



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

Office of Inspector General

MEMORANDUM

Date: DEC 18 2008

To: Mary F. Santonastasso, Director  
Division of Institution and Award Support

Thru: Jannifer Jenkins  
Senior Audit Manager *Jannifer Jenkins*

From: Billy McCain  
Audit Manager *Billy McCain*

Subject: Audit Report No. OIG-09-1-001  
Education Development Center, Inc.

Attached is the final audit report, prepared by Cotton & Company LLP, an independent public accounting firm, on the audit of NSF award numbers ESI-0323098, EHR-0335384, ESI-0099093, and ESI-0353368 awarded to Education Development Center, Inc. (EDC). The audit covers NSF-funded costs claimed from September 1, 2001 to September 30, 2007, aggregating to approximately \$14.2 million of NSF direct funded costs and \$517,830 of claimed cost sharing. EDC was chosen for an audit because of the high dollar and number of NSF awards, the collaborative nature of many EDC awards, and the material internal control deficiencies reported in past OIG and OMB Circular A-133 audits. Our audit determined that EDC has made significant improvements in financial administrative controls since the prior audits performed in years 1999 and 2004; however some additional improvements are still needed.

Overall the auditors determined that except for \$3,346 or .02 percent of the \$14.2 million total claimed costs on EDC's Schedules of Award Costs are allowable, allocable and reasonable for the NSF awards. The \$3,346 in questioned costs include \$1,392 of unsupported meal costs and \$47 of associated indirect costs for NSF Award Nos. ESI-0323098 and EHR-0335384; and questioned costs of \$2,999 for excessive and unreasonable meal costs for NSF Award No. ESI-0323098 (of which \$1,092 was questioned as part of the \$1,392 of meal costs previously stated). These questioned costs were reported as participant support, other direct costs, and indirect costs on EDC's Schedules of Award Costs.

The auditor's identified three compliance deficiencies of which the first was also an internal control deficiency in EDC's financial management practice. The latter two compliance deficiencies

contributed to the questioned costs and the third compliance deficiency was previously identified and reported in a prior NSF OIG audit report. Specifically:

- EDC did not perform adequate fiscal monitoring on subaward costs it charged to the National Science Foundation (NSF) awards to ensure that subawardee expenditures incurred and claimed were allowable, allocable, and reasonable. EDC does not have a formal plan for monitoring subawardees such as obtaining supporting documentation, performing site visits, or reviewing audit reports. EDC does not perform any analysis such as a risk assessment of its subawardees to determine which monitoring procedures should be performed for each subgrantee. EDC relies on the controls at the subawardees to ensure that subawardee costs are reasonable, allowable, and allocable to the NSF awards. As a result, EDC's internal controls over subaward costs provide no assurance that the expenditures incurred and claimed are accurate, valid, allowable and adequately documented. Required routine subaward monitoring could prevent or identify unallowable claimed subaward costs. The four NSF awards included nine subawards amounting to \$1.3 million or 9% of the total costs charged to the NSF awards. We validated claimed subaward costs by performing alternative audit tests, including obtaining supporting documentation directly from the subawardees.
- EDC did not maintain adequate documentation to support meal costs claimed on NSF Award Nos. ESI-0323098 and EHR-0335384. During our review of participant support costs and other direct costs, we found seven transactions totaling \$1,392 that were not supported by adequate documentation in the form of itemized receipts. This occurred because EDC did not have a formal policy which required itemized receipts for meal costs. As a result, EDC's lack of adequate supporting documentation increases the risk that some of the costs claimed by EDC may be unallowable, unreasonable, or not allocable to the NSF awards. We questioned \$1,392 of participant support and other direct costs, and, \$47 of associated indirect costs.
- EDC did not have controls over determining the reasonableness of meal costs charged to NSF Award No. ESI-0323098. During our review of participant support costs we found four transactions for \$2,999 for meal costs claimed for conferences that appear excessive. This occurred because EDC's current procedures did not include adequate provisions for determining reasonableness of meal costs associated with participant events. As a result, there is increased risk that some of the costs claimed by EDC may be unallowable, unreasonable, or not allocable to the NSF award. We questioned \$2,999 of participant support costs of which \$1,092 was previously questioned above. This is a repeat finding that was reported in NSF OIG Report No. 00-1-003 (dated March 27, 2000) where the auditors questioned \$44,509 in food costs associated with meetings and conferences that were determined to be unreasonable.

To address these compliance and internal control deficiencies, we recommend that your office direct EDC to (1) develop and implement a formal subaward monitoring plan to ensure that costs are reasonable, allowable, and allocable to the NSF awards; (2) ensure that claimed costs are supported with itemized receipts; and (3) revise its policies and procedures to document how reasonableness of meal costs on a per person basis is determined to ensure that claimed meal costs are not excessive and are in accordance with Federal travel requirements.

EDC concurred with the report findings and indicated that it was taking corrective actions to develop and implement a formal subaward monitoring program and ensure that claimed costs are supported with itemized receipts. EDC agreed that meal costs should be reasonable. However, EDC did not adequately address revising its policies and procedures to include a reasonableness determination for meals on a per person basis.

Given the systemic and continuing nature of these compliance and internal control deficiencies we believe the same deficiencies may exist under EDC's other 35 NSF awards, and if not corrected, will impact future NSF awards. Please coordinate with our office during the six month resolution period, as specified by OMB Circular A-50, to develop a mutually agreeable resolution of the audit findings. Also, 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 Director and Program Directors in Education & Human Resources (EHR) and the Director of the Division of Grants and Agreements (DGA). The responsibility for audit resolution rests with the Division of Institution and Award Support, Cost Analysis and Audit Resolution Branch (CAAR). Accordingly, we ask that no action be taken concerning the report's findings without first consulting CAAR at 703-292-8244.

#### OIG Oversight of Audit

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

- Reviewed Cotton & Company'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 Cotton & Company and NSF officials, as necessary, to discuss audit progress, findings, and recommendations;
- Reviewed the audit report, prepared by Cotton & Company to ensure compliance with Government Auditing Standards and the NSF OIG Audit Guide; and
- Coordinated issuance of the audit report.

Cotton & Company is responsible for the attached auditor's report on EDC and the conclusions expressed in the report. We do not express any opinion on the Schedules of Award Costs, internal control, or conclusions on compliance with laws and regulations.

We thank your staff for the assistance that was extended to our auditors during this audit. If you have any questions regarding this report, please contact me at 703-292-4989.

Attachment

cc: Joan Ferrini-Mundy, Division Director, EHR/DRL  
David Ucko, Deputy Division Director, EHR/DRL  
Janice Earle, Program Director, EHR/DRL  
Robert Gibbs, Program Director, EHR/DRL  
Michael Haney, Program Director, EHR/DRL  
Karen Tiplady, Director, DGA

**EDUCATION DEVELOPMENT CENTER, INC.**  
55 CHAPEL STREET, NEWTON, MASSACHUSETTS

NATIONAL SCIENCE FOUNDATION AWARD NUMBERS

ESI-0323098

EHR-0335384

ESI-0099093

ESI-0353368

FINANCIAL AUDIT OF FINANCIAL SCHEDULES AND  
INDEPENDENT AUDITORS' REPORTS  
FOR THE PERIOD OF  
SEPTEMBER 1, 2001 TO SEPTEMBER 30, 2007



Cotton & Company LLP  
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Alexandria, Virginia 22314

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## EXECUTIVE SUMMARY

An audit was performed on \$14,250,467 of federal costs claimed and \$517,830 in cost sharing claimed as reported on the September 30, 2007 Federal Cash Transactions Reports (FCTR) submitted to the National Science Foundation (NSF) by Education Development Center, Inc. (EDC) on NSF award numbers ESI-0323098, EHR-0335384, ESI-0099093, and ESI-0353368. EDC is an international non-profit organization that conducts and applies research to advance learning and promotes health. EDC was chosen for an audit because of the high dollar and number of NSF awards, the collaborative nature of many awards, the large amount of expended NSF funds, and the material internal control deficiencies reported in past OIG and OMB A-133 audits. Our audit determined that EDC has made significant improvements in financial administrative controls since the prior audits performed in years 1999 and 2004; however some additional improvements are still needed.

