

Atlanta Public Schools
210 Pryor Street
Atlanta, Georgia 30035

National Science Foundation Award Number ESR-9727644

Financial Schedules

and

Independent Auditors' Reports

For the Period September 1, 1998 to June 30, 2001

SEP 27 2002

MCBRIDE, LOCK & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS
KANSAS CITY

Atlanta Public Schools
210 Pryor Street
Atlanta, Georgia 30035

National Science Foundation Award Number ESR-9727644

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For the Period September 1, 1998 to June 30, 2001

Atlanta Public Schools

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SECTION I

INTRODUCTION AND AUDIT RESULTS

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

BACKGROUND

We audited the funds awarded by the National Science Foundation (NSF) to the Atlanta Public Schools (APS) under Cooperative Agreement No. ESR-9727644 for the period September 1, 1998 through June 30, 2001. This award to APS, a citywide school district, supports its Urban Systemic Initiative (USI) project. The purpose of the award is to stimulate dramatic improvement in (a) the quality of grade K-12 science and mathematics education and the use of technology to enhance mathematics and science instruction, (b) access to such instruction, and (c) student achievement. In accomplishing these objectives, the APS' USI contributes to the quality of national Science, Mathematics, and Technology (SMT) workforce; the number and quality of students succeeding in SMT careers; and, over time, the general scientific literacy of the United States citizenry.

The award is granted for the period from September 1, 1998 through August 31, 2003. NSF intends to provide up to \$15,000,000 and APS agreed to provide cost sharing in the amount of \$5,326,387 to support the project for the entire award period. Under the agreement, NSF through August 31, 2001 has agreed to award APS a total of \$8,649,646, which APS agreed to match with \$4,674,612 of cost sharing. From September 1, 1998 through June 30, 2001, APS has claimed costs aggregating \$7,065,653 of costs funded directly by NSF and \$7,257,012 in cost sharing.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine whether:

- costs charged to the NSF award by APS are allowable, allocable, and reasonable, in accordance with the applicable Federal cost principles and NSF award terms and conditions; and
- APS' systems of internal controls are adequate to properly administer, account for, and monitor its NSF awards in compliance with NSF and Federal requirements.

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* (1994 Revision) issued by the Comptroller General of the United States, and the *NSF Audit Guide* (September 1996). Consequently, we planned and performed the audit to obtain reasonable assurance about whether the amounts claimed to NSF as presented in the Schedule of Award Costs (Schedule A), are free

of material misstatement. Our audit also assessed the accounting principles used and significant estimates made by the APS and evaluated the overall financial schedule presentation.

To achieve our audit objectives, we examined, on a test basis, evidence supporting the amounts and disclosures in Schedule A. Based on an assessment of risk, we selected a nonstatistical sample of costs claimed under the award to test for compliance with Federal award requirements. Based upon this sampling method, questioned costs in this report may not represent total costs that may have been questioned had all expenditures been tested. In addition, we have made no attempt to project such costs to total costs claimed, based on the relationship of costs tested to total costs. However, we believe our audit provides a reasonable basis for our opinion.

SUMMARY OF AUDIT RESULTS

An audit was performed on the financial reports submitted to NSF as well as cost sharing provided by APS on the NSF award audited. These costs are shown in Schedule A. Our audit disclosed questioned participant support costs totalling \$616,048 and deficiencies in APS' systems of internal controls for the NSF award that are described below.

