as follows:

- Exhibit N included acceptable documentation for two purchases totaling \$25,667 for award no. ESI-0085055. The documentation submitted by SDP for the remaining questioned costs of \$9,993 was not acceptable since it consisted of a hand written note and “Print Screens” from SDP’s Advantage accounting system (which does not constitute the source documentation required for an expenditure of NSF funds).

- Exhibit O was not acceptable since it included “Print Screens” from SDP’s Advantage accounting system (which does not constitute the source documentation required for an expenditure of NSF funds).
- Exhibits K and P, related to the lack of documentation for six journal vouchers, were not acceptable. SDP provided the “Print Screen” from SDP’s Advantage accounting system (which does not constitute the source documentation required for an expenditure of NSF funds) and the detail to the journal vouchers totaling \$118,718. The journal voucher detail is only a listing of the various vendors which were included in the journal voucher’s transfer of costs from one NSF program year to another. Source documentation that would have supported these individual vendor details (vendor invoices and receiving reports) were not provided by SDP. If this listing had been provided during the course of the audit, we still would have requested (on a sample basis) source documentation to support the allowability of these participant support costs.
- SDP did not address a questioned cost of \$3,064 related to a missing invoice. This expenditure remains a questioned cost.

In summary, we reduced questioned costs for this finding by a total of \$86,639 (\$20,844 for award number ESR-9453043 and \$65,795 for award number ESI-0085055) based on additional adequate supporting documentation provided by SDP. However, this report finding should not be closed until the recommendations have been adequately addressed and NSF determines that the corrective actions have been satisfactorily implemented.

### **Finding 3. Lack of a System to Identify, Account for, Monitor, and Report Cost Sharing**

SDP lacked a system to identify, account for, monitor and report cost sharing it contributed to both NSF awards, raising questions as to the reliability and integrity of the \$1,613,290 of cost sharing reported for NSF award ESI-0085055 and the lack of SDP’s ability to substantiate that it had incurred or reported to NSF the remaining \$3,227,388 of cost sharing for NSF award ESR-9453043.

NSF’s Grant Policy Manual (GPM), Section 333.6, *Cost Sharing Records and Reports*, and OMB Circular A-110, Section 23, require grantees to maintain records of all costs claimed as cost sharing, and states that those records are subject to audit. These 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, also states that, to be accepted as part of the recipient’s cost sharing, expenditures must be necessary and reasonable for proper and efficient accomplishment of project or program objectives and allowable under applicable cost principles.

SDP’s accounting system, as currently configured and utilized by SDP personnel, does not allow for the recordation and tracking of expenses incurred as cost sharing. As a result, SDP could not provide adequate information on the amount of cost sharing it had incurred and/or

claimed to NSF for its NSF awards. Likewise, SDP did not maintain adequate documentation to support the cost sharing it claimed to NSF.

Because of the deficiencies in SDP's cost sharing system, and SDP's deficiencies in record retention (see Finding 2, above), we could not audit the remaining cost share balance of \$3,227,388 for NSF award ESR-9453043. Additionally, our audit of the \$1,613,290 of cost sharing SDP claimed to NSF for award ESI-0085055 resulted in our questioning \$1,385,224 or 86% of the cost share claimed for this award, due to inadequate documentation. The details of our audit of SDP's cost sharing are presented below.

#### Award Number ESR-9453043:

Award number ESR-9453043 was for a 5 year program with an original award period of September 15, 1995 to August 31, 2000. An amendment was approved for this award to extend the award period to August 31, 2001. The total required cost sharing for this award was \$35,561,763. M.D. Oppenheim & Company, P.C. performed a previous audit on this award and issued a report dated January 12, 2000. That audit covered the period September 15, 1995 to June 30, 1999. For the period of our prior audit, SDP reported \$29,185,590 of cost sharing to NSF. However, our audit of supporting records that SDP was able to provide at that time disclosed that SDP actually provided \$32,334,375 of cost sharing.

For the current audit, we requested that SDP provide us with accounting records and documentation for the cost sharing it reported to NSF for the current audit period of July 1, 1999 to August 31, 2001, and in total for the entire award period. According to the total required cost sharing for this award, SDP was required to provide an additional \$3,227,388 of cost sharing (\$35,561,763 less the \$32,334,375 of cost sharing we validated during our previous audit).

SDP officials informed us that they were unable to locate any summaries of the cost sharing reported and/or incurred, including for the period covered by our previous audit. SDP officials also could not locate the related supporting documentation for cost share for the current audit period of July 1, 1999 to August 31, 2001.

In an attempt to obtain some form of documentation to determine the final amount of cost share SDP reported to NSF for this award, we requested a copy of the final project report. However, SDP was unable to locate the final project report for this award. We also attempted, but could not obtain, a copy of the final report from NSF's program office. The final project report, had we obtained a copy, should have included information on the total cost sharing SDP reported to NSF.

Because SDP could not provide us with accounting records or any type of documentation for the cost share on Award ESR-9453043 for our current audit period, we were unable to audit the remaining \$3,277,888 balance of cost share for this award. Due to the lack of support of this cost share there would be excess Federal costs amounting to a maximum of \$862,707. At the present time this amount of excess Federal costs has not been questioned since the NSF questioned costs of \$1,525,171 has lowered NSF's share of the total program costs to a level that the cost sharing audited of \$32,334,375 is acceptable.

Award Number ESI-0085055:

Award number ESI-0085055 was for a 5 year program with an award period of September 1, 2000 to August 31, 2005. The total required cost sharing for this award was \$1,406,877. In November 2003, SDP originally claimed a cumulative total of \$1,362,530 of cost sharing to NSF for the period September 1, 2000 to August 31, 2003. However, NSF disallowed the \$1,362,530 of cost sharing claimed by SDP because NSF determined that SDP had used Federal funds for cost sharing purposes.

In November 2004 SDP revised its amount and source of cost sharing and reported cost sharing to NSF in the amount of \$1,613,290, which exceeded the required award amount of \$1,406,887. Our audit of the \$1,613,290 of cost sharing claimed by SDP to NSF resulted in inadequate documentation for \$1,385,224 of cost sharing (see Schedule D-1). SDP's deficiency in cost sharing also resulted in NSF incurring greater than its proportionate share of award costs. These amounted to excess Federal costs of \$616,365, which are calculated in Schedule B-3 of this report.

We were advised by SDP personnel that they were unaware of the requirements to adequately account for cost sharing. In addition, per discussion with current SDP personnel, the inability to locate adequate accounting records and documentation was related to either the reorganization of the program office, results of staff turnover or the relocation of the SDP central office in 2005.

Nonetheless, SDP's lack of an adequate system to identify, account for, monitor, and report cost sharing is an egregious matter. SDP's lack of an adequate cost share system raises concerns as to whether or not SDP in fact met its cost sharing requirements for its NSF awards. Indeed, as indicated in the "Follow-Up of Prior Audit Findings" section, we reported that SDP's general ledger did not include any accounting entries detailing actual cost sharing and that SDP did not maintain detailed records of actual cost sharing in a readily available and organized format in our report dated January 12, 2000. In fact, SDP asserted to NSF's audit resolution team during the audit resolution process of our prior audit that it had implemented improvements to their cost sharing system. However, we found during our current audit that the improvements SDP asserted it had made to NSF did not occur, and this circumstance contributed to our disclaimer on this audit.

***Recommendation 3***

We recommend that prior to NSF making any further awards to SDP, NSF's Director of the Division of Institution and Award Support verify that SDP has established a system to identify, account for, monitor, and report cost-sharing expenses and, at a minimum ensure that:

- Cost sharing for NSF awards is separately tracked, accounted for, and verifiable in SDP's accounting records; is not included as a contribution 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 NSF awards with cost-sharing requirements are immediately identified and reported to the Accounting Department so that cost sharing expenditures can be tracked, associated with the NSF award, and reported as they are incurred.
- Cost sharing costs incurred and claimed on NSF awards are appropriately designated as such as they occur to establish that they are reasonable, allocable, and allowable to NSF awards.
- Cost sharing policies and procedures are developed and documented, and are consistent with NSF requirements.

### ***Auditee's Response 3***

The SDP disputes this finding. Contrary to the statements in the draft report, the SDP has adequately documented its cost-share for ESI-0085055.<sup>4</sup> As acknowledged at page 50 of the draft report, the SDP provided the auditors with dates, attendance sheets, and agendas for each of the training sessions in the sample supporting the amounts claimed in cost-sharing for the trainings and demonstrating that each was in furtherance of NSF award purposes. The sole apparent basis for the finding of insufficient documentation was OIG's unilateral refusal to accept the training agendas as proof of allocability.

Although the SDP disputes the notion that any further documentation is necessary to justify its cost-sharing claim, the SDP has located the curriculum training materials for the six mathematics teacher training sessions listed at page 50 of the draft report, which resulted in \$1,385,224 in questioned cost-sharing. Those documents are contained in Exh. Q, attached hereto. The curricula serve as double confirmation that the six trainings were NSF-related activities. From the SDP's understanding, based on OIG's statements in the exit conference, the scripts satisfy OIG's concerns over allocability. Therefore, the \$1,385,224 of questioned costs should be removed from the audit (as contained on Schedule D-1 of the audit), including the \$161,365 of Excess Federal Costs as computed on Schedule B-3.

As to the recommendation that NSF withhold any future awards to the SDP until it develops and implements a system for tracking and reporting cost-share, the SDP refers to its response to Finding #1. Moreover, to the extent the draft report calls for any further action by the SDP, the SDP has already established a formalized system for recording, tracking, and reporting cost-sharing and/or matching costs under all of its federal awards. In the fall of 2005, the SDP instituted the following procedures designed to ensure that cost-sharing/match requirements are met on all grants:

- *Consideration of match requirements in the early stages of grant-seeking in making strategic decisions about which grants to apply for.* All grant opportunities over \$20,000 are initially reviewed by the SDP's "Development Committee," which is comprised of high level administrators representing all major academic offices (e.g., Curriculum and Instruction, Leadership and

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<sup>4</sup> It does not appear from the text of the draft audit report that OIG questions any costs relating to ESR-9453043 based on any failure to document cost-sharing. The SDP therefore does not specifically address Finding #3 with respect to ESR-9453043 except to the extent that it bears upon recommended remedial measures.

Professional Development, *etc.*) Information about match requirements is now included in the briefing that committee members receive about each grant opportunity. In making decisions about which opportunities to respond to and about what overall approach to take in applying, committee members consider what resources exist and which resources may realistically be leveraged for cost-sharing/match purposes.

- *Specific and concrete identification of planned cost-sharing/match in all grant proposal budgets.* During the proposal development process, representatives from the SDP's Office of Management and Budget require program offices to specify in concrete terms the source of any non-federally funded programmatic expenditure included as part of any plan for cost-sharing/match. In the absence of a specific and documentable source of match, the proposal will not be submitted.
- *Post-award meetings with grant managers to determine specific cost-sharing/match documentation plan.* Upon notification of any grant award, a meeting is convened with the program manager(s), representatives from the Office of Management and Budget, and other relevant District administrators (*e.g.*, from the Office of Grants Development and Support, the Office of Research and Evaluation, *etc.*) A regular item on the agenda for all such meetings is the discussion of cost-sharing/match requirements (if any) for the grant in question. Action plans for documenting cost-sharing/match expenditures are developed. If appropriate, program managers are provided with sample personnel time logs and other forms for them to use in documenting match costs. *See* Exh. R ("Managing Your Grant" manual and checklist).
- *Enhanced staffing to carry out cost-share tracking and compliance functions.* As of 2005, the SDP has increased the number of budget office personnel responsible for reviewing cost-sharing requirements for the SDP's federal awards on an on-going basis to ensure that it is meeting those requirements during relevant budget periods and that the costs claimed are allowable as cost-share.

In light of these actions and the absence of any current awards from NSF to the SDP, there is no need for additional oversight or remedial steps to address the conditions identified in Finding #3.

The draft audit report indicates that the \$3,227,388 figure is the remaining amount of budgeted cost-share after subtracting the \$32,334,375 in documented cost-share under ESR-9453043 for the period from September 14, 1995 through June 30, 1999. Although the draft audit does not identify any questioned costs in connection with the finding of lack of support for such residual cost-sharing, the SDP understands from M.D. Oppenheim & Co., P.C., that this finding could carry with it a determination that the amount of NSF funds charged to the award were excessive when compared with the documented cost-share. In other words, should the total otherwise allowable expenditures charged to ESR-9453043 make up a greater percentage of the total award costs (including the SDP's cost-share) than contemplated in the award budget, the allowable NSF charges could potentially be reduced to a level in proportion to the original budget.

The SDP disputes this finding because, among other things, there can be no excess Federal financial participation in award number ESR-9453043 regardless of draft Finding #3. The factual predicate for the concern raised in the April 1, 2008 e-mail is the notion that the SDP expended the full amount of the award, thus obligating the SDP to provide the total cost-share listed in the budget. In the course of preparing this supplemental response, it became clear to the SDP that it had not, in fact, exhausted the NSF funds available under ESR-9453043. Rather, approximately \$1,822,500 remained as of August 31, 2000, the original close of the period of the award. By letter dated December 1, 2000, NSF notified the SDP that it would be able to access these remaining funds in furtherance of activities under award number ESI-0085055. *See* Exh. W at 2. NSF therefore directed the SDP to submit a written request for a twelve-month extension of the ESR-9453043 award period, along with a request that ESR-9453043 be treated as a “related” award to ESI-0085055. *Id.* NSF would then allow the SDP to use the residual ESR-9453043 for ESI-0085055 purposes and adjust the latter award amount to account “for the inclusion of the carry-over funds.” *Id.* The SDP submitted the request per NSF’s instruction on April 12, 2001, and NSF approved that request on May 14, 2001. *See* Exh. X.