We found that except for \$3,346 (0.02% of \$14,250,467 in total claimed costs) in questioned participant support, other direct costs, and indirect costs the costs claimed by EDC under NSF award numbers ESI-0323098, EHR-0335384, ESI-0099093, and ESI-0353368, including subaward costs, appear fairly stated and are allowable, allocable and reasonable for the NSF awards.

Specifically, we questioned \$1,392 of meal costs and \$47 of associated indirect costs. EDC did not maintain itemized receipts or any other form of supporting documentation to adequately support meal costs charged as participant support costs and associated indirect costs to NSF Awards No. ESI-0323098 and EHR-0335384. In addition, we questioned \$2,999 of excessive and unreasonable meal costs charged to ESI-0323098, including \$1,092 that are questioned above. This issue was previously reported in NSF OIG Report No. 00-1-003 (dated March 27, 2000) where the auditors questioned \$44,509 in food costs associated with meetings and conferences that were determined excessive.

We also noted three compliance deficiencies of which the first was also an internal control deficiency in EDC's financial management practice. The latter two compliance deficiencies contributed to the questioned costs. Specifically:

- EDC did not perform adequate fiscal monitoring on subaward costs it charged to the National Science Foundation (NSF) awards to ensure that subawardee expenditures incurred and claimed were allowable, allocable, and reasonable. EDC does not have a formal plan for monitoring subawardees such as obtaining supporting documentation, performing site visits, or reviewing audit reports. EDC does not perform any analysis such as a risk assessment of its subawardees to determine which monitoring procedures should be performed for each subgrantee. EDC relies on the controls at the subawardees to ensure that subawardee costs are reasonable, allowable, and allocable to the NSF awards. As a result, EDC's internal controls over subaward costs provide no assurance that the expenditures incurred and claimed are accurate, valid, allowable, and adequately documented. Required routine subaward monitoring could prevent or identify unallowable claimed subaward costs. The four NSF awards included nine subawards

amounting to \$1.3 million or 9% of the total costs charged to the NSF awards. We validated claimed subaward costs by performing alternative audit tests, including obtaining supporting documentation directly from the subawardees.

- EDC did not maintain adequate documentation to support meal costs claimed on NSF Award Nos. ESI-0323098 and EHR-0335384. During our review of participant support costs and other direct costs, we found seven transactions totaling \$1,392 that were not supported by adequate documentation in the form of itemized receipts. This occurred because EDC did not have a formal policy, which required itemized receipts for meal costs. As a result, EDC's lack of adequate supporting documentation increases the risk that some of the costs claimed by EDC may be unallowable, unreasonable, or not allocable to the NSF awards. We questioned \$1,392 of participant support and other direct costs, and, \$47 of associated indirect costs.
- EDC did not have controls over determining the reasonableness of meal costs charged to NSF Award No. ESI-0323098. During our review of participant support costs, we found four transactions for \$2,999 for meal costs claimed for conferences that appear excessive. This occurred because EDC's current procedures did not include adequate provisions for determining reasonableness of meal costs associated with participant events. As a result, there is increased risk that some of the costs claimed by EDC may be unallowable, unreasonable, or not allocable to the NSF award. We questioned \$2,999 of participant support costs. This is a repeat finding that was reported in NSF OIG Report No. 00-1-003 (dated March 27, 2000) where the auditors questioned \$44,509 in food costs associated with meetings and conferences that were determined excessive.

EDC currently has approximately 35 additional NSF awards. While we did not assess the impact of these noncompliance and internal control deficiencies on those awards, we believe the same deficiencies may exist under those programs and, if not corrected, will impact future NSF awards.

To address these instances of compliance and internal control deficiencies, we recommend that the Director of NSF's Division of Institution and Award Support (DIAS), direct EDC to (1) develop and implement a formal subaward monitoring plan to ensure that costs are reasonable, allowable, and allocable to the NSF awards; (2) ensure that claimed costs are supported with itemized receipts; and (3) revise its policies and procedures to document how reasonableness of meal costs on a per person basis is determined to ensure that claimed meal costs are not excessive and are in accordance with Federal travel requirements..

The findings in this report should not be closed until NSF has determined that all the recommendations have been adequately addressed and the proposed corrective actions have been implemented. EDC's response will be included in its entirety in Appendix A.

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

EDUCATION DEVELOPMENT CENTER, INC.

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## **INTRODUCTION**

## BACKGROUND

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We audited funds awarded by the National Science Foundation (NSF) to EDC as follows:

Award Number	Award Period	Audit Period
ESI-0323098	10/01/03 – 09/30/08	10/01/03-09/30/07
EHR-0335384	10/01/03 – 09/30/08	10/01/03-09/30/07
ESI-0099093	09/01/01 – 02/28/07	09/01/01-02/28/07
ESI-0353368	07/01/04 – 06/30/08	07/01/04-09/30/07

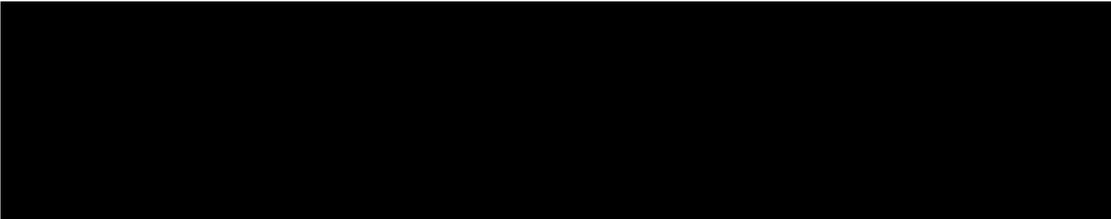
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EDC, as a Federal awardee, is required to follow the cost principles specified in Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*, and the Federal administrative requirements contained in 2 CFR–215-*Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations* (OMB Circular A-110 has been incorporated into 2 CFR 215).

EDC is an international, non-profit organization located in Newton, Massachusetts that conducts and applies research to advance learning and promotes health. EDC currently manages 335 projects in 50 countries.

NSF chose EDC for an audit because of the high dollar and number of NSF awards, the collaborative nature of many awards, the large amount of expended NSF funds, and the material internal control deficiencies reported in past OIG and OMB Circular A-133 audits, as follows:

- As of August 10, 2006, EDC had 35 active NSF awards totaling over \$59 million. Seventeen of the active awardees are funded at over \$1,000,000 each. Some of the active and pending proposals for NSF awardees include proposals involving collaborations (i.e. group of universities, non-profit organizations, and/or contractors working together on a common initiative with one or more of the organizations functioning as the coordinator of all financial administration) or sub-awards to or from other institutions funded by NSF. Collaborative awards often have high inherent audit risk concerns because of the challenges the awardees face to adequately monitor and account for NSF award funds. In addition, many of the collaborating parties have various administrative and financial systems in place, which may or may not have adequate internal control, authorization, communication, and award management processes in operation to ensure that the funds are spent in accordance with NSF and Federal requirements and in support of the NSF programs.

