
**Geoff Haines-Stiles Productions, Inc.
27 Washington Valley Road
Morristown, NJ 07960
National Science Foundation
Award Number ESI-0229696
Survey and Internal Control Assessment Report**

For the Period April 1, 2003 to December 31, 2004

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

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For the Period
April 1, 2003 – December 31, 2004**





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EXECUTIVE SUMMARY

BACKGROUND

Geoff Haines-Stiles Production, Inc. (GHSPI) is a small for-profit production company specializing in science and technology for television, video, and the web. GHSPI, as an NSF awardee, is required to follow the cost principles specified by the Federal Acquisition Regulations (FAR), Part 31 – *Contract Cost Principles and Procedures*, and the Federal administrative requirements contained in Office of Management and Budget (OMB) Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*¹. As a for-profit entity, GHSPI is not subject to the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

On April 1, 2003, the National Science Foundation (NSF), Division of Elementary, Secondary, and Informal Education, awarded Grant No. ESI-0229696 in the amount of \$1,138,117 to GHSPI. For its first year funding, GHSPI received \$385,057. Subsequently on March 31, 2004, NSF released its second year funding in the amount of \$753,060. The award was due to expire on March 31, 2005; however, on September 22, 2005, NSF authorized a no-cost extension to March 31, 2006. Under this grant agreement, GHSPI agreed to cost share \$113,813.

The award was granted to fund production and distribution of multiple media and events related to the National Aeronautics and Space Administration (NASA) Mars Exploration Rover (MER) mission. The project, titled “To Mars with MER” consisted of 3 prime-time public television programs, scheduled to be broadcast to coincide with key events of the MER project: the day before the launch, the day before the landing, and the end of the mission. Although originally scheduled to end approximately 90 days after landing, as of December 31, 2004, the Mars rovers continued to operate more than 9 months after their anticipated end date. GHSPI continued to tape video segments in preparation for the production of the third television program.

¹ OMB Circular A-110 was recently codified in the Code of Federal Regulations at 2 CFR Part 215.

The television productions have examined various mission milestones, such as key engineering tests and landing site selections based on the scientific questions about Mars. The specials have been edited and distributed to science centers, planetariums, educational cable networks, and schools with satellite or high-bandwidth Internet connections. Passport to Knowledge (P2K), a project partner operated by GHSPI, has also provided customized resources for teachers and students and for the parents and families who have watched coverage of the mission on broadcast and cable. The materials from the project have been made available online at the P2K website.

NASA and NSF have both previously awarded grants to GHSPI. However, neither agency has audited any of the prior GHSPI grants. On March 19, 2003, GHSPI submitted to NSF an indirect cost proposal for the fiscal year ended September 30, 2002. The proposal showed a 10 percent indirect cost rate. NSF approved the 10 percent rate as a maximum provisional indirect cost rate for the "To Mars with MER" project award. However, NSF documentation indicated that GHSPI had not provided indirect cost rate proposals for fiscal years 2000, 2001, 2003, and 2004. Based on documentation we reviewed during the examination, neither NSF nor NASA, the cognizant agency for GHSPI, has approved a final indirect cost rate for any of the grant years. GHSPI has retained an accounting firm to provide accounting services and compile financial statements each fiscal year; however, those financial statements have not been audited.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The National Science Foundation (NSF) Office of Inspector General (OIG) engaged Leon Snead & Company, P.C. to examine Geoff Haines-Stiles Production, Inc.'s (GHSPI) system of internal control as of and for the 21 months ended December 31, 2004.

The objectives of the examination were to determine whether:

1. GHSPI's system of internal control over financial reporting was adequate to properly administer, account for, and report costs and cost sharing charged to the NSF award; and
2. GHSPI had an adequate accounting system in place to prepare the required indirect cost proposals for submission to NSF.

To accomplish the objectives of the audit, we:

- a. prepared a survey and internal control audit plan that included the proposed audit program and sampling methodology for performing the internal control survey;
- b. gained an understanding of GHSPI's policies and procedures and financial systems for administering and reporting on NSF awards;
- c. identified potential risks in GHSPI's operations for effectively administering NSF awards;

- d. tested GHSPI's significant internal controls to determine whether those controls were operating effectively to mitigate the identified risk; and
- e. conducted an on-site survey and internal control assessment to determine whether GHSPI's internal controls were adequate for GHSPI to properly administer, account for, and report costs and cost sharing on NSF awards.