NSF thus reduced the funds available under SER-9453043 from \$14,842,318 to \$13,019,818 – *i.e.*, less than the \$13,979,611 that would have represented NSF’s proportionate share of total ESR-9453043 award costs based on the SDP’s documented cost-share of \$32,334,375. Accordingly, no concerns of excess Federal financial participation should arise in connection with Finding #3.

### ***Auditors’ Response to Auditee’s Response 3***

The curriculum training materials provided by SDP in Exhibit Q have been reviewed and deemed acceptable to document the training sessions held by SDP in support of \$1,385,224 of cost sharing related to NSF award number ESI-0085055. As a result of our acceptance of SDP’s cost sharing, the excess Federal costs of \$616,365 questioned in the draft audit report is also considered resolved. (Note: Due to the resolution of the excess Federal costs, Exhibit B-3 was eliminated from the final audit report.)

Additionally, we wish to clarify SDP’s inaccurate comment regarding our acknowledgment in the draft report that “SDP provided the auditors with dates, attendance sheets, and agendas for each of the training sessions in the sample ...”. SDP did not provide us with any attendance records during our audit. Our statement in Schedule D-1 indicates that SDP only provided a computerized spreadsheet which contained teacher names that attended these sessions. A computerized listing of sessions attended is not an attendance record.

SDP addressed the various deficiencies cited in the lack of a system to identify, account for, monitor, and report costs sharing. They provided a document (Exhibit R “Managing Your Grant – A Guide to Administering Grant Funds Through School District Procedures” issued February 2008). In addition, SDP indicated that they instituted various procedures to address the internal control deficiencies of the cost sharing system, which were implemented in the fall of 2005.

SDP has presented Exhibit R and the delineation of the various procedures to illustrate the adequacy of SDP's internal controls and accounting systems over cost sharing. However, these documents and procedures (which are subsequent to the audit period) have not been audited by us and therefore we have no opinion as to whether they would correct the deficiencies noted in the finding. In regard to SDP's response to the balance of the cost share of \$3,277,888 on Award ESR-9453043, their explanation is not acceptable to resolve this finding. SDP stated that they had unexpended NSF award funds of \$1,822,500 and therefore the cost share audited of \$32,334,375 was adequate for the award. This is an inaccurate statement since the entire award was expended. As shown in Schedule A-1 of this report, SDP had a total NSF funded budget of \$14,975,401 and the total reported costs by SDP on their September 30, 2001 FCTR was \$15,661,380, resulting in utilizing 100% of the total award. NSF will address unmet cost share during its audit resolution process.

This report finding should not be closed until the recommendations have been adequately addressed and NSF determines that the corrective actions have been satisfactorily implemented

#### **Finding 4. Lack of Adequate Fiscal Monitoring and Accounting of Subawardee Costs**

SDP lacked an adequate system and policies and procedures for the fiscal monitoring and accounting of subawardee costs it incurred for its NSF awards. As indicated in Finding 1, above, SDP commingled the accounting of subawardee costs with other expenses in an account entitled "other." Therefore, SDP could neither determine how much of its NSF funds it expended for subawardee costs, nor could it provide documentation from its accounting system to support the subawardee costs it claimed to NSF. As such, we were required to perform significant alternative procedures both at SDP to ascertain the amounts of subawardee costs SDP incurred and at two of SDP's subawardees to satisfy ourselves that the subawardee costs charged to the NSF grants by SDP were allowable.

OMB Circular A-110, Subpart C, Section .51 (a), requires recipients to manage and monitor each project, program and subaward. In addition, Subpart C, Section .21(b)(1) requires accurate, current and complete disclosure of the financial results of each federally-sponsored project or program. The NSF Grant Policy Manual, Section 301, also specifies that grantees are responsible for managing and monitoring subaward performance and exercising prudent management of all expenditures and actions affecting the grant.

SDP does not properly account for, track or monitor subawardee costs for either of its two NSF awards. SDP's current accounting system is not configured to allow for the separate recording of subawardee costs. Instead, subawardee costs are commingled in the accounting system with other subcontracted professional services costs in an account entitled "other." Moreover, SDP does not maintain subsidiary records to track expenses incurred for each subawardee, which negates any possibility of comparing actual subawardee costs in total to the subawardee costs in the approved NSF award budgets. This lack of accounting for subawardee costs also obviates SDP's ability to monitor its subawardee costs utilizing accounting data.

Additionally, SDP does not have any policies and procedures for subawardee monitoring, nor does SDP conduct any type of monitoring activities of its subawardee such as performing on-site field inspections of fiscal and program operations.

This lack of proper accounting, tracking and monitoring is critical due to the material amount of subawardee costs budgeted for each of SDP’s NSF awards. For NSF award number ESR-9453043, the total budgeted subawardee costs were \$1,967,509 or 13% of the total award budget. For NSF award number ESI-0085055, the total budgeted subawardee costs were \$1,234,881 or 15% of the total award budget.

We performed significant alternative procedures at SDP in order to ascertain the amount of subawardee costs incurred by SDP for each of its’ NSF awards. We requested the names of subawardees from the SDP program staff and compared this information to the subawardees delineated in NSF’s award and budget documentation. We also requested that SDP prepare a detailed computer list of payments, sorted by each subawardee, to determine the total payments SDP made to its subawardees. We then obtained copies of all applicable subawardee agreements and any available reports of expenditures for comparison to the sorted payment lists previously obtained from SDP. As a result of our procedures, we found that for NSF award number ESR-9453043, SDP incorrectly classified \$435,132 of subawardee costs as “other;” and for NSF award number ESI-0085055, SDP incorrectly classified \$997,981 of subawardee costs as “other.”

In addition to SDP’s misclassification of subawardee costs, we were required to perform additional on-site procedures at two of SDP’s subawardees to satisfy ourselves that the subawardee costs charged by SDP to its NSF awards were allowable. As a result of our on-site procedures, we questioned \$125,168 of SDP’s subawardee costs as follows:

<u>Name of Subawardee</u>	<u>Questioned Costs</u>		
	<u>Award No.</u> <u>ESR-9453043</u>	<u>Award No.</u> <u>ESI-0085055</u>	<u>Total</u>
Research For Action	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Franklin Institute	[REDACTED]	[REDACTED]	[REDACTED]
Total	<u>\$ 10,850</u>	<u>\$ 114,318</u>	<u>\$ 125,168</u>

Specifically, for NSF award ESR-9453043, we questioned \$ [REDACTED] of subawardee costs claimed by Research for Action (RFA). Of this amount, we questioned \$9,770 as overclaimed costs because the costs claimed by RFA to SDP were more than the amount of costs recorded by RFA in their official books of record. We questioned the remaining \$ [REDACTED] because RFA charged salary amounts for four employees to the NSF program that were in excess of the amounts of their actual salaries.

For NSF award ESI-0085055, we questioned a total of \$114,318. RFA claimed \$ [REDACTED] more to SDP than the costs recorded in their official books of record. We questioned this amount. We also questioned \$ [REDACTED] of the Franklin Institute’s costs because the Institute claimed more than the costs recorded in their official books of record. We questioned an additional \$ [REDACTED] for other than personnel costs for which Franklin Institute could not provide support.

These circumstances occurred because SDP did not have policies and procedures in place that required SDP personnel to monitor subawardee activities and because SDP lacked an adequate financial management system for accounting and reporting of NSF costs. Such deficiencies increase the risk for misuse, loss or theft of NSF funds.

#### ***Recommendation 4***

We recommend that prior to NSF making any further awards to SDP, NSF's Director of the Division of Institution and Award Support verify that SDP has developed a comprehensive subawardee fiscal monitoring plan.

#### ***Auditee's Response 4***

The SDP disputes the conclusion that it failed adequately to monitor RFA and FI under the two NSF awards. The SDP structured its contractual relationships with both of these entities as fee-for-service arrangements, pursuant to which RFA and FI would be entitled to payment on the basis of deliverables, not on the basis of their costs. *See* Exh. S (agreements with RFA and FI). The compensation clause in the relevant contracts does not, however, contemplate cost reimbursement, but instead directs the vendors to submit quarterly invoices detailing goods/services delivered, along with a date and place of delivery.

Moreover, it appears that the audit report understates the contractors' costs attributable to the NSF awards. The most significant error in this regard appears in the comparisons of costs claimed by RFA and those recorded on its books for ESI-0085055. *See* Draft Report at 42-43. The schedules attached to the draft audit show that fully \$ [REDACTED] of the \$ [REDACTED] in questioned payments to RFA consist of RFA's charges for indirect costs allocable to the award. The OIG has questioned those charges because RFA did not specifically book those costs in its general ledger. RFA's entitlement to recover its indirect costs, however, is simply a function of applying its indirect cost rate (as duly negotiated with the federal government) to its modified total direct costs under the agreement. *See* Exh. T (RFA budget showing indirect cost rate). That RFA's books do not show an assignment of indirect costs to NSF-related activities has no bearing on RFA's entitlement to recover those costs, nor does it in any way lead to a conclusion that such costs are unsupported. So long as the costs comprising RFA's indirect cost base are documented, indirect costs claimed according to RFA's negotiated rate are allowable.

The SDP otherwise refers to its response to Finding #1 for its response to OIG's recommendation 4.

#### ***Auditors' Response to Auditee's Response 4***

SDP disputed the questioned costs related to subawardee costs because they believe that these subawards were not cost reimbursement but rather "fee-for-service arrangements" with payment based upon deliverables, not on the basis of costs incurred. In addition, SDP believes the questioned costs specifically related to Research for Action (RFA) are "a function of applying its indirect cost rate...to its modified total direct costs under the agreement". However, it should be noted that both Research for Action and the Franklin Institute submitted detailed cost reimbursement invoices as documentation for payment/

reimbursement. In addition, the award agreement with each entity required the submission of quarterly invoices which include an itemization of charges; further supporting our position that payment under the existing contracts with SDP is based upon costs incurred. SDP contends that part of RFA's overclaim of expenses was related to RFA not recording indirect costs in their books of account in the amount of \$[REDACTED]. SDP's position is that RFA is nonetheless "entitlement to recover its indirect costs". This explanation is not an acceptable basis for us to allow the \$[REDACTED]. If the indirect cost reimbursement was allowable, our position is that RFA should have recorded an allocation of their indirect costs in the books of account related to the SDP subawards. In addition, SDP did not address the differences between what was in the actual books of record and what was charged to SDP at RFA detailed in Schedules B-1 and B-2, nor any of the differences reported for Franklin Institute (FI) in Schedule B-2.

Exhibits (S and T) provided by SDP to us did not contain any relevant information that we would consider as documentation to address the questioned subawardee costs. Exhibit S contained agreements with RFA and FI, copies of which we had already obtained from SDP during the audit. Exhibit T contained an RFA budget showing their indirect cost rate and budget amount for indirect costs, which is the maximum amount allowed to be reported. A subawardee on a Federal award is not "entitled" to the indirect costs budgeted. Indirect costs are a function of the actual direct costs incurred and are limited to the application of the approved indirect cost rate to the modified total direct cost base.

Based upon the above, the subawardee costs remain questioned. This report finding should not be closed until the recommendations have been adequately addressed and NSF determines that the corrective actions have been satisfactorily implemented.

#### **Finding 5. Lack of An Adequate Process for Monitoring Participant Support Costs**

SDP did not have an adequate process for monitoring the budget to actual participant support costs it incurred for NSF award ESI-0085055. As a result, SDP utilized \$701,570 of participant support funds for other types of NSF related costs, and did not obtain prior NSF approval to do so, as required by the NSF grant terms and conditions.

National Science Foundation Grant General Conditions (GC-1), Article 7 – Participant Support Costs, states that participant support costs are direct costs for items such as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with meetings, conferences, symposia, or training projects. (See also GPM Section 618).

According to its September 30, 2005 FCTR, SDP expended the entire \$8,1443,803 of funds available for NSF award ESI-0085055. Of this amount, \$3,446,986 was budgeted for participant support costs. However, SDP claimed to NSF during this audit that they expended only \$2,745,416 for participant support costs. SDP's current financial records also indicated that the District under spent the funds intended for participant support costs. Since SDP expended its entire grant funds, and did not expend the entire amount of its budgeted participant support costs, SDP utilized \$701,570 of its NSF funds for costs other than participant support. SDP also indicated that it did not obtain prior NSF approval before expending these funds.

<u>Award Number ESI-0085055</u>	<u>Approved Budget</u>	<u>Claimed Costs</u>	<u>Underspent Funds</u>
Participant Support Costs	<u>\$ 3,446,986</u>	<u>\$ 2,745,416</u>	<u>\$ 701,570</u>

This condition was caused by SDP’s lack of an adequate process for monitoring of participant support costs in accordance with the approved NSF budget. SDP’s failure to monitor its participant support costs limits its ability to ensure that participant support funds are not spent on any other type of costs without prior NSF approval.

***Recommendation 5***

We recommend that prior to NSF making any further awards to SDP, NSF’s Director of the Division of Institution and Award Support verify that SDP has developed and implemented a process to monitor its participant support costs against approved NSF budgets. This process should also include obtaining prior NSF approval for the reprogramming of participant support funds to other types of costs.