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EDC has made improvements in financial administrative controls since the 1999 and 2004 audits were performed. Some of the improvements made include establishing an Office of Sponsored Projects for overall management of EDC projects, hired key financial management personnel to strengthen financial controls and oversee fiscal operations, and, developed and implemented effective policies and procedures in areas where deficiencies were noted in prior audits.

Descriptions of the NSF awards we audited are as follows:

**ESI-0323098 – The Information Technology Experiences for Students and Teachers (ITEST) Resource Center.** NSF awarded ESI-0323098 to the ITEST Resource Center, for the period October 1, 2003 through September 30, 2008 in the amount of \$5,836,227. NSF funds will be used to establish the Learning Center to assist ITEST projects, both Youth and Comprehensive, in achieving goals. It provides help in implementing best practices and building on achievements to produce knowledge that can be shared among projects and to the broader community. The project goals include: to provide technical assistance opportunities, to address special needs of women, minorities, and underrepresented populations, studying effects of IT training in different environments, to develop ITEST as a primary source of information on IT in STEM education, outreach and building grantee technology to use IT as a tool for learning and to lead others. The award includes a subaward to Mathematica Policy Research Associates Inc (MPR) for \$ [REDACTED] and Learning Times for \$ [REDACTED].

Cumulative expenditures for award number ESI-0323098 reported to NSF through September 30, 2007 were \$4,515,073.

**EHR-0335384 – Leadership Content Knowledge and Mathematics Instructional Quality in the Math and Science Partnerships: A Study of Elementary and Middle School Principals.** NSF awarded ESI-0335384 to EDC for the period October 1, 2003 through September 30, 2008 in the amount of \$5,388,141. NSF funds will be used for a large scale research and technical assistance project that investigates elementary and middle school principals' knowledge of mathematics and beliefs about teaching and learning through the construct of leadership content knowledge and its effect on their practices of classroom observation and teacher supervision. It addresses topics of teacher retention, challenging courses and curriculum, and sustainability. The award includes subawards to the CNA Corporation for \$ [REDACTED] and to Temple University for \$ [REDACTED].

Cumulative expenditures for award number ESI-0335384 reported to NSF through September 30, 2007 were \$3,228,021.

**ESI-0099093 – Learning by Doing: A Mathematics Curriculum for Elementary School Children and Their Teachers.** NSF awarded ESI-0099093 to EDC for the period September 1, 2001 through February 28, 2007 in the amount of \$5,131,410, with a cost-sharing requirement of \$255,000. NSF funds will be used to provide a high quality mathematics curriculum aligned with national standards that promote student understanding and is acceptable to a wide range of elementary school teachers. The second purpose is to advance teachers' mathematical understanding as they teach and to accomplish this goal without the additional cost of extensive professional development, through the right kinds of curriculum materials that can help improve teachers' understanding of mathematics. The award will also establish the Learning Center to assist ITEST Youth and Comprehensive projects in achieving goals. The award includes approximately \$362,606 budgeted for consultants and subcontracts, an evaluation subcontract to SUNY Buffalo for \$██████████, and a subcontract to Western Michigan University to study the impact of math workshops in school for \$██████████.

Cumulative expenditures for award number ESI-0099093 reported to NSF through September 30, 2007 were \$5,130,722.

**ESI-0353368 – Connecting Science and Literacy Program: Professional Development Resources for Elementary Teachers.** NSF awarded ESI-0353368 to EDC for the period July 1, 2004 through June 30, 2008 in the amount of \$2,099,304. NSF funds will be used to develop nine multi-media professional development resources that will enhance PreK-8 teachers' understanding of how to employ instructional strategies from the field of literacy in developing student's scientific understanding. The budget for this award includes approximately \$455,040 in sub-award costs for program evaluation and literacy content. Program Evaluation is carried out by Leslie University's Program Evaluation and Research Group for \$180,000. Literacy Content for the project is performed by Tufts University Center for Applied Child Development for \$██████████. The planning, recording, and editing of educational video materials from elementary schools throughout the Boston area is carried out by David Smith Productions for \$██████████.

Cumulative expenditures for award number ESI-0353368 reported to NSF through September 30, 2007 were \$1,376,831.

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

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The objectives of our audit were to:

1. Determine the status of EDC's corrective actions related to OMB Circular A-133 audits for fiscal years 2003 through 2006, and determine whether conditions that resulted in questioned costs in a prior NSF OIG audit have been corrected.

2. Determine whether EDC's Schedules of Award Costs (Schedules A-1 to A-4) present fairly in all material respects, the costs claimed on the *Federal Cash Transactions Reports* (FCTR), and if the costs claimed, including cost share are in conformity with Federal and NSF terms and conditions.
3. Identify matters concerning instances of noncompliance with laws, regulations, and the provisions of the award agreement(s) pertaining to NSF awards and weaknesses in EDC's internal control over financial reporting that could have a direct and material effect on the Schedules of Award Costs (Schedules A-1 to A-4) and EDC's ability to properly administer, account for, and monitor its NSF awards.
4. Determine whether the costs incurred under subcontracts, awarded by EDC to David Smith Productions, Lesley University, Tufts University, The CNA Corporation, Temple University, MPR Associates, Learning Times, SUNY, and Western Michigan University are documented and allowable under the terms and conditions of the subcontract agreements, NSF and Federal regulations.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* (2007 Revision) issued by the Comptroller General of the United States, and the guidance provided in the *National Science Foundation OIG Audit Guide* (August 2007), as applicable. These standards and the NSF OIG Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether amounts claimed to NSF as presented in the Schedules of Award Costs (Schedules A-1 to A-4) are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules of Award Costs. An audit also includes assessing the accounting principles used and the significant estimates made by EDC, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

**INTERNAL CONTROLS AND  
COMPLIANCE**



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**INDEPENDENT AUDITORS’ REPORT ON  
 INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
 AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES  
 PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited costs claimed as presented in the Schedules of Award Costs (Schedules A-1 to A-4), which summarize financial reports submitted by EDC to the National Science Foundation (NSF) and claimed cost sharing for the awards and periods listed below and have issued our report thereon dated July 31, 2008.

Award Number	Award Period	Audit Period
ESI-0323098	10/01/03 – 09/30/08	10/01/03-09/30/07
EHR-0335384	10/01/03 – 09/30/08	10/01/03-09/30/07
ESI-0099093	09/01/01 – 02/28/07	09/01/01-02/28/07
ESI-0353368	07/01/04 – 06/30/08	07/01/04-09/30/07

We conducted our audit of the Schedules of Award Costs as presented in Schedules A-1 to A-4 in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (2007 revision), and the guidance provided in the *National Science Foundation OIG Audit Guide* (August 2007), as applicable.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the Schedules of Award Costs (Schedules A-1 to A-4) for the period September 1, 2001 to September 30, 2007, we considered EDC’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial schedule, but not for the purpose of expressing an opinion on the effectiveness of EDC’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of EDC’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of EDC's financial schedule that is more than inconsequential will not be prevented or detected by EDC's internal control. We consider the deficiency described below in Finding No. 1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules will not be prevented or detected by EDC's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe any of the findings noted below are material weaknesses.