<u>NSF Award Number</u>	<u>Award Budget</u>	<u>Claimed Costs</u>	<u>Questioned Costs</u>
ESR-9727644	<u>\$8,649,646</u>	<u>\$7,065,653</u>	<u>\$616,048</u>

The following is a brief description of the questioned cost finding that resulted from our audit:

<u>Explanation</u>	<u>Amount</u>
Purchases of technical software packages claimed as participant support during Fiscal Year 2000 were made without the approval of NSF's cognizant Program Officer as required in NSF Grant Policy Manual Sec. 618.1.	\$616,048

Questioned costs are costs for which there is documentation that the recorded costs were expended in violation of the law, regulations or specific conditions of the award or those costs which require additional support by the Awardee or which require interpretation of allowability by the National Science Foundation - Division of Acquisition and Cost Support (DACS). In Fiscal Year 2000, APS purchased technical support packages and claimed the costs incurred as participant support costs under the NSF award despite NSF's clear direction to the contrary. APS officials could not explain how this happened at the time of the audit, implying a lack of oversight of all actions affecting the award. Consequently, the relevant claimed costs for \$616,048 are questioned.

Moreover, in addition to the aforementioned inadequate oversight of the award which we are considering as an internal control material weakness, we found deficiencies in APS' accounting controls for cost sharing and payroll. While NSF requires that recipients' financial management systems shall provide for accounting records that are supported by source documentation, APS' financial system did not consistently provide for adequate records and supporting documentation for cost sharing claims under the NSF award. Likewise, APS did not ensure that attendance records were completed for all individuals charged to the award. Although our audit did not find that these deficiencies in APS' financial records resulted in any questioned cost, unless corrected, APS is at risk of improperly authorizing and claiming costs against the award as exemplified by the participant support purchases.

We recommended that NSF's Division Directors of DACS and the Division of Grants and Agreements (DGA) ensure that (1) APS establish and implement procedures for review and approval of costs charged to the NSF award; (2) develop adequate written procedures for and maintain adequate documentation for cost sharing; (3) adhere to its existing payroll documentation requirement; and (4) correct the entry on APS' general ledger to accurately record the purchase of the technical software and resubmit a corrected Federal Cash Transaction Report (FCTR) to NSF. APS agreed with all findings and recommendations.

For a complete discussion of each finding, refer to Schedule B and the Independent Auditors' Report on Internal Controls and Compliance with Laws and Regulations in Section II.

FOLLOW-UP OF PRIOR AUDIT FINDINGS

There was no prior audit of NSF awards. APS' Fiscal Year 2000 Office of Management and Budget Circular A-133 audit did include this award as a major program, but did not have any internal control or compliance finding.

EXIT CONFERENCE

An exit conference was held on February 22, 2002 at the office of the Atlanta Systemic Initiative located at 2930 Forrest Hills Drive SW, Atlanta, Georgia. Findings and recommendations contained in this report were discussed with those attending.

For Atlanta Public Schools

For McBride, Lock & Associates

SECTION II

INDEPENDENT AUDITORS' REPORTS

McBRIDE, LOCK & ASSOCIATES

INDEPENDENT AUDITORS' REPORT
ON THE FINANCIAL SCHEDULE

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

We audited the costs claimed by the Atlanta Public Schools (APS) to the National Science Foundation (NSF) on the Federal Cash Transactions Report – Federal Share of Net Disbursements for the National Science Foundation award listed below. In addition, we have also audited the amount of cost sharing on the award. This Federal Cash Transactions Report, as presented in the Schedule of Award Costs (Schedule A) is the responsibility of the APS' management. Our responsibility is to express an opinion on this schedule based on our audit.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
ESR-9727644	9/01/98 – 8/31/03	9/01/98 – 6/30/01

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States, and the *NSF Audit Guide* (September 1996). Those standards and the *NSF Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The accompanying financial schedule was prepared for the purpose of complying with the requirements of the *NSF Audit Guide* as described in Note 1 and is not intended to be a complete presentation of APS' financial position in conformity with generally accepted accounting principles.

In our opinion, the financial schedule referred to above presents fairly, in all material respects, the costs claimed by APS on the Federal Cash Transactions Report – Federal Share of Net Disbursements as presented in the Schedule of Award Costs, for the period September 1, 1998 to June 30, 2001 in conformity with the *NSF Audit Guide*, *NSF Grant Policy Manual*, the award agreement and basis of accounting described in Note 1.