***Auditee’s Response 5***

The SDP disputes this finding. The bulk of the costs included in the “participant support cost budget” were not, in fact, participant support costs. The budget justifications and detailed budget narratives accompanying the original application for assistance under ESI-0085055, as well as the revised budgets submitted to NSF prior to the award, reveal that the vast majority of the funds budgeted for “participant support costs” were to go to pay SDP teachers for their time while attending NSF-related trainings.

These sorts of payments, however, are expressly excluded from NSF’s own definition of “participant support costs,” and it is therefore at best questionable whether the prior approval requirement to which OIG refers applied in the first instance. The 1995 and 2002 iterations of the NSF Grant Policy Manual (*i.e.*, the versions of the manual applicable during the award period) each define “participant support costs” as “direct costs for items such as stipends or subsistence allowances, travel allowances and registration fees paid to or on behalf of participants or trainees (*but not employees*) in connection with meetings, conferences, symposia or training projects.” *See* “National Science Foundation Grant Policy Manual” at § 618.1(a) (July 1995); “National Science Foundation Grant Policy Manual” at § 618.1(a) (July 2002) (emphasis added). Indeed, it was not until NSF issued its June 2007 revisions to the Grant Policy Manual that the agency sought to include any payments to employees for training, *etc.*, within the rubric of “participant support costs.” Even then, NSF only characterized such costs “as participant support if payment is made through a stipend or training allowance method.” *See* “National Science Foundation Grant Policy Manual” at § V.B.8.a(i) (June 2007).

The SDP placed payments to teachers/trainees under the budget heading of “participant support costs” only after NSF requested that the SDP do so as part of its revision and resubmission of its funding application. The budget in the original application shows these payments not as participant support costs, but instead as salaries/wages/fringes. Moreover,

the SDP’s classification of these personnel costs in its initial application submission is consistent with the SDP’s treatment of the same manner of costs under ESR-9453043. The budgets for that award show that the SDP budgeted costs attributable to teacher wages for their participation in NSF-supported trainings as salaries/wages/fringes, leaving only a fairly small portion of the grant funds devoted to “participant support costs.”

In light of the foregoing, the salary payments identified in the budget as “participant support costs” were not in their nature “participant support costs,” regardless of the name attached to those payments in any budget document. The SDP was therefore under no obligation to seek NSF’s prior approval for any rebudgeting to reduce the “participant support cost” line item. NSF was fully aware of how the SDP planned to use the funds under this line item and approved of the SDP’s plans. It is accordingly insignificant from an auditing standpoint and as a matter of law that the SDP (at NSF’s direction) characterized such costs as “participant support costs.”

***Auditors’ Response to Auditee’s Response 5***

SDP’s contention that “the bulk of the costs included in the participant support cost budget were not, in fact, participant support costs” is erroneous. The original budget submitted by SDP and approved by NSF totaled \$3,135,420 of which SDP supported the budget amount with detailed information that included the following types of costs:

<u>Type of Expense</u>	<u>Amount</u>
Participant support - personnel	\$ 2,181,450
Training materials	314,640
Curriculum materials	<u>639,330</u>
 Total	 <u>\$ 3,135,420</u>

Therefore, as required by NSF’s Grant Policy Manual, Section 618, SDP was required to adhere to its approved NSF budget, , even though some of the costs budgeted would not normally be included in participant support costs. Thus, the participant costs remain questioned. This report finding should not be closed until the recommendations have been adequately addressed and NSF determines that the corrective actions have been satisfactorily implemented.

**Finding 6. Lack of Adequate Submissions of Final Project Reports**

During the audit, SDP could not produce the final project report for NSF award number ESR-9453043, even though this award ended August 31, 2001. We also noted that the final project report for NSF award number ESI-0085055 was filed with NSF on January 25, 2006, 57 days after the November 29, 2005 deadline for this award which ended August 31, 2005.

The NSF Grant Policy Manual (“GPM”) Section 341 (applicable to NSF award number ESR-9453043), stipulates that within 90 days following the expiration of the grant a final project report shall be submitted to the cognizant NSF Program Officer. In addition, the NSF GPM Section 342 (applicable to NSF award number ESI-0085055) stipulates that within the

same 90 day period a final project report must be submitted electronically via the NSF FastLane system.

According to SDP personnel, the missing report for NSF award ESR-9453043 may be related to either the reorganization of the program office, staff turnover, or the relocation of the SDP central office in 2005. SDP personnel also indicated that the late report for NSF award number ESI-0085055 resulted from SDP program staff turnover just prior to the award's ending date. Thus, there was no program staff available to complete the final project report on a timely basis.

Because SDP could not produce the final project report during the audit for NSF award number ESR-9453043, and because we could not obtain the final project report from NSF's grant file or NSF's program office, we were unable to determine if SDP met the final project report requirements for this award at the time of the draft audit report. Additionally, because the final project report also contained the final total for cost sharing that SDP reported to NSF, without that report we were unable to verify SDP's cost sharing SDP for NSF award number ESR-9453043.

#### ***Recommendation 6***

We recommend that prior to NSF making any further awards to SDP, NSF's Director of the Division of Institution and Award Support (DIAS) verify that SDP has implemented procedures to ensure adherence to NSF's required final project report deadlines.

#### ***Auditee's Response 6***

With relation to ESR-9453043, the SDP disagrees with this finding. Exhibit U hereto contains the final project report provided to the NSF and e-mail communication back from NSF accepting the submission from the SDP as the Final Project Report.

With regard to ESI-0085055, the SDP requested NSF's permission to submit its final project report later than ninety days after the close of the award period. NSF granted that request, and the report was submitted and accepted by the NSF. *See* Exh. V.

#### ***Auditors' Response to Auditee's Response 6***

Based upon the documentation provided by SDP in Exhibits U and V, the above finding is considered resolved.

**FINANCIAL SCHEDULES AND  
SUPPLEMENTAL INFORMATION**

THE SCHOOL DISTRICT OF PHILADELPHIA  
National Science Foundation Award No. ESR-9453043  
Schedule of Award Costs  
Award Period: September 15, 1995 to August 31, 2001  
Audit Period: July 1, 1999 to August 31, 2001  
Final

Budget Category	(A)	Claimed Costs			Adjustments and	After	Questioned NSF Costs and	
	Approved Budget	09/15/95 - 06/30/1999 (B)	07/01/99 - 08/31/2001(D)	Total	Reclassifications 07/01/99-08/31/01	Adjustments and Reclassifications 07/01/99-08/31/01	Questioned Cost Sharing 07/01/99 - 08/31/01 Amount	Reference
Direct costs:								
Salaries and wages	\$ 4,488,230	\$ 3,416,178	\$ 783,759	\$ 4,199,937	\$	\$ 783,759	\$ 783,759	B-1
Fringe benefits	536,996	591,809	498,637	1,090,446		498,637	388,187	B-1
Permanent equipment	4,180	39,301	14,226	53,527		14,226	8,022	B-1
Travel	148,300	585,129	128,719	713,848		128,719		
Participant support costs	43,000	7,235	3,168,483	3,175,718		3,168,483	221,540	B-1
Other direct costs:								
Materials and supplies	1,194,061	677,681		677,681				
Publication costs	89,913	105,465		105,465				
Consultant services	445,851	258,758		258,758				
Computer services								
Subawardees	1,967,509				(C) 435,132	435,132	10,850	B-1
Other	5,661,796	3,968,422	1,007,459	4,975,881	(435,132)	572,327	81,336	B-1
Total direct costs	14,579,836	9,649,978	5,601,283	15,251,261		5,601,283	1,493,694	
Indirect costs	395,565	273,754	136,365 (E)	410,119		136,365	31,477	B-1
Sub-total	14,975,401	9,923,732	5,737,648	15,661,380		5,737,648	1,525,171	
Adjustment - books of account (over) under claim to NSF		(66,454)	(619,525)	(685,979)		(619,525)		
Repayment of questioned costs related to prior audit			(133,083)	(133,083)		(133,083)		
Total	\$ 14,975,401	\$ 9,857,278	\$ 4,985,040	\$ 14,842,318	\$	\$ 4,985,040	\$ 1,525,171	
Cost sharing	\$ 35,561,763	\$ 29,185,590	\$ (F)	\$ 29,185,590	\$ 3,148,785 (Schedule C-1)	\$ (F)		

- (A) Award budget for the period September 15, 1995 to August 31, 2001.
- (B) Previously audited in a report dated January 12, 2000.
- (C) SDP books of account did not segregate subawardee costs, see Finding Number 1.
- (D) The total representing NSF funded 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, 2001 for the period July 1, 1999 to August 31, 2001. Claimed costs reported above are taken directly from SDP’s books of account.
- (E) Indirect costs were budgeted and approved by NSF at a pre-determined rate of 2.49% of modified total direct costs.
- (F) SDP could not provide any evidence that cost sharing was incurred or reported for the period July 1, 1999 to August 31, 2001. However, we reviewed \$32,334,375 in cost sharing expenses during our prior audit of SDP performed in 2000. Therefore, \$3,227,388 of required cost share is unmet. NSF will address unmet cost share during its audit resolution process.

THE SCHOOL DISTRICT OF PHILADELPHIA  
National Science Foundation Award No. ESI-0085055  
Schedule of Award Costs  
From September 1, 2000 to August 31, 2005  
Final

<u>Budget Category</u>	<u>Approved Budget</u>	(A) <u>Claimed Costs</u>	<u>Adjustments And Reclassifications</u>	<u>Claimed Costs after Adjustments and Reclassifications</u>	<u>Questioned NSF Costs and Questioned Cost Sharing Amount</u>	<u>Schedule Reference</u>
Direct costs:						
Salaries and wages	\$ 1,695,378	\$ 2,249,759	\$	\$ 2,249,759	\$ 1,034,659	B-2
Fringe benefits	481,533	895,067		895,067	477,129	B-2
Permanent equipment	16,440	117,761		117,761	7,718	B-2
Travel	42,168	18,611		18,611	691	B-2
Participant support costs	3,446,986	2,745,416		2,745,416	908,159	B-2
Other direct costs:						
Materials and supplies	195,270					
Publication costs	7,903					
Consultant services	230,000					
Computer services						
Subawardees	1,234,881		(B) 997,981	997,981	114,318	B-2
Other	<u>687,300</u>	<u>2,203,726</u>	<u>(997,981)</u>	<u>1,205,745</u>	<u>50,439</u>	B-2
Total direct costs	8,037,859	8,230,340		8,230,340	2,593,113	
Indirect costs	<u>106,944</u>	<u>73,111</u>	<u>60,531</u>	<u>133,642</u> (C)	<u>41,763</u>	B-2
Subtotal	8,144,803	8,303,451	60,531	8,363,982	2,634,876	
Adjustment books of account (over) under claim to NSF		<u>(158,648)</u>		<u>(158,648)</u>	<u>-0-</u>	
Total	<u>\$ 8,144,803</u>	<u>\$ 8,144,803</u>	<u>\$ 60,531</u> (Schedule C-2)	<u>\$ 8,205,334</u>	<u>\$ 2,634,876</u>	
Cost sharing	<u>\$ 1,406,887</u>	<u>\$ 1,613,290</u>	<u>\$ -0-</u>	<u>\$ 1,613,290</u>	<u>\$ -0-</u>	

(A) The total representing NSF funded costs claimed agreed with the expenditures reported on the Federal Cash Transaction Report -Federal Share of Net Disbursements as of the quarter ended September 30, 2005. Claimed costs reported above are taken directly from SDP's books of account.

(B) SDP books of account did not segregate subcontract costs, see Finding Number 1.

(C) Indirect costs were budgeted and approved by NSF at a predetermined rate of 2.49% of modified total direct costs.

Schedule A-2

THE SCHOOL DISTRICT OF PHILADELPHIA  
National Science Foundation Award Number ESR-9453043  
Schedule of Questioned Costs  
From July 1, 1999 to August 31, 2001

**1. Salaries and Wages and Fringe Benefits**

We are questioning \$783,759 of salaries and wages and \$388,187 of fringe benefits for the following reasons:

1. SDP was not able to locate original time and attendance records for this NSF award for the entire audit period from July 1, 1999 to August 31, 2001. Based upon the lack of these time and attendance records (with no other alternative documentation available) we are questioning 100% of the salaries and wages and associated fringe benefits claimed to NSF of \$783,759 and \$313,504, respectively.
2. We noted during our audit that one employee; the [REDACTED] had a portion of their time allocated to this NSF award. This employee did not complete an after-the-fact report the percentage/time expended related to this particular NSF award. The allocation of this individual's salary to the NSF award was based upon the budget allocation submitted to NSF during the award process. The questioned salaries and wages and associated fringe benefits were \$43,042 and \$17,217, respectively. These questioned salaries and fringe benefits are already included in the above questioned costs.
3. SDP was unable to provide documentation to support employee health insurance benefit premiums for the period July 1, 1999 to August 31, 2001. The associated questioned costs for these health insurance premiums amounted to \$74,683. This amount was comprised of health insurance recorded in the following SDP fund accounts:

SDP <u>Fund No.</u>	<u>Amount</u>
2849	\$ 71,838
2859	<u>2,845</u>
	<u>\$ 74,683</u>

**2. Permanent Equipment**

We are questioning \$8,022 of permanent equipment costs because SDP could not provide supporting documentation in the form of a vendor's invoice to support the costs claimed for two expenses.

THE SCHOOL DISTRICT OF PHILADELPHIA  
 National Science Foundation Award Number ESR-9453043  
 Schedule of Questioned Costs (Cont.)  
 From July 1, 1999 to August 31, 2001

**3. Participant Support Costs**

We are questioning \$221,540 of participant support costs because SDP could not provide supporting documentation in the form of a vendor's invoice to support the costs claimed for forty-five expenses.