## **COMPLIANCE WITH LAWS AND REGULATIONS AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether EDC's financial schedules are free of material misstatement, we performed tests of EDC'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 financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed three instances of noncompliance that are required to be reported under *Government Auditing Standards* and the *National Science Foundation OIG Audit Guide* and are described in Finding Nos. 1 through 3 below.

EDC's response to the findings identified in our audit are described after each finding and are included in its entirety in Appendix A. We have not audited EDC's response and, accordingly, we express no opinion on it.

## FINDINGS AND RECOMMENDATIONS

### Finding 1. Lack of Adequate Fiscal Monitoring of Subawardees

EDC did not perform adequate fiscal monitoring on subaward costs it charged to the National Science Foundation (NSF) awards to ensure that subawardee expenditures incurred and claimed were allowable, allocable, and reasonable. EDC does not have a formal plan for monitoring subawardees such as obtaining supporting documentation, performing site visits, or reviewing audit reports. EDC does not perform any analysis such as a risk assessment of its subawardees to determine which monitoring procedures should be performed for each subgrantee. Instead, EDC relies on the controls at the subawardees to ensure that subawardee costs are reasonable, allowable, and allocable to the NSF awards. As a result, EDC's internal controls over subaward costs provide no assurance that the expenditures incurred and claimed are accurate, valid, allowable, and adequately documented. Required routine subaward monitoring could prevent or identify unallowable claimed subaward costs.

2 CFR-215, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations* (OMB Circular A-110), Subpart C, Section .51(a), states:

*Recipients are responsible for managing and monitoring each project, program, subaward, function, or activity supported by the award.*

Further, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart D, Section 400(d.3) – Pass-Through Entity Responsibilities, states:

*A pass-through entity shall perform the following for the Federal awards it makes:... (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.*

During the award selection process, there is no verification of financial management systems or understanding subgrantee controls (such as review of annual audit reports or questionnaires). During the subaward process, Office of Sponsored Projects initiates a contract with the subgrantee; however, there is no verification of the adequacy of the subgrantee's financial management system (such as interviews, accounting system documentation, etc). During the performance period, EDC does not perform site visits, request sample supporting documentation (such as timesheets or other receipts), or compare rates per the award to rates shown on the invoice. Finally, during close out, there is no reconciliation or final review of claimed costs.

EDC's Project Management Handbook states that the Project Director reviews the invoices to be sure that the expenditures are correct, appropriate, provided for in the budget, and within subaward terms such as project periods. The Project Director's signature on an invoice signifies EDC's acceptance of the subawardee's services and the accuracy and allowability of the expenses invoiced. However, the Project Director does not receive any documentation to

support claimed costs, such as timesheets or receipts for direct costs in order to perform this review. The approved invoice is forwarded to the accounts payable department, where the project dates and mathematical accuracy are verified, along with ensuring program office approval. Therefore, no one in the program office or accounts payable reviews supporting documentation, such as timesheets and invoices, or verifies that other contract requirements for costs such as consultants, subsistence, travel, indirect costs are being met.

EDC could improve their subaward monitoring process by including a risk-based process to assess the risk of their subawards to determine the level of subawardee oversight necessary. They could also perform site visits or conduct other programmatic reviews to oversee the progress of ongoing work and review completed tasks; and, review A-133 audit reports, internal inspection programs, quality control reviews, and other types of compliance requirements of the subawardees. A formal subaward monitoring plan and routine subaward monitoring could prevent or identify unallowable subaward costs claimed for NSF awards.

EDC is an international, non-profit organization that currently manages 335 projects in 50 countries. Some of these projects include numerous subawards made to various organizations throughout the world. EDC's lack of adequate subawardee fiscal monitoring could lead to NSF funds being used for purposes other than those intended under EDC's NSF awards. The lack of adequate subawardee fiscal monitoring increases the risk that some subawardee costs claimed or cost-shared by EDC may be unallowable, unreasonable, or unallocable to NSF awards. Our audit procedures could not rely on EDC's controls to validate subaward costs included in the audit scope. The four NSF awards included nine subawards amounting to \$1.3 million or 9% of the total costs charged to the NSF awards. In order to validate the subaward charges we performed alternative audit tests, which included obtaining supporting documentation directly from the subawardees for the four awards. Claimed costs tested were supported as allowable and reasonable for the NSF awards.

### ***Recommendation 1:***

We recommend that NSF's Director of the Division of Institution and Award Support require EDC to develop and implement a formal subaward monitoring plan to ensure that costs are reasonable, allowable, and allocable to the NSF awards. The monitoring plan should include procedures such as desk reviews and site visits.

### **Awardee's Comments**

EDC agrees and will make improvements to its existing subaward monitoring process throughout the life cycle of the award in accordance with OMB Circulars A-110 and A-133 to ensure claimed costs are reasonable, allowable, and allocable.

### **Auditor's Response**

EDC's comments do not address the specific improvements to be made to its current subaward monitoring process. We recommend that NSF's Director of the Division of Institution and Award Support require EDC to submit a formal subaward monitoring plan for NSF approval. The monitoring plan should include the following:

- EDC's process for determining the amount of oversight necessary on each subaward;
- Specific procedures to be performed in desk reviews, site visits, and other monitoring activities;
- Corrective action plans for addressing deficiencies identified in monitoring; and
- Documentation to be retained as evidence of EDC's subaward monitoring.

This report finding should not be closed until NSF determines that the proposed corrective actions have been satisfactory implemented.

## **Finding 2. Insufficient Documentation to Support Claimed Meal Costs**

EDC did not maintain adequate documentation to support meal costs claimed on NSF Award Nos. ESI-0323098 and EHR-0335384. During our review of participant support costs and other direct costs, we found seven transactions totaling \$1,392 that were not supported by adequate documentation in the form of itemized receipts. This occurred because EDC did not have a formal policy which required itemized receipts for meal costs. As a result, EDC's lack of adequate supporting documentation increases the risk that some of the costs claimed by EDC may be unallowable, unreasonable, or not allocable to the NSF awards. We questioned \$1,392 of participant support and other direct costs, and, \$47 of associated indirect costs.

OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment A.2, Factors affecting allowability of costs, states that an award cost must be adequately documented to be allowable. Further, without itemized receipts, we could not determine EDC's compliance with NSF award requirements and OMB Circular A-122 requirements, such as the exclusion of alcoholic beverages from claimed costs.

Specifically, during our review of participant support and other associated direct costs, we found seven transactions for meal costs claimed for several conferences and business meetings related to program participants. Costs were only supported by either monthly credit card statements or the credit card receipt that only documents the total of the bill. These claimed costs were not supported by itemized receipts or any other form of documentation as support for the expenses incurred under the NSF awards as indicated below:

<b>Grant</b>	<b>Cost Category</b>	<b>Date</b>	<b>Description</b>	<b>Amount</b>
0323098	Participant Support	07/28/05	Dinner on trip to ITEST NECC conference	\$124
0323098	Participant Support	10/27/05	Dinner for meeting with project evaluator.	36
0323098	Other	10/27/05	Dinner for meeting with project evaluator.	36
0323098	Participant Support	02/22/06	Dinner for annual ITEST project meeting	1,092
0323098	Other	09/30/06	Working dinner with NSF program officer	35
0335384	Other	06/21/06	Breakfast meeting for TMI project meeting	22
0335384	Other	01/26/06	Lunch for Lessons on Learning training class	<u>47</u>
			Total	<b><u>\$1,392</u></b>

According to EDC representatives, even though EDC did not have a formal policy regarding itemized receipts for meal costs, EDC project staff were cognizant about the NSF's guidelines for meal expenses and alcohol and established project-based procedures covering any occasions where alcohol is ordered by participants during project-related events. The procedures include providing a cash bar during banquets, reviewing written guidelines in advance of project activities, and monitoring each other at various group events. In addition, EDC representatives stated that the working agenda for the Annual ITEST Summit Birds of Feathers dinner included instructions for handling alcoholic beverages purchased during the dinner. Per EDC, "Each group has a Learning Resource Center (LRC) staff member assigned-that person is responsible for meeting with participants, going to a restaurant and picking up the tab (please make sure alcohol is put on a separate bill paid by all who partake, as we cannot use Federal funds for alcohol)."