These procedures were performed using inquiry, observation, and examination of pertinent documents. Fieldwork for the examination was conducted between January 31 and February 10, 2005. A description of the systems that GHSPI uses to administer, account for, and report costs and cost sharing for its NSF award can be found in Appendix A.

Our examination was conducted in accordance with *Government Auditing Standards*, (2003 Revision), issued by the Comptroller General of the United States, and attestation standards established by the American Institute of Certified Public Accountants.

SUMMARY OF AUDIT RESULTS

Based on the criteria of applicable federal cost principles, administrative requirements, and the specific requirements set forth in the grant award, we found that GHSPI maintained adequate internal control, in all material respects, over financial reporting as of and for the 21 months ended December 31, 2004, to properly administer, account for, and report costs and cost sharing on its NSF award. We also found that GHSPI's accounting system was adequate to prepare the required indirect cost proposals for submission to NSF.

However, we noted certain matters involving internal control and its operation that, if not addressed, could affect GHSPI's compliance on future awards. While we do not consider these findings to be material weaknesses, they are important and warrant corrective action by GHSPI. These findings are listed below and are described in greater detail in the Findings and Recommendations section of the Independent Accountant's Report.

- GHSPI's timekeeping policies and procedures did not provide for an adequate reconciliation between the timesheets and the labor distribution reports.
- GHSPI's policies and procedures did not include documenting justification for selection of family members to perform as subcontractors on the NSF award. Additionally, our review of subcontract agreements noted that GHSPI did not include all the applicable clauses and conditions in its subcontracts as required by NSF's grant agreement.
- GHSPI did not provide adequate documentation to support claimed participant support costs of \$7,691. Additionally, GHSPI claimed \$217 in unallowable costs

for alcoholic beverages. Accordingly, we questioned a total of \$7,908 of claimed costs.

GHSPI officials agreed with all the findings and recommendations in the report and reported that they have implemented corrective actions. However, the findings cannot be resolved until NSF verifies that the proposed corrective actions have been satisfactorily implemented and all recommendations have been adequately addressed. GHSPI's response has been summarized within the report and is included in its entirety in Appendix B.

EXIT CONFERENCE

An end of the fieldwork exit conference was held on February 10, 2005, at the offices of GHSPI in New Jersey.

Findings and recommendations contained in this report, as well as other observations were discussed with those attending.

Representing GHSPI was:

Name	Title
	

Representing Leon Sned & Company was:

Name	Title
Patricia Layfield	Audit Manager
Richard Dix	Senior Auditor

AUDIT FINDINGS AND RECOMMENDATIONS



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INDEPENDENT ACCOUNTANT'S REPORT

We have examined the adequacy of GHSPI's internal control over financial reporting for its NSF Award No. ESI-0229696 as of December 31, 2004, and for the 21 months then ended, based on OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*; Federal Acquisition Regulations (FAR) Part 31, *Contract Cost Principles and Procedures*; NSF Grant Policy Manual; NSF Grant General Conditions; and the specific requirements set forth in the grant award. GHSPI's management is responsible for maintaining adequate internal control over financial reporting. Our responsibility is to express an opinion on whether internal control is adequate to meet such criteria based on our examination.

Our examination was conducted in accordance with *Government Auditing Standards* (2003 Revision), issued by the Comptroller General of the United States of America, and attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal control over financial reporting, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We understand that the NSF considers the controls over financial reporting that meet the criteria referred to in the first paragraph above to be adequate for its purpose. In our opinion, based on this understanding and our examination, GHSPI maintained, in all material respects, adequate internal control over financial reporting for its NSF Award

No. ESI-0229696 as of and for the 21 months ended December 31, 2004, based on OMB Circular A-110, FAR Part 31, the NSF *Grant Policy Manual*, the NSF *Grant General Conditions*, and the specific requirements set forth in the grant award.

GHSPI also maintained, in all material respects, an adequate accounting system to prepare indirect cost proposals for submission to NSF.

In performing our examination of the internal controls of GHSPI, we noted certain matters involving internal control, described in the Findings and Recommendations section of this report, that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial reports. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that misstatements due to error or fraud in amounts that would be material in relation to the applicable grant or program might occur and not be detected on a timely basis by employees in the normal course of performing their assigned functions. Material weaknesses could also include conditions in which the lack of conformity with the regulatory agency's criteria is material in accordance with any guidelines for determining materiality that are included in such criteria. We do not consider the findings described below to be material weaknesses.

This report is intended solely for the information and use of GHSPI's management, the National Science Foundation, the Office of Management and Budget, and the Congress of the United States and is not intended to be and should not be used by anyone other than these specified parties.