**4. Subawardee Costs**

Research For Action (RFA):

We are questioning \$ [REDACTED] of subawardee costs claimed by RFA (a subawardee of SDP) to SDP for the following reasons:

1. The costs reported by RFA did not agree with the amount of costs recorded in their books of account resulting in a net overclaim/questioned costs of \$ [REDACTED], as follows:

Category of Expense	Year Ending June 30, 2000		
	(A) Costs Reported to SDP	(B) Costs Per Books of Account	Difference (Over) Under Claim (A) - (B)
Salaries and wages	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Fringe benefits	[REDACTED]	[REDACTED]	[REDACTED]
Consultants	[REDACTED]	[REDACTED]	[REDACTED]
Supplies	[REDACTED]	[REDACTED]	[REDACTED]
Travel	[REDACTED]	[REDACTED]	[REDACTED]
Transcription	[REDACTED]	[REDACTED]	[REDACTED]
Copying	[REDACTED]	[REDACTED]	[REDACTED]
Telephone	[REDACTED]	[REDACTED]	[REDACTED]
<b>Total</b>	<u>\$ [REDACTED]</u>	<u>\$ [REDACTED]</u>	<u>\$ [REDACTED]</u>

2. In addition to the above we also noted that four employees were charged to the program for rates of pay in excess of the actual per the payroll records. The total of excess salaries and wages amounted to \$ [REDACTED].

THE SCHOOL DISTRICT OF PHILADELPHIA  
National Science Foundation Award Number ESR-9453043  
Schedule of Questioned Costs (Cont.)  
From July 1, 1999 to August 31, 2001

**5. Other Costs**

We are questioning \$81,336 of other costs because SDP could not provide supporting documentation in the form of a vendor's invoice to support the costs claimed for four expenses.

**6. Indirect Costs**

We are questioning \$31,477 of indirect costs based upon the direct costs previously questioned, calculated as follows:

<u>Category of Questioned Cost</u>	<u>Amount</u>
Salaries and wages	\$ 783,759
Fringe benefits	388,187
Permanent equipment	8,022
Travel	-0-
Participant support costs	221,540
Subawardees	10,850
Other costs	<u>81,336</u>
Total direct costs questioned	1,493,694
Less: permanent equipment and participant support costs (not in MTDC)	<u>(229,562)</u>
Total MTDC costs questioned	1,264,132
Indirect cost rate	<u>2.49%</u>
Indirect costs questioned	<u>\$ 31,477</u>

THE SCHOOL DISTRICT OF PHILADELPHIA  
National Science Foundation Award Number ESI-0085055  
Schedule of Questioned Costs  
From September 1, 2000 to August 31, 2005

**1. Salaries and Wages and Fringe Benefits**

We are questioning \$1,034,659 of salaries and wages and \$477,129 of fringe benefits for the following reasons:

1. SDP was not able to locate original time and attendance records for this NSF award for the period from September 1, 2000 to November 30, 2002. Based upon the lack of these time and attendance records (with no other alternative documentation available) we are questioning the salaries and wages and associated fringe benefits claimed to NSF of \$1,000,264 and \$400,106, respectively.
2. We noted during our audit that two employees; both employed in the [REDACTED] job position had a portion of their time allocated to this NSF award. These employees did not complete an after-the-fact report the percentage/time expended related to this particular NSF award. The allocation of these individuals' salary to the NSF award was based upon the budget allocation submitted to NSF during the award process. The questioned salaries and wages and associated fringe benefits were \$97,971 and \$39,188, respectively. These questioned salaries and fringe benefits have a portion already included in the above questioned costs, therefore, the net questioned costs are as follows:

	Salaries and Wages	Fringe Benefits	Total
Total questioned costs	\$ 97,971	\$ 39,188	\$ 137,159
Less: amount questioned above for missing time records	63,576	25,430	89,006
Net questioned costs	\$ 34,395	\$ 13,758	\$ 48,153

THE SCHOOL DISTRICT OF PHILADELPHIA  
National Science Foundation Award Number ESI-0085055  
Schedule of Questioned Costs (Cont.)  
From September 1, 2000 to August 31, 2005

**1. Salaries and Wages and Fringe Benefits (Cont.)**

3. SDP was unable to provide documentation to support employee health insurance benefit premiums for the period September 1, 2000 to October 31, 2001. The associated questioned costs for these health insurance premiums amounted to \$63,265. This amount was comprised of health insurance recorded in the following SDP fund accounts:

<u>SDP Fund No.</u>	<u>Total Per Account</u>	<u>Less: Amounts after 10/31/01</u>	<u>Amounts in the period 9/1/00 to 10/31/01</u>
2851	\$ 71,061	\$ 12,472	\$ 58,589
2852	<u>125,742</u>	<u>121,066</u>	<u>4,676</u>
	<u>\$ 196,803</u>	<u>\$ 133,538</u>	<u>\$ 63,265</u>

**2. Permanent Equipment**

We are questioning \$7,718 of permanent equipment costs because SDP could not provide supporting documentation in the form of a vendor's invoice to support a cost claimed.

**3. Travel**

We are questioning \$691 of travel costs because SDP could not provide supporting documentation in the form of a travel expense report to support the costs claimed for one expense.

THE SCHOOL DISTRICT OF PHILADELPHIA  
National Science Foundation Award Number ESI-0085055  
Schedule of Questioned Costs (Cont.)  
From September 1, 2000 to August 31, 2005

**4. Participant Support Costs**

We are questioning \$908,159 of participant support costs for the following reasons:

1. SDP, without the written authorization of NSF, in accordance with GPM 618.1 b., utilized participant support funds for other categories of expenses, in the amount of \$701,570, calculated as follows:

Budgeted participant support	\$ 3,446,986
Less: participant support costs incurred	<u>2,745,416</u>
Excess participant costs utilized for other NSF expenses	<u>\$ 701,570</u>

2. We are questioning \$205,273 of participant support costs because SDP could not provide supporting documentation in the form of a vendor's invoice to support the costs claimed for seven expenses.
3. We are questioning \$1,316 of participant support costs due to the lack of attendance/sign-in records for three individuals to support training costs.

THE SCHOOL DISTRICT OF PHILADELPHIA  
 National Science Foundation Award Number ESI-0085055  
 Schedule of Questioned Costs (Cont.)  
 From September 1, 2000 to August 31, 2005

**5. Subawardee Costs**

We are questioning \$114,318 of subawardee costs claimed by Research For Action and the Franklin Institute (both subawardees of SDP) to SDP for the following reasons:

Research For Action:

The costs reported by Research For Action (a subawardee of SDP) did not agree with the amount of costs recorded in their books of account resulting in a net overclaim/questioned costs of \$ [REDACTED] (Y/E 6/30/01 - \$ [REDACTED], Y/E 6/30/02 - \$ [REDACTED] and Y/E 6/30/03 - \$ [REDACTED]) as follows:

<u>Category of Expense</u>	<u>Year Ending June 30, 2001</u>		
	<u>(A) Costs Reported to SDP</u>	<u>(B) Costs Per Books of Account</u>	<u>Difference (Over) Under Claim (A) - (B)</u>
Salaries and wages	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Fringe benefits	[REDACTED]	[REDACTED]	[REDACTED]
Consultants	[REDACTED]	[REDACTED]	[REDACTED]
Supplies	[REDACTED]	[REDACTED]	[REDACTED]
Travel	[REDACTED]	[REDACTED]	[REDACTED]
Transcription	[REDACTED]	[REDACTED]	[REDACTED]
Stipends	[REDACTED]	[REDACTED]	[REDACTED]
Copying	[REDACTED]	[REDACTED]	[REDACTED]
Telephone	[REDACTED]	[REDACTED]	[REDACTED]
Indirect costs	[REDACTED]	[REDACTED]	[REDACTED]
<b>Total</b>	<u>\$ [REDACTED]</u>	<u>\$ [REDACTED]</u>	<u>\$ [REDACTED]</u>

THE SCHOOL DISTRICT OF PHILADELPHIA  
National Science Foundation Award Number ESI-0085055  
Schedule of Questioned Costs (Cont.)  
From September 1, 2000 to August 31, 2005

**5. Subawardee Costs (Cont.)**

Research For Action (Cont.):

Category of Expense	Year Ending June 30, 2002		
	(A) Costs Reported to SDP	(B) Costs Per Books of Account	Difference (Over) Under Claim (A) - (B)
Salaries and wages	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Fringe benefits	[REDACTED]	[REDACTED]	[REDACTED]
Consultants	[REDACTED]	[REDACTED]	[REDACTED]
Supplies	[REDACTED]	[REDACTED]	[REDACTED]
Travel	[REDACTED]	[REDACTED]	[REDACTED]
Transcription	[REDACTED]	[REDACTED]	[REDACTED]
Stipends	[REDACTED]	[REDACTED]	[REDACTED]
Copying	[REDACTED]	[REDACTED]	[REDACTED]
Telephone	[REDACTED]	[REDACTED]	[REDACTED]
Indirect costs	[REDACTED]	[REDACTED]	[REDACTED]
Total	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

Category of Expense	Year Ending June 30, 2003		
	(A) Costs Reported to SDP	(B) Costs Per Books of Account	Difference (Over) Under Claim (A) - (B)
Salaries and wages	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Fringe benefits	[REDACTED]	[REDACTED]	[REDACTED]
Consultants	[REDACTED]	[REDACTED]	[REDACTED]
Supplies	[REDACTED]	[REDACTED]	[REDACTED]
Travel	[REDACTED]	[REDACTED]	[REDACTED]
Transcription	[REDACTED]	[REDACTED]	[REDACTED]
Stipends	[REDACTED]	[REDACTED]	[REDACTED]
Copying	[REDACTED]	[REDACTED]	[REDACTED]
Telephone	[REDACTED]	[REDACTED]	[REDACTED]
Indirect costs	[REDACTED]	[REDACTED]	[REDACTED]
Total	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

THE SCHOOL DISTRICT OF PHILADELPHIA  
 National Science Foundation Award Number ESI-0085055  
 Schedule of Questioned Costs (Cont.)  
 From September 1, 2000 to August 31, 2005

**5. Subawardee Costs (Cont.)**

Franklin Institute:

- The costs reported by the Franklin Institute (a subawardee of SDP) did not agree with the amount of costs recorded in their books of account resulting in a net overclaim/questioned costs of \$70,603, as follows:

<u>Category of Expense</u>	<u>Year Ending June 30, 2003</u>		
	<u>(A) Costs Reported to SDP</u>	<u>(B) Costs Per Books of Account</u>	<u>Difference (Over) Under Claim (A) - (B)</u>
Salaries and wages	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Fringe benefits	[REDACTED]	[REDACTED]	[REDACTED]
Consultants	[REDACTED]	[REDACTED]	[REDACTED]
Professional Resources	[REDACTED]	[REDACTED]	[REDACTED]
Materials	[REDACTED]	[REDACTED]	[REDACTED]
Stipends	[REDACTED]	[REDACTED]	[REDACTED]
Indirect Costs	[REDACTED]	[REDACTED]	[REDACTED]
Total	<u>\$ [REDACTED]</u>	<u>\$ [REDACTED]</u>	<u>\$ [REDACTED]</u>

- In addition to the above the Franklin Institute was not able to provide documentation to 11 other than personnel costs expenses selected for testing out of a testing universe of 74 items. The costs associated with these 11 questioned items amounted to \$3,742.

**6. Other Costs**

We are questioning \$50,439 of other costs because SDP could not provide supporting documentation in the form of a vendor's invoice to support the costs claimed for four expenses.

THE SCHOOL DISTRICT OF PHILADELPHIA  
National Science Foundation Award Number ESI-0085055  
Schedule of Questioned Costs (Cont.)  
From September 1, 2000 to August 31, 2005

**7. Indirect Costs**

We are questioning \$41,763 of indirect costs based upon the direct costs previously questioned, calculated as follows:

<u>Category of Questioned Cost</u>	<u>Amount</u>
Salaries and wages	\$ 1,034,659
Fringe benefits	477,129
Permanent equipment	7,718
Travel	691
Participant support costs	908,159
Subawardees	114,318
Other costs	<u>50,439</u>
Total direct costs questioned	2,593,113
Less: permanent equipment & participant support costs (not in MTDC)	<u>(915,877)</u>
Total MTDC costs questioned	1,677,236
Indirect cost rate	<u>2.49%</u>
Indirect costs questioned	<u>\$ 41,763</u>

THE SCHOOL DISTRICT OF PHILADELPHIA  
National Science Foundation Award Number ESR-9453043  
Schedule of Adjustments and Reclassifications  
From July 1, 1999 to August 31, 2001

**Subawardee/Other Costs**

We have reclassified the \$435,132 of subawardee costs that were classified by SDP in their books of account in other costs. The amount of subawardee costs was budgeted by SDP as a separate cost category in the budget submitted to and approved by NSF.

**Cost Sharing**

This award period for ESR-9453043 was September 1, 1995 to August 31, 2001. The total required cost sharing for this award was \$35,561,763. M.D. Oppenheim & Company, P.C. performed an audit on this award (from September 15, 1995 to June 30, 1999) and audited the cost sharing reported. At that audit SDP reported \$29,185,590 of cost sharing, however, the audit of supporting records disclosed that the actual cost sharing provided was \$32,334,375. For the current audit SDP was unable to locate their final project report for this award which would indicate the total cost sharing reported to NSF. In addition, SDP could not provide any additional documents that would indicate/support additional cost sharing for the current audit period of July 1, 1999 to August 31, 2001.