EDC did not initially have a policy for obtaining itemized receipts for meal costs. The current Controller identified a problem with a lack of itemized receipts shortly after his arrival in December 2005, and in 2006, he established an informal policy requiring itemized receipts for meal costs. This policy was formalized in 2007 when an accounts payable procedure requiring itemized receipts was issued.

Since EDC did not maintain sufficient documentation to support meal expenditures claimed within the audit period, there is no assurance that they are allowable, allocable, or reasonable in accordance with applicable Federal and NSF regulations. Therefore, we questioned \$1,392 of participant support and other direct costs and \$47 of associated indirect costs.

***Recommendation 2:***

We recommend that NSF's Director of the Division of Institution and Award Support require EDC to support claimed costs with proper supporting documentation including itemized receipts and other forms of proof for all NSF awards.

**Awardee's Comments**

EDC agrees with this recommendation, and a formal EDC-wide policy requiring itemized receipts for meal costs had already been established prior to commencement of this audit. EDC policy clearly reflects NSF guidelines for reimbursement of meal expenses.

**Auditor’s Response**

We consider EDC’s comments to be responsive to the recommendation.

This report finding should not be closed until NSF determines that the proposed corrective actions have been satisfactory implemented.

**Finding 3. Unreasonable Meals Costs Claimed**

EDC did not have controls over determining the reasonableness of meal costs charged to NSF Award No. ESI-0323098. During our review of participant support costs we found four transactions for \$2,999 for meal costs claimed for conferences that appear excessive when compared to Federal travel regulations. This occurred because EDC’s procedures did not include adequate provisions for determining reasonableness of meal costs associated with participant events. As a result, there is increased risk that some of the costs claimed by EDC may be unallowable, unreasonable, or not allocable to the NSF award. We questioned \$2,999 of participant support costs. This is a repeat finding that was reported in NSF OIG Report No. 00-1-003(dated March 27, 2000) where the auditors questioned \$44,509 in food costs associated with meetings and conferences that were determined excessive.

OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment A, A.3 Reasonable costs, states, a cost is reasonable in its nature or amount, if it does not exceed what would be incurred by a prudent person under the same circumstances. Further, National Science Foundation, Award and Administration Guide, Chapter V-Allowability of Costs, C.5. Meetings and Conferences states costs charged to NSF awards need to be reasonable.

Specifically, during our review of participant support costs, we found four transactions for meal costs claimed for several conferences that appear excessive when taking into account the number of attendees. The price per person of the four dinners ranged from \$36 to \$71 per person as indicated below:

<b>Grant</b>	<b>Cost Category</b>	<b>Date</b>	<b>Description</b>	<b>Amount</b>	<b>No. of Attendees</b>	<b>Price Per Person</b>
0323098	Participant Support	03/01/05	NSF Summit Dinner	\$509	14	\$36
0323098	Participant Support	03/02/06	ITEST PI Summit Meal	900	20	45
0323098	Participant Support	02/22/06	Dinner for Annual ITEST Project Meeting	1,092	21	52
0323098	Participant Support	03/31/05	ITEST Project Dinner	<u>498</u>	7	71
			<b>Total</b>	<b><u>\$2,999</u></b>		

EDC considered these costs reasonable because the costs were associated with the Birds of a Feather (BOF) dinners, an annual ITEST Summit activity approved by the NSF program officers responsible for the ITEST program. In addition, EDC budgets for the annual BOF dinners as a single banquet event for Summit participants with the understanding that each group's final bill can vary without exceeding the overall budget for this event. Since the EDC did not exceed its budget, EDC believes that costs were reasonable.

EDC attempts to minimize the cost of the meals by pre-selecting the restaurant venues. EDC's pre-selection process includes reviewing restaurant menus and eliminating any restaurants that are determined to be high cost. Other factors EDC considers when selecting a restaurant include shortest distance from the conference hotel, layout of restaurant and table sizes, participant dietary requirements, and, participant meal preferences. However, there are several factors involved in the selection process that EDC feels they do not have total control of such as various menu prices at the selected restaurants for ordering an appetizer, entrée, coffee, and desert; and, fixed fees and charges associated with large groups that can vary from restaurant to restaurant.

While EDC has established certain procedures to minimize the costs of meals, there is still a need for a policy that requires a reasonableness determination for meals on a per person basis for participant events. The policy should include provisions for determining the reasonableness of meal charges on a per person basis, and, a clear definition and understanding of the term reasonableness as it applies to meal costs for participant events.

Since EDC did not establish the reasonableness of meal expenditures claimed, there is no assurance that they are accurate, allowable, allocable, or reasonable in accordance with applicable Federal and NSF regulations. We questioned \$2,999 of unreasonable meal costs, of which \$1,092 were previously questioned in Finding 2.

### ***Recommendation 3:***

We recommend that NSF's Director of the Division of Institution and Award Support require EDC to revise its policies and procedures to document how reasonableness of meal costs on a per person basis is determined, and, provide guidance to program offices regarding the allowability and documentation requirements for meal costs for participant events.

### **Awardee's Comments**

EDC agrees, per OMB Circular A-122, costs should be reasonable in nature and amount, and should not exceed what a prudent person would pay under the same circumstances. Although, as stated in the report, we have instituted various vetting methods to ensure costs are reasonable, we will better publicize the policy to program offices.

### **Auditor's Response**

While EDC's comments are partially responsive to the audit recommendation, EDC did not address recommended policy changes for assessing and documenting the reasonableness of meal costs on a per person basis. We consider this policy guidance essential for EDC program offices' use in establishing and ensuring the allowability and reasonableness of meal costs for participant events. We recommend that the NSF Director of the Division of Institution and Award Support require EDC to revise its current policy to include this guidance.

This report finding should not be closed until NSF determines that the proposed corrective actions have been satisfactory implemented.

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

COTTON & COMPANY LLP

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July 31, 2008

**FINANCIAL SCHEDULES AND  
SUPPLEMENTAL INFORMATION**



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**INDEPENDENT AUDITORS’ REPORT ON FINANCIAL SCHEDULES**

We have audited the costs claimed by the Education Development Center (EDC) to the National Science Foundation (NSF) on the Federal Cash Transactions Reports (FCTRs) for the NSF awards listed below. In addition, we audited the amount of cost sharing claimed on NSF Award No. ESI-0099093. The FCTRs, as presented in the Schedules of Award Costs (Schedules A-1 to A-4), are the responsibility of EDC’s management. Our responsibility is to express an opinion on the Schedules of Award Costs (Schedules A-1 to A-4) based on our audit.