Leon Snead & Company, P.C.
February 10, 2005

FINDINGS AND RECOMMENDATIONS

I. Timesheet and Labor Allocation Issues

GHSPI's time keeping policies and procedures did not provide for an adequate reconciliation between the timesheets and the labor distribution reports. The Federal Acquisition Regulations (FAR) Part 31 requires maintenance of records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles. Additionally, in an NSF correspondence dated March 12, 2003 to GHSPI, NSF requested that GHSPI establish an after-the-fact time and effort reporting system for cost accounting purposes. The time and effort report should be a contemporaneous document identifying all hours worked by project (including indirect cost codes).

At NSF's request, GHSPI implemented timesheet procedures to specifically identify the number of hours worked on each project. However, the link between projects listed on the timesheets and the labor costs GHSPI allocated to the various projects was not readily identifiable. GHSPI did not have policies and procedures to reconcile its labor allocations to the timesheets maintained or to document the basis used to distribute labor costs to each of the awards, including indirect cost allocations. GHSPI used percentages based on the fixed amount of salaries proposed in the budget for each award to distribute labor costs to the projects. However, based on our discussions with the management of GHSPI and our analysis of a sample of timesheets, we do not believe this finding resulted in unreasonable allocations to the NSF award during the period covered by our fieldwork. Nevertheless, GHSPI should ensure clear audit trails exist to evidence and support the basis for its labor allocations to various projects.

Recommendation No. 1

We recommend that NSF's Directors of the Division of Institution and Award Support (DIAS) and the Division of Grants and Agreements (DGA) work with GHSPI to improve its timekeeping and labor distribution systems. NSF should specifically work with GHSPI to:

- a. Develop policies and procedures to ensure that labor costs are charged to the awards consistent with the time recorded on timesheets; and
- b. Enhance timesheets to document how much time is allocated to each project so that a clear link is established between the labor allocations and the time recorded by project on timesheets.

GHSPI's Comment

During the subject award, GHSPI used timesheets, which had been pre-approved by NSF. The problem appeared to be that both [REDACTED], as principals

in GHSPI, were spending *more* time working on the subject award, in excess of that anticipated in the proposal and *beyond* the periods compensated by the grant. GHSPI committed to establishing a more appropriate time and effort reporting system for any and all future work.

Auditor's Response

GHSPI's comment is responsive to our recommendations. However, the finding cannot be resolved until NSF verifies that the proposed corrective actions have been satisfactorily implemented and all recommendations have been adequately addressed.

II. Subcontract Documentation Needed

GHSPI's policies and procedures did not include documenting justification for selection of family members to perform as subcontractors on the NSF award. In addition, GHSPI did not include all the applicable clauses and conditions in its subcontracts as required by NSF's grant agreement.

A. Related Party Subcontracts

FAR Part 31 states that professional and consulting services are those services rendered by persons who are members of a particular profession or possess a special skill and who are not officers or employees of the contractor. The Office of Management and Budget (OMB) Circular A-110, Part 42, requires recipients of Federal awards to maintain written standards of conduct governing the performance of its employees engaged in the award and administration of contracts. It states, "No employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved. Such a conflict would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected for an award."

During our transaction testing, we noted that GHSPI entered into a \$5,000 fixed-price subcontract with a family member for graphic/design work without disclosing the related party transaction in the proposal for the NSF award. We were not provided with other evidence of advance disclosure to NSF of the relationship of the individual awarded this subcontract. Further, GHSPI did not have any documentation to describe the basis for selection of the family member or to describe the cost or price analysis performed to justify the cost. GHSPI's written policies and procedures did not require such documentation. Our analysis indicated that the individual was qualified to do the work and delivered the required output at a cost that was consistent with the amount in the approved budget for this task, so we are not questioning the cost.

We also found other related party transactions that we are not questioning due to advance disclosure in the proposal. The PI and co-PI awarded subcontracts to themselves to perform producer/director tasks and were reimbursed at a rate higher than reflected in their salary levels as approved project directors. The proposal, however, explained that the PI and co-PI would be serving as producer/directors on the project. In addition, the costs for producer/director were listed under subcontracts in the proposal. They were reimbursed as subcontractors at typical guild rates for producer/director activities. Because of the advance disclosure in the proposal and documentation to justify the costs, we are not questioning the costs, but are reporting a technical noncompliance with the FAR. Additionally, subcontracts with and payments to family members can give the appearance of a conflict of interest, especially in the absence of advance disclosure to the NSF and documentation that records the basis for subcontractor selection.