Based upon the above we have adjusted cost sharing for the actual amount audited in the prior audit, which recognized that SDP incurred an additional \$3,148,785 in cost share the difference between the \$32,334,375 and \$29,185,590). The difference between the cost share required, \$35,561,763 and the cost share audited of \$32,334,375 is unmet cost share of \$3,227,388. NSF will address unmet cost share during its audit resolution process.

THE SCHOOL DISTRICT OF PHILADELPHIA  
National Science Foundation Award Number ESI-0085055  
Schedule of Adjustments and Reclassifications  
From September 1, 2000 to August 31, 2005

**Subawardee/Other Costs**

We have reclassified the \$997,981 of subawardee costs that were classified by SDP in their books of account in other costs. The amount of subawardee costs was budgeted by SDP as a separate cost category in the budget submitted to and approved by NSF.

**Indirect Costs**

The indirect costs claimed to NSF for award number ESI-0085055 was not correct and as a result SDP did not report all the indirect costs that were allowable based upon the approved indirect cost rate, calculated as follows:

Total direct costs	\$ 8,230,340
Less: Equipment costs	(117,761)
Participant support costs	<u>(2,745,416)</u>
Modified total direct costs	5,367,163
Pre-determined indirect cost rate	<u>2.49%</u>
Total calculated indirect costs	133,642
Indirect costs claimed by SDP	<u>73,111</u>
Adjustment - indirect costs not claimed	<u>\$ 60,531</u>

THE SCHOOL DISTRICT OF PHILADELPHIA  
 National Science Foundation Award Numbers ESR-9453043 and ESI-0085055  
 Schedule of Cost Sharing  
 From July 1, 1999 to August 31, 2005

<u>NSF Award No.</u>	<u>Cost Sharing Required</u>	<u>Cost Sharing Claimed</u>	<u>Adjustments and Reclassifications</u>	<u>Cost Sharing Claimed After Adjustments and Reclassifications</u>	<u>Questioned Cost Sharing Amount</u>
ESR-9453043	<u>\$ 35,561,763</u>	<u>\$ 29,185,590</u>	<u>\$ 3,148,785</u>	<u>\$ 32,334,375</u>	<u>\$ -0-</u>
		(A)	(Schedule C-1) (B)		
ESI-0085055	<u>\$ 1,406,887</u>	<u>\$ 1,613,290</u>	<u>\$ -0-</u>	<u>\$ 1,613,290</u>	<u>\$ -0-</u>

(A) Claimed for the period September 15, 1995 to June 30, 1999. SDP could not provide any evidence that cost sharing was incurred or reported for the period July 1, 1999 to August 31, 2001. However, we noted from our prior audit of SDP that the actual cost sharing provided was \$32,334,375, which resulted in an adjustment of \$3,148,785 for the difference between the \$32,334,375 amount and the reported amount of \$29,185,590. SDP could not provide any documentation for the remaining \$3,227,388 (\$35,561,763 less \$32,334,375) of cost share required for this award. NSF will address unmet cost share during its audit resolution process.

(B) Cost sharing adjusted per prior audit for the period September 15, 1995 to June 30, 1999.

THE SCHOOL DISTRICT OF PHILADELPHIA  
National Science Foundation Awards  
Summary Schedule of Awards and Results  
From July 1, 1999 to August 31, 2005

Summary of Awards

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
ESR-9453043	09/15/95-08/31/01	07/01/99-08/31/01
ESI-0085055	09/01/00-08/31/05	09/01/00-08/31/05

Summary of Questioned and Unresolved Costs

<u>NSF Award Number</u>	<u>Award Budget</u>	<u>Claimed Costs</u>	<u>Questioned Costs</u>	<u>Questioned Cost Sharing</u>	<u>Unresolved Costs</u>	<u>Unsupported Costs</u>
ESR-9453043	<u>\$ 14,975,401(A)</u>	<u>\$ 4,985,040(B)</u>	<u>\$ 1,525,171</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,525,171</u>
ESI-0085055	<u>\$ 8,144,803</u>	<u>\$ 8,144,803</u>	<u>\$ 2,634,876</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 2,634,876</u>

(A) For the period September 15, 1995 to August 31, 2001.

(B) For the period July 1, 1999 to August 31, 2001.

Summary of Questioned Costs by Explanation

<u>Condition</u>	<u>Questioned Cost Amount</u>	<u>Internal Control Finding</u>	<u>Noncompliance Finding</u>
• Salaries and wages and associated fringe benefits related to missing time and attendance records for the period July 1, 1999 to November 30, 2002.	\$ 2,454,591	X	X
• Lack of time and effort reporting for salaries allocated to NSF awards and the associated fringe benefits.	91,195		X

THE SCHOOL DISTRICT OF PHILADELPHIA  
National Science Foundation Awards  
Summary Schedule of Awards and Results (Cont.)  
From July 1, 1999 to August 31, 2005

Condition	Questioned Cost Amount	Internal Control Finding	Noncompliance Finding
<ul style="list-style-type: none"> <li>• Lack of documentation to support costs claimed to NSF for employee health benefits, permanent equipment, travel, participant support costs and other costs.</li> </ul>	\$ 714,283	X	X
<ul style="list-style-type: none"> <li>• Utilization of unexpended participant support costs for other award expenditures without the written approval of NSF.</li> </ul>	701,570	X	X
<ul style="list-style-type: none"> <li>• Subawardee cost were questioned for costs claimed in excess of the amounts reflected in the books of account and missing documentation.</li> </ul>	125,168	X	X
<ul style="list-style-type: none"> <li>• The indirect costs related to the direct costs questioned.</li> </ul>	<u>73,240</u>		X
Total questioned NSF costs	<u>\$ 4,160,047</u>		

THE SCHOOL DISTRICT OF PHILADELPHIA  
National Science Foundation Awards  
Summary Schedule of Awards and Results (Cont.)  
From July 1, 1999 to August 31, 2005

Summary of Noncompliance and Internal Control Findings

Condition	Noncompliance or Internal Control?	Material, Reportable Or Other?	Amount of Questioned Cost Effectuated	Amount of Claimed/ Incurred Costs Effectuated
• Lack of An Adequate Financial Management System for Accounting and Reporting of NSF costs.	Internal Control and compliance	Material	\$ -0-	\$ 13,190,374
• Lack of an Adequate Record Retention and Retrieval System.	Internal control and compliance	Material	\$ 3,211,916	\$ 12,398,510
• Lack of a System to Identify, Account for, Monitor, and Report Cost Sharing.	Internal control and compliance	Material	\$ -0-	\$ 1,613,290
• Lack of Fiscal Monitoring and Accounting of Subawardee Costs.	Internal control and compliance	Material	\$ 125,168	\$ 1,433,113
• Lack of Adequate Process for Monitoring Participant Support Costs.	Internal control and compliance	Material	\$ 701,570	\$ 2,745,416

THE SCHOOL DISTRICT OF PHILADELPHIA  
National Science Foundation Awards  
Notes to Financial Schedules  
From July 1, 1999 to August 31, 2005

1. Summary of significant accounting policies:

Accounting basis

The accompanying financial schedules have been prepared to comply with the requirements of the National Science Foundation (NSF) Audit Guide. Schedules A-1 and A-2 have been prepared from the reports submitted to NSF. The basis of accounting utilized in preparation of these reports differs from accounting principles generally accepted in the United States of America. The following information summarizes these differences:

a. Equity

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

b. Equipment

Equipment is charged to expense in the period during which it is purchased instead of being recognized as an asset and depreciated over its useful life. As a result, the expenses reflected in the 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.

d. Income Taxes

SDP is a local government entity and is exempt from income taxes under the Internal Revenue Code.

THE SCHOOL DISTRICT OF PHILADELPHIA  
National Science Foundation Awards  
Notes to Financial Schedules (Cont.)  
From July 1, 1999 to August 31, 2005

2. NSF cost sharing and matching:

The following represents the cost sharing requirements and actual cost sharing for the period July 1, 1999 to August 31, 2005 on NSF Award Nos. ESR-9453043 and ESI-0085055.

NSF Award No.	Cost Sharing Required	(A) Actual Cost Sharing Claimed	(B) Questioned Cost Sharing	Net Cost Sharing (A)-(B)	Over/ (Under)
ESR-9453043	<u>\$ 35,561,763</u> (1)	(2)	(2)	(2)	(2)
ESI-0085055	<u>\$ 1,406,887</u>	<u>\$ 1,613,290</u>	<u>\$ -0-</u>	<u>\$ 1,613,290</u>	<u>\$ 206,403</u>

(1) This amount is for the entire award period of September 15, 1995 to August 31, 2001.

(2) SDP could not provide any evidence that cost sharing was incurred or reported for the current audit period of July 1, 1999 to August 31, 2001.

APPENDIX A–AUDITEE’S COMMENTS TO REPORT

**THE SCHOOL DISTRICT OF PHILADELPHIA  
CHIEF FINANCIAL OFFICE**

440 N. BROAD STREET, SUITE 304  
PHILADELPHIA, PENNSYLVANIA 19130

JAMES DOOSEY  
INTERIM CHIEF FINANCIAL OFFICER

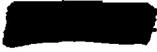
TELEPHONE (215) 400-4500  
FAX (215) 400-4501

February 25, 2008

*Via electronic mail*

M.D. Oppenheim & Company, P.C.  
Certified Public Accountants  
210 Lake Drive East, Suite 102  
Cherry Hill, New Jersey 08002  
Attention: Joseph J. Scudese, CPA

Re: *National Science Foundation Award Numbers  
ESR-9453043, Urban Systemic Initiative  
ESI-0085055, Urban Systemic Program*

Dear 

Please accept the attached documents as the response of The School District of Philadelphia (the "School District") in connection with M.D. Oppenheim & Company, P.C.'s draft audit report of the School District's above-referenced awards from the National Science Foundation.

I would like to take this opportunity to thank you and  for all of your efforts with respect to this matter. Please convey our appreciation to your client, the NSF's Inspector General's Office, for their cooperation and assistance in concluding this matter.

Please contact me if you have any questions concerning our response.

Yours truly,  


JPD/

Attachments

cc: Laura Koren, National Science Foundation, OIG (with enclosure)  


**The School District of Philadelphia  
Response to Findings**

**National Science Foundation Audit  
Award No. ESR-9453043 (7/1/1999-8/31/2001)  
Award No. ESI-0085055 (9/1/2000-8/31/2005)**

**Submitted February 26, 2008**

**The School District of Philadelphia  
National Science Foundation Audit  
Response to Findings  
(Award Numbers: ESR-9453043 & ESI-0085055)**

The School District of Philadelphia (the “SDP”) submits the following in response to the findings and recommendations contained in the draft audit report prepared by M.D. Oppenheim & Company, P.C. on behalf of the National Science Foundation (“NSF”) Office of Inspector General (“OIG”)<sup>5</sup> with respect to NSF award number ESR-9453043 (“Philadelphia Urban Systemic Initiative: Children Achieving in Science, Mathematics and Technology”) for the period from July 1, 1999 through August 31, 2001, and award number ESI-0085055 (“Philadelphia Urban Systemic Program”) for the period from September 1, 2000 through August 31, 2005. The SDP greatly appreciates the OIG’s acceptance and consideration of this written response and accompanying documentation.

As set forth in greater detail below, the SDP disputes the majority of the draft audit findings and recommendations. The SDP’s records show that the bulk of the costs questioned in the audit report are, in fact, allowable under the award(s).<sup>6</sup> Moreover, the financial practices and procedures under which SDP currently operates comprise sufficient internal controls to safeguard federal funds against loss or misuse. Finally, certain of the recommendations in the draft report regarding continuing monitoring and oversight by NSF over the SDP are in excess of NSF’s regulatory authority or are otherwise unwarranted.

Once again, the SDP appreciates the opportunity to submit these comments.

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<sup>5</sup> The SDP uses the shorthand “OIG” or “the OIG” throughout this response to refer to the NSF Office of the Inspector General itself and its contractor, M.D. Oppenheim & Co., P.C. (now WithumSmith+Brown).

<sup>6</sup> The SDP did not provide many of these records in the course of the audit process due largely to misunderstandings on the SDP’s part as to the OIG’s purposes in requesting particular materials. For instance, the SDP was not able to locate and produce various documents in response to the OIG’s specific requests for vendor invoices. Having reviewed the draft audit report, the SDP now has a clearer understanding that part of the OIG’s purpose in seeking those invoices was to determine whether the SDP had adequately documented its obligation to pay the subject vendors the amounts charged to the awards. The SDP has therefore performed a renewed search of its files for records other than invoices that would serve the same ends (*i.e.*, demonstrating an obligation to pay a sum certain). The SDP has included such additional documentation in the exhibits attached hereto.

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**Finding 1. Lack of an Adequate Financial Management System for Accounting and Reporting NSF Costs**

The first finding in the draft audit report rests on a conclusion that the SDP “did not have an adequate financial management system and internal control process for the accounting and reporting of NSF award costs,” although OIG acknowledges that “SDP maintained a sufficient overall financial management system to account for all other types of SDP costs.” *See* Draft Report at 21. The asserted bases for this finding include (1) the SDP’s practice of aggregating expenditures for multiple budget categories in its books under the heading of “Other,” (2) its inability to produce supporting worksheets and other documentation for its periodic Federal Cash Transaction Reports (“FCTRs”) submitted to NSF, and (3) unexplained differences between the SDP’s award budget(s) and the expenditures recorded on its books. As a consequence of this finding, OIG recommends that NSF withhold any further awards to the SDP pending verification that the SDP has developed and implemented an effective system of accounting and internal controls. *See* Draft Report at 23.