Schedule B presents costs in the amount of \$616,048 that are questioned as to their allowability under the award agreement. The final determination about this finding 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 22, 2002, on our consideration of APS' internal control over financial reporting and on its compliance with applicable Federal laws and regulations and NSF award terms. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of NSF, APS' management, NSF's Office of Inspector General, 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.

McBride, Lock & Associates
McBride, Lock & Associates

February 22, 2002

McBRIDE, LOCK & ASSOCIATES

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS
AND COMPLIANCE WITH LAWS AND REGULATIONS

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

We audited the Schedule of Award Costs, as presented in Schedule A which summarizes the financial reports submitted by the Atlanta Public Schools (APS) to the National Science Foundation (NSF) for the award listed below, and have issued our report thereon dated February 22, 2002.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
ESR-9727644	9/01/98 – 8/31/03	9/01/98 – 6/30/01

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States, and the *NSF Audit Guide* (September 1996). Those standards and the *NSF Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedule is free of material misstatement.

INTERNAL CONTROL STRUCTURE

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

In planning and performing our audit of Schedule A for the period September 1, 1998 through June 30, 2001, we obtained an understanding of APS' internal control over financial reporting. With respect to the internal control over financial reporting, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation. We assessed the control risks and performed tests of controls to determine our auditing procedures for the purpose of expressing our opinion on APS' financial schedule and not to provide an opinion on APS' internal control over financial reporting. Accordingly, we do not express such an opinion.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might 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 APS' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial schedules being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

We noted the following matters involving APS' 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. However, we only consider as a material weakness APS' failure to ensure that all Award funds are used solely for authorized purposes.

Finding No. 1: APS failed to ensure that all award funds are used solely for authorized purposes.

APS' Accounting Department accepted, recorded, and claimed participant support costs under the NSF award for an unauthorized purchase of technical software packages during FY 2000 for \$616,048 based on information from a previous APS Project Director that these costs were given verbal approval by the NSF Program Officer. This demonstrates that APS failed to provide effective control over and accountability for all funds that ensure that they are used solely for authorized purposes. NSF requires its awardees to provide such controls to prevent unauthorized use of award funds. NSF's Grant General Conditions Article 1c specifically requires the awardee to agree to provide for prudent management of all expenditures and actions affecting the award. Documentation for each expenditure or action affecting the award must reflect appropriate organizational reviews or approvals which should be made in advance of the action. Organizational reviews are intended to help assure that expenditures are allowable, necessary and reasonable for the conduct of the project, and that the proposed action is, among others, consistent with award terms and conditions.

Recommendation No. 1:

We recommend that NSF's Division Directors of DACS and DGA ensure that APS establish and implement internal control procedures that require careful organizational review and approval of the types of costs charged to the NSF award to ensure that all expenses conform to the award as approved by NSF.

Awardee Response:

Internal control and review procedures have been established and implemented to ensure that all expenses conform to the NSF award criteria. Proposed expenditures are carefully reviewed and approved by the Project Director, Executive Director of Teaching and Learning, Deputy Superintendent of Instruction, and the Financial Account Manager assigned to the NSF award account. The Chief Financial Officer and Superintendent review and approve all expenditures in excess of \$50,000. Additionally, the Department of Internal Audit performs a periodic review of expenditures.

Audit Conclusion:

The stated corrective action is responsive to the finding and recommendation.

Finding No. 2: APS' accounting records for cost sharing are not adequate and cost sharing claimed does not comply with NSF's cost sharing requirements.

We did not question any cost sharing APS claimed under the NSF award because our audit disclosed that APS had sufficient allowable cost sharing to meet the award requirement. However, we could not verify that a significant portion (\$1,762,772) of the cost sharing claimed was allowable in APS' accounting records. As a result, APS cannot fully ensure that all the claimed cost share met NSF requirements stated in its Grant Policy Manual Sec. 330.