B. Subcontracts Missing Some Applicable Clauses and Conditions

OMB Circular A-110 Part 44, *Procurement Procedures*, requires grantees to have written procurement procedures. Such procedures should include requirements to ensure contracts contain all of the federally mandated clauses and provisions. The NSF award letter stated that the proposed subcontracts were approved subject to inclusion of the appropriate provisions in Articles 8.a.3 and 9 of the NSF Grant General Conditions (GC-1). Section 8.a.3 of the GC-1 also requires 26 specific articles of the GC-1, when applicable to the subcontractor, to flow down to all subcontractors or to be addressed in the subcontractor instruments. The 26 articles listed in Section 8.a.3 include the articles found missing in subcontract agreements: Articles 5, 10, 17, and 19. In addition, the NSF Grant Policy Manual (GPM), section 601.2, also requires grantees to ensure subcontracts are subject to cost principles and procedures applicable to the subcontractor's type of organization (e.g. university, non-profit, etc.).

Two subcontracts, to Space Science Institute (SSI) and the Program Evaluation and Research Group (PERG) at Lesley University, did not contain all of the required and applicable clauses and conditions. For example, Lesley University proposed to use consulting services, but the subcontract issued by GHSPI did not contain Article 5 of the NSF grant conditions, which limits consultant fees to the daily equivalent of the current maximum rate paid to an Executive Schedule Level IV Federal employee. The Lesley University subcontract also did not contain Article 17, which restricts awardees' representations regarding NSF's association with and responsibility for information collection activities. Article 10 describing NSF travel requirements and Article 19, which defines and sets forth NSF policies regarding program income, were also not included in the subcontracts.

This condition occurred because GHSPI did not have written procurement procedures. As a closely held small business, GHSPI had always operated under informal procedures and management never perceived a need to formalize procedures because the two officers/owners of the corporation made all procurement decisions. As a result, GHSPI was not in full compliance with OMB Circular A-110 and some of the grant requirements. Not including the required clauses in subcontracts creates a potential risk of unallowable costs or underreported program income because the subcontractor may not know of the requirements. However, during our examination we did not note any claimed consultant fees over the current maximum rate or any other noncompliances that relate to the other missing clauses.

Recommendation No. 2

We recommend that NSF's Division Directors of DIAS and DGA ensure that GHSPI:

- a. Establishes written procedures to ensure that related party transactions are disclosed to the NSF and documented to preclude any appearance of a conflict of interest and ensure compliance with FAR requirements; and

- b. Establishes written procurement procedures that require that all federally mandated clauses and provisions be included in subcontracts to meet NSF and Circular A-110 requirements.

GHSPI's Comment

A. Related Party Subcontract

GHSPI acknowledged that any such work in the future must be (1) expressly noted in proposals, and/or (2) be formally disclosed to and approved by NSF. The company agreed to include language from OMB Circular A-110, Part 42, in company Procedures and Practices Manuals, and fully comply in all future work.

B. Subcontracts Missing Some Applicable Clauses and Conditions

Upon being informed that two subcontracts (to SSI and PERG) were missing certain required articles, GHSP drafted supplemental agreements embodying these and submitted them to both SSI and PERG for execution. SSI complied. PERG refused, despite repeated requests and explanations. As a result of a conversation GHSPI had with a representative of the NSF OIG, who indicated that there was no further need to insist on PERG's execution of the supplemental agreement, GHSPI did not pursue the matter of the existing contract any further. However, GHSPI committed to embodying all relevant articles in future subcontracts and in the corporate Procedures and Practices Manual.

Auditor's Response

We understand that PERG would not modify its subcontract because at the time of GHSPI's request the PERG subcontract had already ended. However, GHSPI assured us that all federally mandated clauses and provisions will be included in all future subcontracts. GHSPI's comments are responsive to our recommendations. However, the findings cannot be resolved until NSF verifies that the proposed corrective actions have been satisfactorily implemented and all recommendations have been adequately addressed.

III. Inadequate Documentation and Unallowable Costs Claimed

GHSPI did not provide adequate documentation to support claimed participant support costs of \$7,691. Additionally, GHSPI claimed \$217 in unallowable costs for alcoholic beverages. Accordingly, we questioned a total of \$7,908 of claimed costs. The following sections describe in detail the results of audit in this area.