***Auditee’s Response***

The SDP disputes this finding and the accompanying recommendations.

The SDP has in place the internal controls and accounting systems necessary to meet its obligations under its funding agreements with federal grantor agencies. Indeed, as acknowledged at page 21 of the draft audit report, “SDP maintained a sufficient overall financial management system to account for all other types of SDP costs.” Accordingly, there is no call for remedial actions on the SDP’s part and/or further oversight by NSF. This is particularly true given that the SDP no longer receives any financial assistance from NSF.

The SDP has also taken the following steps to enhance its internal controls and other systems of accountability:

- As of 2005, the SDP completed phasing in the Advantage accounting software system. This system allows the SDP to track expenditures according to both federal and non-federal grant requirements. For example, the coding structure used by Advantage is arranged according to “Fund-Agency-Organization-Activity-Object-Reporting Category.” The Advantage system’s chart of accounts is based on the Commonwealth of Pennsylvania’s Chart of Accounts. Specifically, the four digit activity code (describing the type of expenditure according to Instructional, Professional Development, Parental Involvement, *etc.*) and the four digit object code (differentiating expenditures by major object, *e.g.*, Salaries - 1000, Contracted Services - 3000, Supplies – 6000, *etc.*) provide ample

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opportunity to classify grant expenditures according to the particular requirements of each award. This flexibility in use is evident in the Advantage structure for the SDP's federal Individuals with Disabilities Education Act (IDEA) grant, where the SDP has created twelve separate activity codes to track and report expenditures. *See* Exh. A (sample IDEA tracking report).

- The SDP has developed written procedures related to cash draw downs (*see* Exh. B) as part of a comprehensive grant management policy and procedure document. For all grants, source data and worksheets are maintained and are traceable to the support costs reported on the FCTR.
- The SDP has developed and implemented policies providing for generation of budget-to-actual reports and policies that are distributed monthly to all program managers across the SDP. *See* Exh. C (budget to actual instructions to managers and sample report). Managers at all levels of the organization are required to review those reports in addition to more detailed systems typically maintained at the program level. In addition, grant managers review and approve periodic financial reporting required by the grantor. These procedures permit accurate, current, and complete disclosure of the financial results of The SDP's federally-funded activities in compliance with the specific financial reporting requirements of each of its federal awards.

In light of the above, the SDP maintains a system of accounting and internal controls sufficient to safeguard federal funds against loss and/or misuse, that permits current and accurate reporting of financial status, enhances accountability, and ensures that awarded funds are expended for their intended purposes.

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**Finding 2. Lack of an Adequate Record Retention and Retrieval System**

The draft audit report contains a determination that the SDP's system of record retention for both awards "was in a state of disarray" in violation of the requirements of Office of Management and Budget (OMB) Circular A-110 and Section 350 of the NSF *Grant Policy Manual*. The asserted bases for this conclusion are (1) the SDP's failure to provide source documentation to support 63% of the total dollar amount in the sample tested (yielding \$3,297,826.00 in questioned costs out of a total sample of \$5,132,828.00), (2) lengthy delays in retrieving the source documentation produced in response to the auditors' requests, and (3) the SDP's reliance on an arcane and/or confusing system for tracking costs charged to the awards. As a consequence of this finding, the draft report recommends that NSF withhold any further awards to the SDP pending verification "that SDP has developed and implemented a system of record retention and retrieval that is easily comprehensible and that allows for access to SDP records in an efficient and timely manner."

***Auditee's Response***

***A. Questioned Costs***

The SDP disputes this finding.

The questioned costs associated with this finding appear to fall into six categories: (1) salaries and wages, (2) fringe benefits, (3) permanent equipment, (4) travel, (5) participant support costs, and (6) other. The following addresses the questioned costs in each of these categories in turn:

7. Salaries and Wages – \$783,759.00 (ESR-9453043), \$1,034,659.00 (ESI-0085055)

The lion's share of the costs questioned as part of Finding #2 relate to employee salaries charged to the two awards. The report indicates that the SDP failed to produce any original time and attendance records for the entire period audited for ESR-9453043 and for September 1, 2000 through November 30, 2002 under ESI-0085055. *See* Draft Report at 36, 39. Given the absence of this or similar documentation, the auditors conclude that all salaries and wages paid out of the awards during the subject time periods are unsupported. At the SDP's request during the exit conference, the auditors provided to the SDP a list of employees whose time records were missing. *See* Exh. D. Of the SDP staff members identified, all but two were allocated 100% to the awards.

This finding rests largely on the misapplication of federal cost principles. Although it is not explicit in the text of the draft report, it appears that the finding relies on the

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requirement in OMB Circular A-122 that an awardee support salary charges through “[r]eports reflecting the distribution of activity of each employee . . . whose compensation is charged, *in whole or in part*, directly to awards.” OMB Circ. A-122, Att. B, § 8.m(2) (emphasis added).

OMB Circular A-122, however, do not apply to the SDP’s awards from NSF, and the applicable cost principles contain no similar requirement for personnel time and activity reporting. Cost allowability for federal award expenditures by units of state, local, and tribal governments is determined in accordance with OMB Circular A-87 – not OMB Circular A-122, which applies to awards to private not-for-profit entities. *See* 45 C.F.R. § 602.22(b).<sup>7</sup> Under OMB Circular A-87, salary and wage charges “will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.” OMB Circ. A-87, Att. B, § h(1). Grantees need only maintain “personnel activity reports or equivalent documentation” to support the allocation of salaries and wages for “employees work[ing] on multiple activities or cost objectives . . .” *Id.* at § h(4). By contrast, an awardee may support salary charges for employees working exclusively on “a single Federal award or cost objective” through certifications prepared by the employee or his/her supervisor at least every six months stating that the employee worked solely on that program for a particular period. *Id.* at § h(3).

The SDP maintains documentation in its files sufficient to meet the salary support standards in OMB Circular A-87. The SDP runs its payroll processing functions through its Advantage accounting software system. SDP payroll staff enters all employee time and attendance information for each pay period into Advantage. *See* Exhs. E (Advantage payroll manual), F (payroll histories for 2000, 2002; leave history for pay periods covered by OIG request). Such data is then stored in Advantage for later retrieval as necessary. The SDP thus relies on an electronic method of recording employee time and attendance for payroll purposes, and the absence of paper records showing the same information is in no way inconsistent with either institutional policies or the SDP’s obligations under OMB Circular A-87.

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<sup>7</sup> The SDP notes that the OIG relies throughout the draft report on OMB Circular A-110 – OMB’s “Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations” – as authority governing the SDP’s operation and administration of the subject awards. The SDP, however, is a special purpose unit of state government, and is therefore subject to the requirements of OMB Circular A-102 – “Grants and Cooperative Agreements with State and Local Governments” (codified in NSF regulations at 45 C.F.R. Part 602) – rather than those of A-110. As set forth in the text above, the SDP is likewise subject to the cost principles in OMB Circular A-87.

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The SDP otherwise satisfied the salary documentation requirements in the cost principles, having prepared “Summary Proposal Budgets” for submission to NSF (and at NSF’s behest) throughout the course of both awards covering budget periods of varying lengths. *See* Exh. G (budgets and budget details). Each of these proposals showed that the individuals and/or positions listed in the SDP’s earlier budgets as working exclusively on NSF-related activities continued to do so. In addition, the periodic budget proposals were prepared and submitted to NSF by these employees’ direct supervisor – *i.e.*, the program director(s) for the NSF awards – thus meeting the authentication criterion under the cost principles.

Accordingly, the salary charges for those SDP employees working 100% on the two NSF awards are properly supported and are therefore allowable. These charges represent \$1,677,405.00 of the \$1,818,418.00 in questioned salary costs in the draft audit report, leaving \$141,013.00 (*i.e.*, the amount comprising the salaries and wages allocated to the NSF awards without contemporaneous time records showing the distribution of employee effort) in undocumented salary costs.

8. Fringe Benefits – \$388,187.00 (ESR-9453043), \$477,129.00 (ESI-0085055)

The draft audit identifies the above amounts as questionable costs paid out of the SDP’s two NSF awards based largely on the same rationale as that underlying the questioned salary costs.

In light of the discussion in Section A.1., above, \$670,963.00 of the \$865,316.00 in questioned employee fringe benefits charged to the two awards were all properly documented. This \$670,963.00 figure consists of the fringe benefit costs attributable to employees devoted exclusively to NSF-related activities, less the \$137,948.00 in health insurance premiums listed at pages 36 and 40 of the draft report.

9. Permanent Equipment – \$8,022.00 (ESR-9453043), \$41,742.00 (ESI-0085055)

The draft audit report states that the SDP failed to produce vendor invoices for two equipment purchases paid out of ESR-9453043 and for three paid out of ESI-0085055. The two payments under ESR-9453043 were to Fisher Scientific (\$██████ on December 8, 2000), School Mart (\$██████ on March 23, 2000), and the three payments under ESI-0085055 were all to Dell Marketing LP (\$██████, \$██████ and \$██████, paid on November 29, 2001, May 14, 2003, and August 26, 2002, respectively).

The SDP has performed a renewed search of files, this time to locate evidence of the obligations (other than vendor invoices) underlying each of the identified

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transactions. This search revealed purchase orders and proof of receipt of goods for the Dell Marketing LP transactions of November 29, 2001 (\$8,836.00) and August 26, 2002 (\$25,188.00). *See* Ex. H (Dell Marketing documentation). This documentation is sufficient to support the \$34,024.00 of the subject permanent equipment costs.

10. Participant Support Costs – \$239,464.00 (ESR-9453043), \$211,290.00 (ESI-0085055)<sup>8</sup>

OIG further asserts that the SDP lacked supporting documentation for forty-seven payments relating to “participant support” under ESR-9453043, seven payments for similar purposes under ESI-0085055, and payments to nineteen SDP employees for time in attending NSF-funded trainings. The expenditures under ESR-9453043 total \$239,464.00, and consist (with one exception) of payments to vendors identified in the ledger. The remaining payment represents disbursements to vendors aggregated in a single ledger entry as a “journal voucher” totaling \$15,754.00. Similarly, \$154,728.00 of the total \$211,290.00 in questioned participant support costs under ESI-0085055 relate to two journal vouchers recorded on the SDP’s books.

The SDP has performed a renewed search of files, this time to locate evidence of the obligations (other than vendor invoices) underlying each of the identified transactions. The SDP has retrieved from those files documentation to support all of the transactions with a document prefix of “PV” listed at page 59 of the draft report, as well as the following “PV” documents listed at page 58: PV AV700033182 01 (April 25,2000 \$ ██████ payment to National Council of Teachers); PV AV700057610 01 (September 28, 2000 \$ ██████ payment to Texas Instruments); PV AV700109263 01 (September 17, 2001 \$ ██████ payment to D&H Distributors); PV AV700015939 01 (December 21, 1999 \$ ██████ payment to D&H Distributors). *See* Ex. I (participant support cost documentation). This documentation is sufficient to support \$28,802.00 of the subject participant support costs under ESR-9453043 and \$50,545.00 under ESI-0085055.

As to the journal vouchers (the transactions with a document prefix of “JV”) relating to participant support costs under ESI-0085055, those entries are comprised of numerous vendor payments individually listed elsewhere on the SDP’s ledger which the SDP has aggregated for the purpose of redistributing costs among budget periods. That is, where certain costs paid out of a given budget year were eligible charges

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<sup>8</sup> The \$211,290.00 figure does not include \$701,570.00 in participant support costs questioned on the grounds that the SDP failed to obtain prior agency approval for rebudgeting of that amount. The SDP addresses that matter separately in the response to Finding #5.

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under the prior budget year, the SDP would aggregate those eligible charges, move them to the prior budget year in a single journal voucher entry, then record an offsetting entry on the ledger for the budget year in which the costs originally appeared. By way of illustration, “JV GFS00006368” is a journal voucher entered on August 7, 2003 in the amount of \$130,883.00. *See* Draft Report at 59. That journal voucher appears on the SDP’s books along with an offsetting entry on the same date and under the same transaction number. Exh. J (justification for JV GFS00006368). The SDP has confirmed that JV GFS00006368 consists of 190 payment vouchers paid out of Year 2 ½ funds that were eligible expenditures for the first six months of Year 2. Similarly, “JV OMBG0000664” (September 24, 2004 for \$23,845.00) represents numerous payment vouchers initially paid from Year 4 funds that were moved to Year 3. Exh. K (listing of payment vouchers under JV OMBG0000664). The documentation for each of these two journal vouchers is therefore in the ledger itself.<sup>9</sup>

Finally, the SDP has located supporting records for all but two of the payments to employees listed at page 60 of the draft audit report, thus reducing the original amount of questioned costs from \$6,017.00 to \$768.00. *See* Exh. L.

11. Travel – \$2,849.00 (ESR-9453043), \$1,436.00 (ESI-0085055)

The SDP has located supporting documentation for both of the questioned travel expenditures. *See* Exh. M.

12. Other – \$81,336.00 (ESR-9453043), \$71,106.00 (ESI-0085055)

OIG states that the SDP was unable to produce backup invoices for four expenditures under ESR-9453043 totaling \$81,336.00, and six expenditures under ESI-0085055 totaling \$71,106.00.