Cost Share Items Documented by APS Project Director	<u>\$8,939,198</u>
Cost Share Certified by APS Project Director to NSF	<u>\$7,257,012</u>
Cost Share Found with Inadequate Support (24% of Total Claimed Cost Share per Schedule of Award)	<u>\$1,762,772</u>
Cost Share Found with Adequate Support	<u>\$7,176,426</u>
Level Required by Cooperative Agreement @ 6/30/01	<u>\$4,674,612</u>

Our audit disclosed that a significant portion (\$1,762,772) of the cost sharing APS claimed under the NSF award was not allowable as cost share. Some costs were allocated to NSF without establishing any basis. For example, costs of subaward facilities were charged without a basis for the rate used per square footage, the number of square feet, rental charges, and/or the relevance to the award objectives. There were also costs that we could not verify whether they were chargeable to the grant or met the award requirements.

As a condition of the award, NSF required that cost sharing amounts must be quantifiable and auditable. The amount of cost of sharing must be documented on an annual and cumulative basis. NSF's Grant General Conditions and Grant Policy Manual also directed the awardee to comply with OMB Circular A-110's cost sharing provisions which state, among other requirements, that:

"All contributions including cash and third party in-kind shall be accepted as part of the recipient's cost sharing or matching when such contributions meet all of the following criteria:

- (1) Are verifiable from the recipients records.
- (2) Are not included as contributions for any other federally-assisted project or program.
- (3) Are necessary and reasonable for proper and efficient accomplishment of project or program objectives.
- (4) Are allowable under the applicable cost principles.
- (5) Are not paid by the Federal Government under another award, except where authorized by Federal statute to be used for cost sharing or matching.
- (6) Are provided for in the approved budget when required by the Federal awarding agency.
- (7) Conform to other provisions of the OMB Circular, as applicable."

In addition, Section 333.6a1 of NSF's Grants Policy Manual Section requires that NSF "grantees shall maintain records of all research project costs which are claimed by the grantee as being its contribution to cost participation."

APS' cost share accounting system was developed and maintained by a previous APS Project Director for the award. The system was operated independently of the Accounting Department. It was not subject to the same controls as the APS' centralized accounting system provides for accounting for the NSF award funds. Without sufficient controls, it would be difficult to develop and maintain an adequate system for cost sharing considering the inherent complexity of accounting for several transactions funded from a variety of sources. For example, the Project Director did not formalize written procedures for the system he developed. Because of the lack of formalized procedures and adequate records, the new Project Director found it difficult to provide the cost sharing accounting records to enable him to determine the validity of the items included in the amount of cost sharing previously reported to NSF. Also, APS is at risk of improperly authorizing and claiming costs against the award as exemplified by the participant support purchases.

Recommendation No. 2:

We recommend that NSF's Division Directors of DACS and DGA ensure that APS:

- (a) develop written procedures that would ensure that cost sharing costs claimed comply with NSF's cost sharing requirements and
- (b) maintain accounting records that adequately support cost sharing claimed.

Awardee Response:

To ensure adherence to the definition of cost sharing, the Atlanta Public Schools Project Director identifies local funds to support cost share related to the improvement of student achievement in mathematics and science. The Project Director maintains appropriate documentation in the ASI records, including purchase requisitions and contractual services agreements, which directly relate to mathematics and science. Local funds related to mathematics and science are verifiable via the APS Chief Financial Officer. The funds are not included as contributions for any other federally-assisted project or program. The mathematics and science local funds are necessary, allowable, and reasonable for accomplishment of the ASI objectives. The funds are not paid by the Federal Government under another award. The funds are provided for in the approved annual district budget. Additionally, the local funds conform to other Circular provisions.

Audit Conclusion:

The stated corrective action is responsive to the finding and recommendation.

Finding No. 3: APS did not ensure that all its payroll documentation is adequate.