Award Number	Award Period	Audit Period
ESI-0323098	10/01/03 – 09/30/08	10/01/03-09/30/07
EHR-0335384	10/01/03 – 09/30/08	10/01/03-09/30/07
ESI-0099093	09/01/01 – 02/28/07	09/01/01-02/28/07
ESI-0353368	07/01/04 – 06/30/08	07/01/04-09/30/07

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (2007 revision), and the guidance provided in the *National Science Foundation OIG Audit Guide* (August 2007), as applicable. These standards and the *National Science Foundation OIG Audit Guide*, require that we plan and perform the audit to obtain reasonable assurance that the amounts claimed to NSF as presented in the Schedules of Award Costs (Schedules A-1 to A-4) are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules of Award Costs (Schedules A-1 to A-4). An audit also includes assessing the accounting principles used and the significant estimates made by EDC’s management, as well as evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion. The Schedule of Questioned Cost

Explanations (Schedule B) explains the \$3,346 (0.02%) of total claimed NSF funds that we have questioned as to their allowability under the award agreements. These questioned costs include unallowable participant support, other direct costs, and indirect costs.

Questioned costs are (1) costs for which documentation exists to show that recorded costs were expended in violation of laws, regulations, or specific award conditions, (2) costs that require additional support by the awardee, or (3) costs that require interpretation of allowability by the National Science Foundation – Division of Institution and Award Support (DIAS). NSF will make the final determination of cost allowability. The ultimate outcome of this determination cannot presently be determined. Accordingly, no adjustment has been made to costs claimed for any potential disallowance by NSF.

In our opinion, except for the \$3,346 of questioned NSF-funded costs, the Schedules of Award Costs (Schedules A-1 to A-4) referred to above present fairly, in all material respects, the costs claimed on the FCTRs for the period September 1, 2001 to September 30, 2007 in conformity with the provisions of the *National Science Foundation OIG Audit Guide*, *NSF Grant Policy Manual*, terms and conditions of the NSF award and on the basis of accounting described in the Notes to the Financial Schedules, which is a comprehensive basis of accounting other than generally accepted accounting principles. This schedule is not intended to be a complete presentation of financial position of EDC in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, and guidance provided in the *National Science Foundation OIG Audit Guide*, we have also issued a report dated July 31, 2008, on our consideration of EDC's internal control over financial reporting and our tests of EDC's compliance with certain provisions of laws, regulations, and NSF award terms and conditions and other matters. The purpose of that report is to describe the scope of our testing over internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

COTTON & COMPANY LLP



July 31, 2008

**Education Development Center  
National Science Foundation Award Number ESI-0323098  
Schedule of Award Costs  
(Interim)**

<b>Cost Category</b>	<b>Approved Budget</b>	<b>Claimed Costs (A)</b>	<b>Questioned Costs</b>	<b>Note Reference</b>
<b>Direct Costs:</b>				
Salaries & Wages	\$			
Fringe Benefits				
Equipment				
Travel				
Participant Support			\$3,159	B-1 & B-2
<b>Other Direct Costs:</b>				
Material & Supplies				
Publication				
Consulting				
Computer Services				
Subaward				
Other			<u>71</u>	B-1
<b>Total Direct Costs</b>	<b>\$4,624,478</b>	<b>\$3,578,733</b>	<b>\$3,230</b>	
<b>Indirect Costs</b>	<b><u>1,211,749</u></b>	<b><u>936,340</u></b>	<b><u>24</u></b>	<b>B-3</b>
<b>Total</b>	<b><u>\$5,836,227</u></b>	<b><u>\$4,515,073</u></b>	<b><u>\$3,254</u></b>	

(A) - The total claimed costs agrees with the total expenditures reported by EDC on the Federal Cash Transaction Report - Federal Share of Net Disbursements as of the quarter ended September 30, 2007. Claimed costs reported above are taken from the awardee's books of accounts.

See Accompanying Notes to this Financial Schedule.

**Education Development Center  
National Science Foundation Award Number EHR-0335384  
Schedule of Award Costs  
Interim**

<b>Cost Category</b>	<b>Approved Budget</b>	<b>Claimed Costs (A)</b>	<b>Questioned Costs</b>	<b>Note Reference</b>
<b>Direct Costs:</b>				
Salaries & Wages				
Fringe Benefits				
Equipment				
Travel				
Participant Support				
<b>Other Direct Costs:</b>				
Material & Supplies				
Publication				
Consulting				
Subawards				
Other			\$69	B-1
Total Direct Costs	\$4,367,369	\$2,659,148		
Indirect Costs	\$1,020,772	\$592,915	\$23	B-3
Program Income		(\$24,042)		
Total	\$5,388,141	\$3,228,021	\$92	

(A) - The total claimed costs agrees with the total expenditures reported by EDC on the Federal Cash Transaction Report - Federal Share of Net Disbursements as of the quarter ended September 30, 2007. Claimed costs reported above are taken from the awardee's books of accounts.

See Accompanying Notes to this Financial Schedule.

**Education Development Center**  
**National Science Foundation Award Number ESI-0099093**  
**Schedule A-3 – Schedule of Award Costs**  
**(Final)**

<b>Cost Category</b>	<b>Approved Budget</b>	<b>Claimed Costs (A)</b>	<b>Questioned Costs</b>	<b>Note Reference</b>
<b>Direct Costs:</b>				
Salaries & Wages				
Fringe Benefits				
Equipment				
Travel				
Participant Support				
<b>Other Direct Costs:</b>				
Material & Supplies				
Publication				
Consulting				
Subawards				
Other				
Total Direct Costs	\$3,921,164	\$3,894,003		
Indirect Costs	\$1,210,246	\$1,236,319		
Total	<u>\$5,131,410</u>	<u>\$5,130,722</u>		
Cost Sharing	<u>\$255,000</u>	<u>\$517,830</u>		

(A) - The total claimed costs agrees with the total expenditures reported by EDC on the Federal Cash Transaction Report - Federal Share of Net Disbursements as of the quarter ended September 30, 2007. Claimed costs reported above are taken from the awardee's books of accounts.

See Accompanying Notes to this Financial Schedule.

**Education Development Center  
National Science Foundation Award Number ESI-0353368  
Schedule A-4 – Schedule of Award Costs  
(Interim)**

<b>Cost Category</b>	<b>Approved Budget</b>	<b>Claimed Costs (A)</b>	<b>Questioned Costs</b>	<b>Note Reference</b>
<b>Direct Costs:</b>				
Salaries & Wages				
Fringe Benefits				
Equipment				
Travel				
Participant Support				
<b>Other Direct Costs:</b>				
Material & Supplies				
Publication				
Consulting				
Subawards				
Other				
Total Direct Costs	\$1,667,999	\$1,105,828		
Indirect Costs	<u>\$431,305</u>	\$287,703		
Program Income		<u>(\$16,700)</u>		
Total	<u>\$2,099,304</u>	<u>\$1,376,831</u>		

(A) - The total claimed costs agrees with the total expenditures reported by EDC on the Federal Cash Transaction Report - Federal Share of Net Disbursements as of the quarter ended September 30, 2007. Claimed costs reported above are taken from the awardee's books of accounts.

See Accompanying Notes to this Financial Schedule.