The SDP has performed a renewed search of files, this time to locate evidence of the obligations (other than vendor invoices) underlying each of the identified transactions. The SDP has retrieved from those files documentation to support the three transactions with a document prefix of “PV” listed at page 59 of the draft report. *See* Exh. N (“other cost documentation”).

The remaining three “other” transactions listed for ESI-0085055 are journal voucher entries. Two of these fall under JV OMBG0000664 and consist, once again, of re-

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<sup>9</sup> Although the SDP believes that documentation for certain of the purchase vouchers listed in Exhibits J and K were previously provided in the course of the audit, the SDP stands ready to provide any additional documentation that OIG might like to review as support for these costs.

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recording costs initially paid out of Year 4 funds as costs payable out of the SDP's Year 3 account. *See* Exh. K. The third journal voucher, JV CPCHR 343, represents charges for copying services performed by the SDP's print shop at a cost of 3.85 cents per page. *See* Exh. O (print shop documentation).

Similarly, three of the four "other" transactions for ESR-9453043 are journal vouchers. The first, JV GFS00000838, relocated \$7,294.00 in Year 6 costs to Year 5. *See* Exh. P. The second and third journal vouchers, JV BGXGR803473 and JV BGXGR803441, represent aggregated costs recorded individually under the SDP's old accounting system. These journal voucher entries were included on the SDP's books to ensure accuracy and consistency in fund accounting when it commenced implementation of its new Advantage accounting system some time after the start of the NSF budget period. That is, rather than having portions of the funds available and incurred expenditures for that budget period reported on two different systems of accounting, the SDP opted to show the previously recorded costs grouped by category in Advantage, thus creating a complete picture of the relevant NSF budget year expenditures in the Advantage system.

*C. Policy Recommendations*

Regarding the propriety of OIG's recommendation that NSF withhold all further awards pending resolution of the record retention finding, the SDP refers to its response to Finding #1.

In addition, the SDP amended its Accounts Payable manual filing system in FY07 and implemented an electronic scanning and retrieval application in FY08. The specific steps implemented are as follows:

*Documents Processed in FY 2007 (July 1, 2006 – June 30, 2007)*—Documents were manually filed as follows: 1) Payment Vouchers by payment voucher number, 2) Purchase order invoices in alphabetical order by vendor name, and 3) Employee reimbursement documents in alpha order by the employee's last name.

*Current Document Retention and Retrieval Process in FY08 (July 1, 2007 to current)*—All payment vouchers (PV) (excluding imprest fund and employee reimbursement transactions) and purchase order (PO) invoices are imaged by an outside contractor, Data Management Internationale ("DMI"), and available for retrieval via the Application Xtender software. Any supporting payment documentation submitted is also scanned and available for retrieval.

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Imprest fund documents are filed manually by payment voucher number and employee reimbursement documents are still filed manually in alphabetical order by the employee's last name.

Documents are imaged weekly and available one week later for on demand desktop retrieval by Accounts Payable. Documents can be retrieved from the application using payment voucher number and/or purchase order number. In addition, the hard copies of documents are currently being retained by the SDP.

To ensure all processed payments have been imaged, there is a reconciliation process of imaged documents by DMI to the financial system (Advantage) file from the SDP. An exception report is produced weekly and submitted to Accounts Payable for resolution.

Since implementing the document retention and retrieval system in July of 2006, the SDP has been able to retrieve all requested documents required for the City of Philadelphia Controller's Year-end audits. In addition, the SDP has been successful in manually retrieving documents processed during fiscal 2007.

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**Finding 3. Lack of a System to Identify, Account for, Monitor and Report Cost-sharing**

The draft audit report contains a determination that the SDP “lacked a system to identify, account for, monitor and report cost-sharing it contributed to both NSF awards, raising questions as to the reliability and integrity of the \$3,148,785 of cost-sharing the SDP reported for NSF award ESR-9453043 and the \$1,613,290 of cost-sharing reported for NSF award ESI-0085055.” According to OIG, this amounts to a violation of the requirements of Office of Management and Budget (OMB) Circular A-110 and Section 333.6 of the NSF *Grant Policy Manual*. The asserted bases for this conclusion are (1) the SDP’s failure to provide source documentation to support any of the claimed cost-sharing from July 1, 1999 forward under ESR-9453043, and (2) the SDP’s failure to provide curricula for six trainings from November 21, 2003 through June 4, 2004 to support a claim of \$1,385,224.00 in cost-sharing under ESI-0085055. See Draft Audit at 47, 50. As a consequence of this finding, OIG recommends that NSF withhold any further awards to the SDP pending verification “that SDP has established a system to identify, account for, monitor, and report cost-sharing expenses . . . .” *Id.* at 27.

***Auditee’s Response***

The SDP disputes this finding. Contrary to the statements in the draft report, the SDP has adequately documented its cost-share for ESI-0085055.<sup>10</sup> As acknowledged at page 50 of the draft report, the SDP provided the auditors with dates, attendance sheets, and agendas for each of the training sessions in the sample supporting the amounts claimed in cost-sharing for the trainings and demonstrating that each was in furtherance of NSF award purposes. The sole apparent basis for the finding of insufficient documentation was OIG’s unilateral refusal to accept the training agendas as proof of allocability.

Although the SDP disputes the notion that any further documentation is necessary to justify its cost-sharing claim, the SDP has located the curriculum training materials for the six mathematics teacher training sessions listed at page 50 of the draft report, which resulted in \$1,385,224 in questioned cost-sharing. Those documents are contained in Exh. Q, attached hereto. The curricula serve as double confirmation that the six trainings were NSF-related activities. From the SDP’s understanding, based on OIG’s statements in the exit conference, the scripts satisfy OIG’s concerns over allocability. Therefore, the \$1,385,224 of questioned costs should be removed from the audit (as contained on

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<sup>10</sup> It does not appear from the text of the draft audit report that OIG questions any costs relating to ESR-9453043 based on any failure to document cost-sharing. The SDP therefore does not specifically address Finding #3 with respect to ESR-9453043 except to the extent that it bears upon recommended remedial measures.

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Schedule D-1 of the audit), including the \$161,365 of Excess Federal Costs as computed on Schedule B-3.

As to the recommendation that NSF withhold any future awards to the SDP until it develops and implements a system for tracking and reporting cost-share, the SDP refers to its response to Finding #1. Moreover, to the extent the draft report calls for any further action by the SDP, the SDP has already established a formalized system for recording, tracking, and reporting cost-sharing and/or matching costs under all of its federal awards. In the fall of 2005, the SDP instituted the following procedures designed to ensure that cost-sharing/match requirements are met on all grants:

- *Consideration of match requirements in the early stages of grant-seeking in making strategic decisions about which grants to apply for.* All grant opportunities over \$20,000 are initially reviewed by the SDP's "Development Committee," which is comprised of high level administrators representing all major academic offices (*e.g.*, Curriculum and Instruction, Leadership and Professional Development, *etc.*) Information about match requirements is now included in the briefing that committee members receive about each grant opportunity. In making decisions about which opportunities to respond to and about what overall approach to take in applying, committee members consider what resources exist and which resources may realistically be leveraged for cost-sharing/match purposes.
- *Specific and concrete identification of planned cost-sharing/match in all grant proposal budgets.* During the proposal development process, representatives from the SDP's Office of Management and Budget require program offices to specify in concrete terms the source of any non-federally funded programmatic expenditure included as part of any plan for cost-sharing/match. In the absence of a specific and documentable source of match, the proposal will not be submitted.
- *Post-award meetings with grant managers to determine specific cost-sharing/match documentation plan.* Upon notification of any grant award, a meeting is convened with the program manager(s), representatives from the Office of Management and Budget, and other relevant District administrators (*e.g.*, from the Office of Grants Development and Support, the Office of Research and Evaluation, *etc.*) A regular item on the agenda for all such meetings is the discussion of cost-sharing/match requirements (if any) for the grant in question. Action plans for documenting cost-sharing/match expenditures are developed. If appropriate, program managers are provided with sample personnel time logs and

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other forms for them to use in documenting match costs. *See* Exh. R (“Managing Your Grant” manual and checklist).

- *Enhanced staffing to carry out cost-share tracking and compliance functions.* As of 2005, the SDP has increased the number of budget office personnel responsible for reviewing cost-sharing requirements for the SDP’s federal awards on an on-going basis to ensure that it is meeting those requirements during relevant budget periods and that the costs claimed are allowable as cost-share.

In light of these actions and the absence of any current awards from NSF to the SDP, there is no need for additional oversight or remedial steps to address the conditions identified in Finding #3.

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**Finding 4. Lack of Adequate Fiscal Monitoring and Accounting of Subawardee Costs**

The draft audit report further indicates that the SDP was deficient in its supervision and monitoring of subawardees. Specifically, the report states that the SDP “commingled” subawardee costs in its accounting system with “other” costs and failed to maintain separate records to track subawardee expenditures in a manner that would permit budget-to-actual comparisons. *See* Draft Report at 28. The report further faults the SDP due to the lack of monitoring policies and procedures such as on-site reviews of subawardee books and operations. *Id.* As part of this finding, OIG questions \$ [REDACTED] in payments to Research for Action (“RFA”) under ESR-9453043, \$ [REDACTED] in payments to RFA under ESI-0085055, and \$ [REDACTED] in payments to Franklin Institute (“FI”) under ESI-0085055. *Id.* OIG further recommends that NSF withhold any future awards to the SDP unless and until NSF verifies “that SDP has developed a comprehensive subawardee monitoring plan.” *Id.* at 30.

***Auditee’s Response***

The SDP disputes the conclusion that it failed adequately to monitor RFA and FI under the two NSF awards. The SDP structured its contractual relationships with both of these entities as fee-for-service arrangements, pursuant to which RFA and FI would be entitled to payment on the basis of deliverables, not on the basis of their costs. *See* Exh. S (agreements with RFA and FI). The compensation clause in the relevant contracts does not, however, contemplate cost reimbursement, but instead directs the vendors to submit quarterly invoices detailing goods/services delivered, along with a date and place of delivery.

Moreover, it appears that the audit report understates the contractors’ costs attributable to the NSF awards. The most significant error in this regard appears in the comparisons of costs claimed by RFA and those recorded on its books for ESI-0085055. *See* Draft Report at 42-43. The schedules attached to the draft audit show that fully \$ [REDACTED] of the \$ [REDACTED] in questioned payments to RFA consist of RFA’s charges for indirect costs allocable to the award. The OIG has questioned those charges because RFA did not specifically book those costs in its general ledger. RFA’s entitlement to recover its indirect costs, however, is simply a function of applying its indirect cost rate (as duly negotiated with the federal government) to its modified total direct costs under the agreement. *See* Exh. T (RFA budget showing indirect cost rate). That RFA’s books do not show an assignment of indirect costs to NSF-related activities has no bearing on RFA’s entitlement to recover those costs, nor does it in any way lead to a conclusion that such costs are unsupported. So long as the costs comprising RFA’s indirect cost base are documented, indirect costs claimed according to RFA’s negotiated rate are allowable.

The SDP otherwise refers to its response to Finding #1 for its response to OIG’s recommendation 4.

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**Finding 5. Lack of an Adequate Process for Monitoring Participant Support Costs**

The draft audit report contains a finding that the SDP expended \$701,570 in ESI-0085055 award funds budgeted for “participant support costs” on other obligations without first obtaining agency approval for such rebudgeting. *See* Draft Report at 30-31. OIG bases this conclusion on the fact that a September 30, 2005 Federal Cash Transaction Report (“FCTR”) showed (a) that the SDP had exhausted the full amount of the USP award, (b) that the SDP had budgeted \$3,446,986 for participant support costs, and (c) that the SDP spent only \$2,745,416 on participant support costs. In light of the SDP’s having fully expended the available NSF funds yet having underspent the participant support cost budget line item, OIG infers that the SDP necessarily used the excess \$701,570 in that line item for other NSF award purposes. This action, by the OIG’s estimation, would only have been permissible had the SDP secured authorization from NSF. Seeing no such agency approval in the SDP records, the draft audit report questions \$701,570 in charges to ESI-0085055.

***Auditee’s Response***

The SDP disputes this finding. The bulk of the costs included in the “participant support cost budget” were not, in fact, participant support costs. The budget justifications and detailed budget narratives accompanying the original application for assistance under ESI-0085055, as well as the revised budgets submitted to NSF prior to the award, reveal that the vast majority of the funds budgeted for “participant support costs” were to go to pay SDP teachers for their time while attending NSF-related trainings.

These sorts of payments, however, are expressly excluded from NSF’s own definition of “participant support costs,” and it is therefore at best questionable whether the prior approval requirement to which OIG refers applied in the first instance. The 1995 and 2002 iterations of the NSF Grant Policy Manual (*i.e.*, the versions of the manual applicable during the award period) each define “participant support costs” as “direct costs for items such as stipends or subsistence allowances, travel allowances and registration fees paid to or on behalf of participants or trainees (*but not employees*) in connection with meetings, conferences, symposia or training projects.” *See* “National Science Foundation Grant Policy Manual” at § 618.1(a) (July 1995); “National Science Foundation Grant Policy Manual” at § 618.1(a) (July 2002) (emphasis added). Indeed, it was not until NSF issued its June 2007 revisions to the Grant Policy Manual that the agency sought to include any payments to employees for training, *etc.*, within the rubric of “participant support costs.” Even then, NSF only characterized such costs “as participant support if payment is made through a stipend or training allowance method.” *See* “National Science Foundation Grant Policy Manual” at § V.B.8.a(i) (June 2007).