APS requires that "all certified and managerial employees will sign-in on Form No. 67058, Daily Register, upon arrival at their school or department. They will sign their names on the Register and record the time of arrival. If an employee leaves early, the employee will record the time of departure on the Daily Register under the 'Time If Leaving Early' column." The APS Project Director should then review the sign-in records to certify the payroll. The payroll certification-is done on-line by the APS Project Director to indicate that the departmental payroll is authorized. The Project Director did not comply with this policy. We found that the daily sign-in sheets were not reviewed; a large percentage of the daily sign-in sheets were either unavailable or not fully completed. Because we were informed that the Project Director certified the time and attendance for payroll through daily communications with the 20 Model Teacher Leaders (MTL) appointed under the NSF award and annual certifications are obtained through the Personnel Department, we are not questioning the relevant payroll costs. However, we believe that because the Project Director certified the payroll for the staff charged to the NSF award without ensuring the adequacy of the required documentation, the propriety of the payments to MTLs aggregating \$2,841,862 is not absolutely certain. APS is at risk of improperly authorizing and claiming costs against the award.

Recommendation No. 3:

We recommend that NSF's Division Directors of DACS and DGA ensure that APS adhere to its existing policy that requires the completion and proper review of payroll "documentation for the staff assigned to the APS Project Director prior to certification of the payroll.

Awardee Response:

The current Project Director has implemented and monitors appropriate payroll " documentation procedures for all staff assigned to him prior to certification of the payroll. These

procedures include the utilization and review of timesheets and are in compliance with existing APS policy.

Audit Conclusion:

The stated corrective action is responsive to the finding and recommendation.

COMPLIANCE

Compliance with applicable laws, regulations, and the provisions of the award applicable to APS is the responsibility of APS' management. As part of obtaining reasonable assurance about whether the financial schedule is free of material misstatement, we performed tests of the APS' compliance with certain Federal laws and regulations and the provisions of the award. However, providing an opinion on overall compliance with such provisions was not an objective of our audit of the financial schedule. Accordingly, we do not express such an opinion. The results of our tests of compliance disclosed the following instance of noncompliance that is required to be reported under *Government Auditing Standards* and the *NSF Audit Guide*.

Finding No. 4: Unauthorized Use of Participant Support Funds

Section 618.1 of NSF's Grant Policy Manual state that participant support costs are 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. Funds provided for participant support may not be used by grantees for other categories of expense without the specific prior approval of the cognizant NSF Program Officer.

Our audit found that APS claimed costs for the purchase of technical software packages during FY 2000 for \$616,048 as participant support costs. According to an APS Accounting Department official, the previous Project Director informed them that the cognizant NSF Program Officer verbally approved the purchase. However, we found that NSF's cognizant Program Officer for the award specifically informed APS that award funds should not be used for this purchase in a May 12, 2000 email. APS' Accounting Department claimed the purchase under the NSF award without establishing that NSF had approved it in writing. Office of Management and Budget (OMB) Circular A-87, the "Cost Principles for State, Local, and Indian Tribal Governments," stated that costs under a Federal award must be adequately documented. Consequently, we question the claimed costs for the purchase of the technical software for \$616,048.

Recommendation No. 4:

We recommend that NSF's Division Directors of DACS and DGA ensure that APS correct the general ledger to remove the costs for the purchase of the unauthorized technical software packages from the NSF award records totalling \$616,048 and revise its next Federal Cash Transaction Report (FCTR) accordingly.

Awardee Response:

The district will identify local funds to utilize in correcting the general ledger prior to the submission of the next Federal Cash Transaction Report (FCTR). The cost of the unauthorized technical software packages will be removed from the NSF award records.

Audit Conclusion:

The stated corrective action is responsive to the finding and recommendation.

We considered these instances of noncompliance and internal control weaknesses in forming our opinion on whether Schedule A is presented fairly in all material respects, in conformity with NSF's policies and procedures, and determined that this report does not affect our report dated February 22, 2002 on that financial schedule.