**SCHEDULE B**

**EDUCATION DEVELOPMENT CENTER INC.**  
**NATIONAL SCIENCE FOUNDATION AWARD NUMBERS**  
 ESI-0323098  
 EHR-0335384

Schedule of Questioned Cost Explanations  
 From September 1, 2001 to September 30, 2007

Note Reference	Amount Of Questioned Costs	Explanation of Questioned Costs
Note B-1	\$1,392	<p><b><u>Participant Support Costs and Other Costs</u></b>                      EDC claimed seven transactions where meal costs were not supported by itemized receipts. Without itemized receipts, we could not determine the allowability and reasonableness of the costs or EDC's compliance with NSF award requirements and OMB Circular A-122, including the requirements for alcoholic beverages. EDC did not have a policy for obtaining itemized receipts for meal costs and a policy was not formalized until 2007. (See Finding and Recommendation No. 2 in the <i>Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters.</i>)</p>
Note B-2	\$2,999 <sup>1</sup>	<p><b><u>Participant Support</u></b>                      EDC claimed four transactions where meal costs incurred during program dinners were unreasonable on a per person basis. EDC considered these costs reasonable because the costs were associated with the annual ITEST Summit activity approved by the NSF program officers and because the total costs of all the dinners did not exceed the overall budget for the event. (See Finding and Recommendation No. 3 in the <i>Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.</i>)</p>
Note B-3	47	<p><b><u>Indirect Costs</u></b>                      Questioned other direct costs in Note B-1 resulted in \$47 of questioned indirect costs.</p>

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<sup>1</sup> \$1,092 of costs questioned here were also questioned in Note B-1.

**SCHEDULE C**

**EDUCATION DEVELOPMENT CENTER INC.**  
 Summary Schedule of Awards Audited and Audit Results  
 From September 1, 2001 to September 30, 2007

**Summary of Awards Audited**

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
ESI-0323098	10/01/03 – 09/30/08	10/01/03-09/30/07
EHR-0335384	10/01/03 – 09/30/08	10/01/03-09/30/07
ESI-0099093	09/01/01 – 02/28/07	09/01/01-02/28/07
ESI-0353368	07/01/04 – 06/30/08	07/01/04-09/30/07

<u>Award Number</u>	<u>Type of Award</u>	<u>Award Description</u>
ESI-0323098	Grant	NSF funds will be used to establish the ITEST Learning Center. It assists ITEST projects, both Youth and Comprehensive, in achieving goals. It also provides help in implementing best practices and building on achievements to produce knowledge that can be shared among projects and to the broader community.
EHR-0335384	Grant	NSF funds will be used for a large scale research and technical assistance project that investigates elementary and middle school principals' knowledge of mathematics and beliefs about teaching and learning through the construct of leadership content knowledge and its effect on their practices of classroom observation and teacher supervision.
ESI-0099093	Grant	NSF funds will be used to provide a high quality mathematics curriculum aligned with national standards that promote student understanding and is acceptable to a wide range of elementary school teachers. In addition, the funds will be used to advance teachers' mathematical understanding as they teach without the additional cost of extensive professional development. The award will also establish the ITEST Learning Center to assist ITEST Youth and Comprehensive projects in achieving goals.
ESI-0353368	Grant	NSF funds will be used to develop nine multi-media professional development resources that will enhance PreK-8 teachers' understanding of how to employ instructional strategies from the field of literacy in developing students' scientific understanding.

**SCHEDULE C**

**EDUCATION DEVELOPMENT CENTER INC.**  
 Summary Schedule of Awards Audited and Audit Results  
 From September 1, 2001 to September 30, 2007

(Continued)

**Summary of Questioned Costs by Award**

<u>Award Number</u>	<u>Award Budget</u>	<u>Claimed Costs</u>	<u>Questioned Costs</u>
ESI-0323098	\$5,836,227	\$4,515,073	\$3,254
EHR-0335384	5,388,141	3,228,021	92
ESI-0099093	5,131,410	5,130,722	0
ESI-0353368	<u>2,099,304</u>	<u>1,376,831</u>	<u>0</u>
<b>Total</b>	<b><u>\$18,455,082</u></b>	<b><u>\$14,250,647</u></b>	<b><u>\$3,346</u></b>
<u>Cost Sharing</u>	<u>Award Budget</u>	<u>Claimed Costs</u>	<u>Questioned Costs</u>
ESI-0099093	\$ 255,000	\$ 517,830	\$0
<b>Total</b>	<b><u>\$ 255,000</u></b>	<b><u>\$ 517,830</u></b>	<b><u>\$0</u></b>

**Summary of Questioned Cost by Explanation**

<u>Category</u>	<u>Questioned Costs</u>	<u>Internal Controls</u>	<u>Non-Compliance</u>
Salaries and Wages	-	N/A	N/A
Fringe Benefits	-	N/A	N/A
Equipment	-	N/A	N/A
Travel	-	N/A	N/A
Participant Support	\$3,159	N/A	Yes
Material & Supplies		N/A	N/A
Publication	-	N/A	N/A
Consulting	-	N/A	N/A
Computer Services	-	N/A	N/A
Subcontractors	-	N/A	N/A
Other Direct Costs	140	N/A	Yes
Indirect Costs	47	N/A	Yes
Cost Sharing Shortfall	-	N/A	N/A

**SCHEDULE C**

**EDUCATION DEVELOPMENT CENTER INC.**  
Summary Schedule of Awards Audited and Audit Results  
From September 1, 2001 to September 30, 2007

(Continued)

**Summary of Non-Compliance and Internal Control Findings**

<b>Findings</b>	<b>Non-Compliance and/or Internal Control</b>	<b>Significant Deficiency</b>	<b>Material Weakness</b>	<b>Amount of Questioned Costs Affected</b>	<b>Amount of Claimed/ Incurred Costs Affected</b>
Lack of Adequate Fiscal Monitoring of Subawardees	Non-Compliance and Internal Control	Yes	No	\$0	\$1,341,536
Insufficient Documentation to Support Claimed Meal Costs	Non-Compliance and Internal Control	No	No	\$1,439	\$230,778
Reasonableness of Claimed Meal Costs	Non-Compliance and Internal Control	No	No	\$1,907	\$230,778

## EDUCATION DEVELOPMENT CENTER INC.

Notes to Financial Schedules  
From September 1, 2001 to September 30, 2007

### Note 1: Summary of Significant Accounting Policies

#### Accounting Basis

The accompanying financial schedules have been prepared in conformity with National Science Foundation (NSF) instructions, which are based on a comprehensive basis of accounting other than generally accepted accounting principles. Schedules A-1 through A-4 have been prepared by EDC from the Federal Cash Transactions Reports (FCTRs) submitted to NSF and EDC's accounting records. The basis of accounting utilized in preparation of these reports differs from generally accepted accounting principles. The following information summarizes these differences:

#### A. Equity

Under the terms of the award, all funds not expended according to the award agreement and budgeted 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. Inventory

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

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

#### Income Taxes

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

**EDUCATION DEVELOPMENT CENTER INC.**

Notes to Financial Schedules  
From September 1, 2001 to September 30, 2007

(Continued)

**Note 2: NSF Cost Sharing and Matching**

The following represents the cost share requirement and actual cost share as of February 28, 2007:

<u>Award Number</u>	<u>Cost Share Required</u>	<u>Actual Cost Share Provided</u>	<u>Over/(Under) Claimed</u>
ESI-0099093	\$255,000	\$517,830	\$262,830

**Note 3: Indirect Cost Rates**

<u>Fiscal Year</u>	<u>Indirect Cost Rate</u>	<u>Base</u>
01-02	%	Total Direct Costs excluding capital expenditures (buildings, individual items of equipment, alterations, renovations), participant support, and subawards.
02-03	%	
03-04	%	
04-05	%	
05-06	%	
06-07	%	

**APPENDIX A - AUDITEE'S COMMENTS  
TO REPORT**

**From:** [REDACTED]  
**Sent:** Wednesday, December 17, 2008 12:17 PM  
**To:** [REDACTED]  
**Subject:** NSF audit-EDC responses

[REDACTED]

I am attaching EDC's responses to be incorporated into the report.