The SDP placed payments to teachers/trainees under the budget heading of “participant support costs” only after NSF requested that the SDP do so as part of its revision and resubmission of its funding application. The budget in the original application shows

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these payments not as participant support costs, but instead as salaries/wages/fringes. Moreover, the SDP's classification of these personnel costs in its initial application submission is consistent with the SDP's treatment of the same manner of costs under ESR-9453043. The budgets for that award show that the SDP budgeted costs attributable to teacher wages for their participation in NSF-supported trainings as salaries/wages/fringes, leaving only a fairly small portion of the grant funds devoted to "participant support costs."

In light of the foregoing, the salary payments identified in the budget as "participant support costs" were not in their nature "participant support costs," regardless of the name attached to those payments in any budget document. The SDP was therefore under no obligation to seek NSF's prior approval for any rebudgeting to reduce the "participant support cost" line item. NSF was fully aware of how the SDP planned to use the funds under this line item and approved of the SDP's plans. It is accordingly insignificant from an auditing standpoint and as a matter of law that the SDP (at NSF's direction) characterized such costs as "participant support costs."

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**Finding 6. Lack of Adequate Submissions of Final Project Reports**

The final finding in the draft audit report faults the SDP for failing to submit the required final project report for ESR-9453043 and for submitting its final project report for ESI-0085055.

***Auditee's Response 6***

With relation to ESR-9453043, the SDP disagrees with this finding. Exhibit U hereto contains the final project report provided to the NSF and e-mail communication back from NSF accepting the submission from the SDP as the Final Project Report.

With regard to ESI-0085055, the SDP requested NSF's permission to submit its final project report later than ninety days after the close of the award period. NSF granted that request, and the report was submitted and accepted by the NSF. *See* Exh. V.

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**CONCLUSION**

There is a final matter included in the schedules to the draft audit report that bears discussion. First, the calculation of questioned indirect costs at page 38 and the “Computation of Excess Federal Costs” at page 46 are incorrect as a consequence of the matters addressed elsewhere herein. The \$31,548.00 in questioned indirect costs under ESR-9453043 should be substantially less (if not eliminated) in light of the reduction in questioned salary, fringe, and other costs that OIG should make in response to the SDP’s analyses of Findings #2 and #4. Likewise, OIG should remove the \$616,365.00 in “excess federal costs” under ESI-0085055, if only on the basis of the fact that the SDP has fully supported the \$1,385,224.00 in questioned cost-sharing.

The SDP once again would like to express its appreciation for this opportunity to respond to the draft audit report. The SDP stands ready to respond to any further questions or requests for additional information that the OIG may have in this matter.

**The School District of Philadelphia  
Supplemental Response to Findings**

**National Science Foundation Audit  
Award No. ESR-9453043 (7/1/1999-8/31/2001)  
Award No. ESI-0085055 (9/1/2000-8/31/2005)**

**Submitted April 18, 2008**

Per the suggestion of M.D. Oppenheim & Co., P.C. (now WithumSmith+Brown) in an e-mail correspondence of April 1, 2008, the School District of Philadelphia (the "SDP") submits this supplemental response to the findings and recommendations contained in the draft audit report prepared by M.D. Oppenheim & Company, P.C. on behalf of the National Science Foundation ("NSF") Office of Inspector General ("OIG") with respect to NSF award number ESR-9453043 ("Philadelphia Urban Systemic Initiative: Children Achieving in Science, Mathematics and Technology") for the period from July 1, 1999 through August 31, 2001, and award number ESI-0085055 ("Philadelphia Urban Systemic Program") for the period from September 1, 2000 through August 31, 2005. The purpose of this supplemental response is to address the specific matter posed in the April 1, 2008 e-mail regarding draft audit Finding #3 as to lack of documentation for in \$3,227,388 cost-sharing under ESR-9453043 for the period from July 1, 1999 through August 31, 2001.

The draft audit report indicates that the \$3,227,388 figure is the remaining amount of budgeted cost-share after subtracting the \$32,334,375 in documented cost-share under ESR-9453043 for the period from September 14, 1995 through June 30, 1999. Although the draft audit does not identify any questioned costs in connection with the finding of lack of support for such residual cost-sharing, the SDP understands from M.D. Oppenheim & Co., P.C., that this finding could carry with it a determination that the amount of NSF funds charged to the award were excessive when compared with the documented cost-share. In other words, should the total otherwise allowable expenditures charged to ESR-9453043 make up a greater percentage of the total award costs (including the SDP's cost-share) than contemplated in the award budget, the allowable NSF charges could potentially be reduced a level in proportion to the original budget.

The SDP disputes this finding because, among other things, there can be no excess federal financial participation in award number ESR-9453043 regardless of draft Finding #3. The factual predicate for the concern raised in the April 1, 2008 e-mail is the notion that the SDP expended the full amount of the award, thus obligating the SDP to provide the total cost-share listed in the budget. In the course of preparing this supplemental response, it became clear to the SDP that it had not, in fact, exhausted the NSF funds available under ESR-9453043. Rather, approximately \$1,822,500 remained as of August 31, 2000, the original close of the period of the award. By letter dated December 1, 2000, NSF notified the SDP that it would be able to access these remaining funds in furtherance of activities under award number ESI-0085055. *See* Exh. W at 2. NSF therefore directed the SDP to submit a written request for a twelve-month extension of the ESR-9453043 award period, along with a request that ESR-9453043 be treated as a "related" award to ESI-0085055. *Id.* NSF would then allow the SDP to use the residual ESR-9453043 for ESI-0085055 purposes and adjust the latter award amount to account "for the inclusion of the carry-over funds." *Id.* The SDP submitted the request per NSF's instruction on April 12, 2001, and NSF approved that request on May 14, 2001. *See* Exh. X.

NSF thus reduced the funds available under ESR-9453043 from \$14,842,318 to \$13,019,818 -- *i.e.*, less than the \$13,979,611 that would have represented NSF's proportionate share of total ESR-9453043 award costs based on the SDP's documented cost-share of \$32,334,375. Accordingly, no concerns of excess federal financial participation should arise in connection with Finding #3.

THE SCHOOL DISTRICT OF PHILADELPHIA  
DETAILED (PERSONAL IDENTIFYING INFORMATION) IN  
SCHEDULES B-1 AND B-2

The School District of Philadelphia  
 NSF Award Number ESR-9453043  
 Details to Missing Documentation

Code	Transaction Date	Document Number	Vendor #	Vendor Name	Invoice Amount	
	5/1/2000	PV 37505401	0018272	CREATIVE PUBLIC PAY	\$	B
	10/4/2000	JV GFS00000838		(*)		B
	11/5/1999	JV BGXGR803473		(*)		B
	11/5/1999	JV BGXGR803441		(*)		B
	11/23/1999	PV AV70001191701	0012562	MCDUGAL LITTE		C
	4/25/2000	PV AV7003318201	0056509	NATIONAL COUNCIL		C
	9/28/2000	PV AV70005761001	0025739	TEXAS INSTRUMENT		C
	10/24/2000	PV AV70061311701	0056509	NATIONAL COUNCIL		C
	3/24/2000	PV AV70002872801	0014389	SCHOOL MART		C
	5/22/2000	PV AV70003783706	0018272	CREATIVE PUBLIC OFFICIAL		C
	6/16/2000	PV AV70004362003	0018272	CREATIVE PUBLIC OFFICIAL		C
	7/21/2000	PV AV70004917906	0026187	EVERYDAY LEARNING		C
	7/26/2000	PV AV70005003503	0018272	CREATIVE PUBLIC OFFICIAL		C
	8/22/2000	PV AV70005191701	0018272	CREATIVE PUBLIC OFFICIAL		C
	8/22/2000	PV AV70005191909	0018272	CREATIVE PUBLIC OFFICIAL		C
	8/22/2000	PV AV70005192103	0018272	CREATIVE PUBLIC OFFICIAL		C
	9/14/2000	PV AV70005468703	0018272	CREATIVE PUBLIC OFFICIAL		C
	9/23/2000	PV AV70005662107	0018272	CREATIVE PUBLIC OFFICIAL		C
	9/29/2000	PV AV700085759102	0018272	CREATIVE PUBLIC OFFICIAL		C
	11/30/2000	PV AV70006773706	0026187	EVERYDAY LEARNING		C
	9/16/1999	PV AV70000252601	0001010	ADDISON WESLEY CONCEPTUAL		C
	10/1/1999	PV AV70000418301	0001010	ADDISON WESLEY CONCEPTUAL		C
	11/30/1999	PV 7000001019601	0026187	EVERYDAY LEARNING		C
	12/2/1999	PV AV70001358601	0013333	MCDUGAL LITTI TEXTBOOKS		C
	5/19/2000	PV AV70003753803	0026187	EVERYDAY LEARNING		C
	6/7/2000	PV AV70004085201	0038289	HARCOURT BRAC		C
	6/23/2000	PV AV0004485101	0018272	CREATIVE PUBLIC OFFICIAL		C
	6/23/2000	PV AV0004487901	0026187	EVERYDAY LEARNING		C
	7/18/2000	PV AV70004839501	0026187	EVERYDAY LEARNING		C
	7/19/2000	PV AV70004865604	0018272	CREATIVE PUBLIC OFFICIAL		C
	7/19/2000	PV AV70004865607	0018272	CREATIVE PUBLIC OFFICIAL		C
	10/11/2000	PV AV70005942401	0026187	EVERYDAY LEARNING		C
	2/1/2001	PV AV70007844201	0051989	MCGRAW-HILL CC TEXTBOOKS		C
	8/17/1999	PV AV70000125601	0000653	MIMOSA PUBLIC		C
	10/1/1999	PV AV70000418620	0001010	ADDISON WESLEY CONCEPTUAL		C
	10/5/1999	PV AV70000463401	0024825	ETA		C
	10/27/1999	PV AV70000804502	0016983	CREATIVE PUBLIC OFFICIAL		C
	10/27/1999	PV AV70000804509	0016983	CREATIVE PUBLIC OFFICIAL		C
	1/24/2000	PV AV70001929201	0007318	D & S MARKETING		C
	2/4/2000	PV AV70002053601	0016983	CREATIVE PUBLIC OFFICIAL		C
	2/4/2000	PV AV70002053602	0016983	CREATIVE PUBLIC OFFICIAL		C
	7/27/2000	PV AV7005005001	0026042	ACTIVE PHYSICS		C
	10/25/2000	PV AV70006152305	0018272	CREATIVE PUBLIC OFFICIAL		C
	12/21/1999	PV AV70001593901	0020019	D & H DISTRIBUTIONS		C
	5/22/2000	PV AV70003783708	0018272	CREATIVE PUBLIC		C
	8/18/2000	PV AV700051918 09	18272	CREATIVE PUBLIC		C
	9/7/2000	PV AV700053547 01	835	LAB AIDS INC		C
	12/17/1999	PV AV700015370 01	44627	KEY CURRICULUM		C
	10/27/1999	PV AV00008045 07	16983	CREATIVE PUBLIC		C
	9/1/2000	PV AV700053310 01	1001645	TEAM LABS CORP		C
	11/5/1999	JV BGXGR803461		(*)		C
	12/8/2000	PV AV70006959501	0029241	FISHER SCIENTIFIC		D
	3/23/2000	PV AV7000284774 01	14389	SCHOOL MART		D

Total \$ 310,898

(\*) Journal voucher, name of vendor not determinable.

A= TRAVEL	\$	-
B= OTHER		81,336
C= PARTICIPANT SUPPORT COST		221,540
D= PERMANENT EQUIPMENT		8,022
Total	\$	310,898

**The School District of Philadelphia**  
**NSF Award Number ESI-0085055**  
**Details to Missing Documentation**

Code	Transaction Date	Document Number	Vendor #	Vendor Name	Invoice Amount	
	4/10/2001	JV 12P1343345		(*)	\$	A
	4/25/2001	PV 7000005482501	20019	D & H DISTRIBUTORS		B
	9/24/2004	JV OMBG0000664		(*)		B
	5/19/2004	JV CPCHR 343		(*)		B
	9/24/2004	JV OMBG0000664		(*)		B
	8/7/2003	JV GFS00006368		(*)		C
	8/23/2001	PV AV70010716001	0020019	D & H DISTRIBUTORS		C
	10/1/2001	PV AV70011156202	0016854	NATIONAL BUSINESS EDUCATION		C
	5/31/2002	PV AV70014964303	0011402	NATIONAL GEOGRAPHIC SOCIETY		C
	6/19/2002	PV AV70015329701	0025414	HARCOURT BRACE EDUCATIONAL		C
	10/22/2002	PV AV70016972601	0020647	MCGRAW HILL COMPANIES		C
	9/24/2004	JV OMBG0000664		(*)		C
	5/14/2003	PV AV70019534701	0007159	DELL MARKETING LP		D

Total \$ 264,121

(\*) Journal voucher, name of vendor not determinable.

<u>Categorization of Expenses by Budget Category</u>	
A= TRAVEL	\$ 691
B= OTHER	50,439
C= PARTICIPANT SUPPORT COST	205,273
D= PERMANENT EQUIPMENT	7,718
Total	<u>\$ 264,121</u>

The School District of Philadelphia  
NSF Award Number ESI-0085055  
Participant Support Cost - Listing of Missing Documentation

Name	SS#	ABC Code	PPE Date	Document #	Amount
			4/8/2001	JV BWE 1342302	\$ [REDACTED]
			7/15/2001	JV BWE1501943	[REDACTED]
			1/13/2002	JV BWE1801982	[REDACTED]
Total					<u>\$ 1,316</u>