This report is intended solely for the information and use of NSF, APS' management, NSF's Office of Inspector General, 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.

McBride, Lock & Associates
McBride, Lock & Associates

February 22, 2002

SECTION III

FINANCIAL SCHEDULES

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Atlanta Public Schools
National Science Foundation Award Number ESR-9727644
Schedule of Questioned Costs
From September 1, 1998 – June 30, 2001

1. Purchase of Technical Software Packages

The Atlanta Public Schools (APS) claimed costs for purchases of technical software packages during FY 2000 for \$616,048, as detailed below:

<u>Date</u>	<u>Description</u>	<u>Amount</u>
01/03/00	Library Video Company	\$4,489.26
01/03/00	Library Video Company	6,789.50
01/10/00	Riverdeep Interactive	398,641.84
02/14/00	Riverdeep Interactive	70,348.56
03/24/00	Educational Resources	902.65
03/24/00	Educational Resources	399.80
11/18/99	Video Discovery	12,375.00
11/18/99	Video Discovery	61,200.00
11/18/99	Video Discovery	56,560.00
12/17/99	Educational Resources	1,589.60
12/20/99	Educational Resources	2,751.80
Total		<u>\$616,048.01</u>

These costs were claimed as participant support costs. APS' Accounting Department stated that, according to the Award's previous Project Director, the National Science Foundation's (NSF) cognizant Program Officer verbally approved the purchases as allowable participant support costs. However, an email from the NSF cognizant Program Officer dated May 12, 2000, clearly indicated that the technical software purchase was not authorized.

Section 618.1 of NSF's Grant Policy Manual states that participant support costs are 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. Funds provided for participant support may not be used by grantees for other categories of expense without the specific prior approval of the cognizant NSF Program Officer. This demonstrates that APS failed to provide effective control over and accountability for all funds to assure that they are used solely for authorized purposes. NSF requires its awardees to provide such controls. NSF's Grant General Conditions Article 1c specifically requires the awardee to agree to provide for prudent management of all expenditures and actions affecting the award.

Consequently, the amount claimed covering the purchases of the technical software for \$616,048, is, therefore, questioned.

Refer to recommendation numbers 1 and 4 in the Independent Auditors' Report on Internal Controls and Compliance with Laws and Regulations for additional information concerning this finding.

Atlanta Public Schools
Notes to the Financial Schedule
From September 1, 1998 – June 30, 2001

1. Summary of Significant Accounting Policies:

Accounting Basis

The accompanying financial schedules have been prepared in conformity with National Science Foundation (NSF) instructions. Schedules A and B have been prepared from the reports submitted to NSF. The basis of accounting utilized in preparation of these reports differs from generally accepted accounting principles. The following information summarizes these differences:

A. Equity

Under 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 the NSF. Therefore, the awardee does not maintain any equity in the award and any excess of cash received from NSF over final expenditures is due back to the NSF.

B. Equipment

Equipment purchases were provided for in the NSF award.

C. Inventory

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

2. NSF Cost Sharing and Matching

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

Cost Sharing	National Science Foundation	Total Project Budget
\$4,674,612	\$8,649,646	\$13,324,258

3. Indirect Cost Rate:

- Organization-wide as NSF is the Oversight Federal Agency.
- Type of rate authorized for award – predetermined fixed rate of 5.3%.
- Period of rates – September 1, 1998 to August 31, 2003
- Indirect cost rate used to claim cost – based on total direct costs.

AWARDEE RESPONSE

Atlanta Public Schools
Response to ASI Auditor
September 13, 2002

Introduction:

During the past year, the Atlanta Systemic Initiative has undergone a process of quality improvement in the areas of operational and financial management. Recognizing the existing issues related to policy adherence, operational management, and project leadership, the Atlanta Public School System (APS) appointed a new Project Director to lead the Atlanta Systemic Initiative (ASI) in July 2001. Additionally, important modifications were made to the system of accountability and oversight related to this invaluable grant. These improvements include the alignment of the ASI objectives with the operational functions of the APS Division of Curriculum and Instruction.