Please let me know if you need anything else.

[REDACTED]

[REDACTED]  
[REDACTED]  
Education Development Center, Inc.  
55 Chapel Street  
Newton, MA 02458

[REDACTED]



***Recommendation 1:***

We recommend that NSF's Director of the Division of Institution and Award Support require EDC to develop and implement a formal subaward monitoring plan to ensure that costs are reasonable, allowable, and allocable to the NSF awards. The monitoring plan should include procedures such as desk reviews and site visits.

**Awardee's Comments**

EDC agrees and will make improvements to its existing subaward monitoring process throughout the life cycle of the award in accordance with OMB Circulars A-110 and A-133 to ensure claimed costs are reasonable, allowable, and allocable.

***Recommendation 2:***

We recommend that NSF's Director of the Division of Institution and Award Support require EDC to support claimed costs with proper supporting documentation including itemized receipts and other forms of proof for all NSF awards.

**Awardee's Comments**

EDC agrees with this recommendation, and a formal EDC-wide policy requiring itemized receipts for meal costs had already been established prior to commencement of this audit. EDC policy clearly reflects NSF guidelines for reimbursement of meal expenses.

***Recommendation 3:***

We recommend that NSF's Director of the Division of Institution and Award Support require EDC to revise its policies and procedures to document how reasonableness of meal costs on a per person basis is determined, and, provide guidance to program offices regarding the allowability and documentation requirements for meal costs for participant events.

**Awardee's Comments**

EDC agrees, per OMB Circular A-122, costs should be reasonable in nature and amount, and should not exceed what a prudent person would pay under the same circumstances. Although, as stated in the report, we have instituted various vetting methods to ensure costs are reasonable, we will better publicize the policy to program offices.

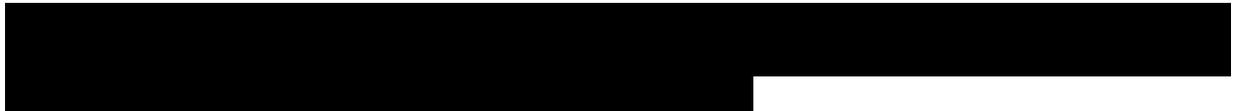
**APPENDIX B – PRIOR AUDIT FINDINGS**

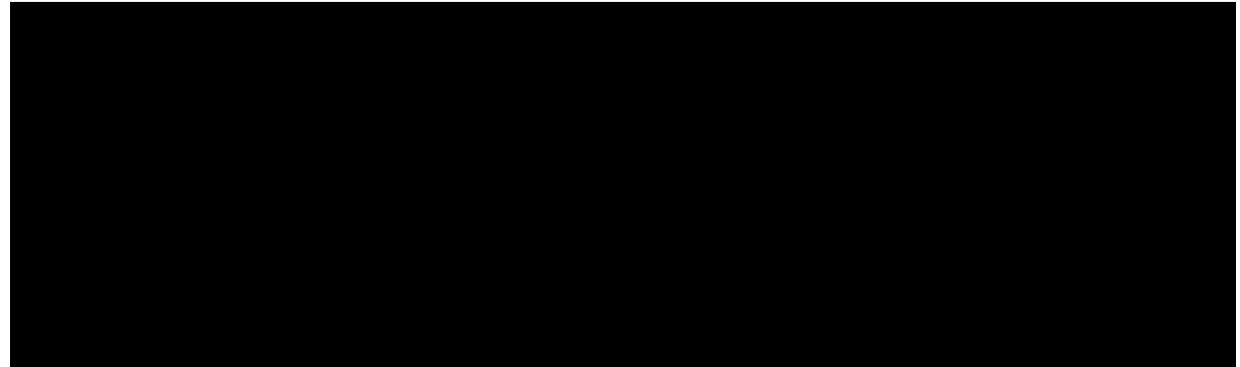
**PRIOR AUDIT FINDINGS**

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A prior NSF OIG audit report disclosed questioned costs for unnecessary meal costs, excessive lodging and travel costs, and unallowable subcontract costs. This audit report on NSF award numbers ESI-9254479, ESI-9550038, ESI-9617369, ESI-9617783, and ESI-9627091, issued by M.D. Oppenheim & Company P.C. for the period 08/01/93 through 06/30/99, identified two material findings for lack of supporting documentation and cost sharing deficiencies and questioned costs for excessive food at staff meetings and conferences, and unallowable subawardee costs.

- The previous audit report identified missing supporting documentation. In this audit, EDC provided supporting documentation for 194 of 196 sampled transactions. The total costs for the two transactions without supporting documentation equaled one dollar.
- The previous audit report identified weaknesses in verifying the value of third party cost sharing expenditures, particularly the participant support labor and related travel expenditures. EDC implemented the recommendation to add that verification step to their procedures. In this audit, cost sharing expenditures claimed for the award under our review did not include any third party expenditures.
- The previous audit report identified questioned costs for excessive food at staff meetings and conferences. EDC believed that the food costs questioned in the previous audit were not excessive. In this audit, sampled invoices pertaining to costs incurred for food at staff meetings and conferences were within the amounts budgeted per the grant. However, EDC claimed \$2,999 in meal costs that were unreasonable on a per person basis when taking into account the number of attendees. (See Finding and Recommendation No. 3 in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters*).
- The previous audit report identified unallowable subawardee costs. In this audit, sampled invoices pertaining to subcontract costs were ultimately found to be reasonable, allocable, and allowable. However, alternative audit procedures had to be performed to verify the subawardee costs, which included the auditors obtaining documentation from the subawardees. EDC did not perform adequate fiscal monitoring on subaward costs it charged to the NSF awards nor does it not have a formal plan for monitoring subawardee costs. (See Finding and Recommendation No.1 in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters*).





EDC has made improvements in financial administrative controls since the 1999 and 2004 audits were performed. These include:

- Establishing an Office of Sponsored Projects for overall management of EDC projects.
- Hiring key financial management personnel to strengthen financial controls and oversee fiscal operations, and,
- Developing and implementing effective policies and procedures in areas where deficiencies were noted in prior audits.

Specifically, EDC has established and implemented policies and procedure for account reconciliations. In addition, EDC hired a Controller who oversees the day-to-day accounting operations of the international accounting, compliance, accounts payable, and payroll functions. Allocation rates are established at the beginning of the year and are compared to the actual rates calculated at the end of the year. Any adjustments are made in the cost pool for the following year. Finally, EDC started using a journal entry log in 2005 to record all adjusting journal entries. EDC did not have any findings in its OMB Circular A-133 audit reports for fiscal years 2003, 2005, and 2006.

**APPENDIX C – EXIT CONFERENCE**

**EXIT CONFERENCE**

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We conducted an exit conference with EDC on December 3, 2008. We discussed preliminary findings and recommendations noted during the audit. Representing EDC were:

Name	Title
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

Representing Cotton & Company LLP were:

Name	Title
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

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