The ASI operates with the direct support and guidance of the Superintendent, Deputy Superintendent of Curriculum and Instruction, Executive Director of Teaching and Learning and other key district leadership. These modifications have significantly improved the decision-making and flow of information related to the ASI. Additionally, the Project Director meets monthly with the Superintendent, weekly with the Deputy Superintendent and almost daily interacts with the Executive Director of Teaching and Learning.

Summary of Actions:

In the external audit of the financial management of the ASI from September 1998 to June 2001, the audit team identified areas of concern related to authorization and approval of financial transactions under the former Project Director. The audit team also recommended changes in the area of financial management. The following table lists the recommendation of the audit team and summarizes the district's response to the recommendation.

Auditor Recommendation	APS Response
We recommend that the Awardee correct their general ledger to remove the costs for the purchase of the unauthorized technical software packages from the NSF award records totaling \$616,048 and revise its next Federal Cash Transaction Report (FCTR) accordingly.	The district will identify local funds to utilize in correcting the general ledger prior to the submission of the next Federal Cash Transaction Report (FCTR). The cost of the unauthorized technical software packages will be removed from the NSF award records.

Atlanta Public Schools Response to ASI Auditor

September 13, 2002

Auditor Recommendation	APS Response (cont.)
<p>We recommend that the Awardee establish and implement internal control procedures that require careful organizational review and approval of the types of costs charged to the NSF award to ensure that all expenses conform to the award as approved by NSF.</p>	<p>Internal control and review procedures have been established and implemented to ensure that all expenses conform to the NSF award criteria. Proposed expenditures are carefully reviewed and approved by the Project Director, Executive Director of Teaching and Learning, Deputy Superintendent of Instruction, and the Financial Account Manager assigned to the NSF award account. The Chief Financial Officer and Superintendent review and approve all expenditures in excess of \$50,000. Additionally, the Department of Internal Audit performs a periodic review of expenditures.</p>
<p>We recommend that the Awardee develop in writing and implement a cost sharing accounting system and procedures that would ensure that the types and records of cost sharing costs claimed comply with NSF's cost sharing requirements.</p>	<p>The NSF-OMB Circular A- 110 (May, 1996) sets forth Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations. It defines cost sharing (Sec. .23) as "all contributions, including cash and third party in-kind" which meet seven criteria: verifiable, not included as contributions for any other federally-assisted project or program, necessary and reasonable for accomplishment of objectives, allowable, not paid by the Federal Government under another award (except where authorized by statute), provided for in the approved budget when required by the Federal awarding agency, and conform to other Circular provisions.</p> <p>To ensure adherence to the aforementioned definition of cost sharing, the Atlanta Public Schools Project Director identifies local funds to support cost share related to the improvement of student achievement in mathematics and science. The Project Director maintains appropriate documentation in the ASI records, including purchase requisitions and contractual services agreements, which directly relate to mathematics and science. Local funds related to mathematics and science are verifiable via the APS Chief Financial Officer. The funds are not included as contributions for any other federally-assisted project or program. The mathematics and science local funds are necessary, allowable, and reasonable for accomplishment of the ASI objectives. The funds are not paid by the Federal Government under another award. The funds are provided for in the approved annual district budget. Additionally, the local funds conform to other Circular provisions.</p>

Atlanta Public Schools
Response to ASI Auditor
September 13, 2002

<p>We recommend that AP S management ensure that the Project Director adhere to existing APS policy that require adequate payroll documentation for the staff assigned to him prior to certification of the payroll.</p>	<p>The current Project Director has implemented and monitors appropriate payroll documentation procedures for all staff assigned to him prior to certification of the payroll. These procedures include the utilization and review of timesheets and are in compliance with existing APS policy.</p>
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Thank you for your time and assistance in improving the operation and management of the Atlanta Systemic Initiative.

cc:

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