A. Inadequate Documentation for Participant Support Costs

OMB Circular A-110 and the FAR require that the grantees maintain accounting records including cost accounting records that are supported by source documentation to demonstrate that costs have been incurred and are allocable to a particular Federal award.

In our non-statistical sample, we tested \$15,500 out of [REDACTED] of transaction dollars recorded in GHSPI's accounting records classified as participant support costs. We noted one inadequately supported transaction representing a subcontractor's invoice in the amount of \$7,691. The only support provided by the subcontractor, Space Science Institute (SSI), consisted of an invoice and a copy of the subcontractor's budget showing the estimated participant costs of \$7,436 for one of the budgeted events. The invoice summarized major cost elements but did not identify the event or subcontract deliverables to which the cost elements related. GHSPI did not require the subcontractor to include such support for invoices, although the agreement indicated that reports, receipts, and a summary invoice of actual expenses were necessary as a basis for payment.

As a result, we have questioned \$7,691 of costs claimed on the SSI invoice that we reviewed due to inadequate support. Based on the documentation available for this claimed amount, we were unable to verify independently that the claimed costs were reasonable, allowable, and related only to the NSF award activities.

B. Unallowable Costs Claimed

FAR Part 31 specifically states that costs of alcoholic beverages are unallowable. The NSF Grants Policy Manual, Section 625j states: "No federal funds may be spent on alcoholic beverages."

In a non-statistical sample, we tested four out of 30 travel vouchers. This sample represented [REDACTED] out of approximately [REDACTED] of the travel dollars claimed. We found one paid voucher with receipts showing the purchase of alcoholic beverages. The company official who reviewed and approved the travel voucher stated that the costs of alcoholic beverages are not claimed on NSF awards; however, the official did not notice the alcohol purchases, which were generally listed on receipts for meals. During our discussions, management demonstrated that they are well aware that alcohol beverages are expressly unallowable. As a result, we questioned costs of \$217, the total of alcoholic beverages claimed on the travel voucher we reviewed.

Recommendation No. 3

We recommend that NSF's Division Directors of DIAS and DGA ensure that GHSPI:

- a. Establishes and implements procedures to ensure that subcontractors provide sufficiently detailed documentation, such as receipts for expenses incurred, which

identify the events and subcontractor deliverables, and demonstrate that costs are reasonable, allowable, and related to the NSF award;

- b. Obtains additional documentation from SSI to (1) support the actual amount of participant support costs incurred and (2) identify the specific purpose or event to which the costs relate and the name of the participants supported;
- c. Recovers any of the \$7,691 participant support costs that were not reasonable and allowable under the applicable cost principles and grant requirements, and adjusts its accounting records and costs claimed under the NSF award accordingly.
- d. Develops a checklist of unallowable costs for use in reviewing vouchers to ensure that unallowable costs are not overlooked in the future; and
- e. Adjusts its accounting records and costs claimed under the grant for the \$217 in questioned costs.

GHSPI's Comment

A. Inadequate Support for Participant Support Costs Claimed

GHSPI pointed out that the agreement with SSI stated that "Payment shall be made by GHSP to SSI upon delivery by SSI and acceptance by GHSP of reports, receipts and a summary Invoice of actual expenses, and other Deliverables as itemized in the attached Statement of Work." Based on that statement, GHSPI believes that SSI was obligated to report details of expenses and has committed to enforcing that requirement for any and all subcontractors in future work.

GHSPI also requested additional support from SSI for the amount in question. SSI certified all but \$2,000 of the questioned expenses. GHSPI deducted the \$2,000 from a subsequent SSI invoice and reallocated the amount to the same category of expenses on the award for participant support expenses associated with subsequent educator workshops.

B. Unallowable Costs Questioned

The billing of \$217 for alcoholic beverages was an inadvertent bookkeeping error, was and is contrary to written company travel policies, and has been reversed and removed. GHSPI committed to reminding all staff, consultants, and subcontractors of NSF policies in this regard, and expressly committed to full compliance in any and all future work. With respect to recommendation 3d, GHSPI believes that the company's travel policies explicitly conform to NSF guidelines, and the amount in question has already been adjusted.

Auditor's Response

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

This report is intended solely for the information and use of GHSPI, NSF, the cognizant Federal agency for this examination, the OMB, 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.

APPENDIX A

SYSTEMS DESCRIPTIONS

Financial Accounting and Reporting on NSF Award Expenditures

GHSPI uses a small business accounting software package to record financial transactions. The accounting system contains sufficient codes to track assets, liabilities, equity, revenue, and expenses by class (project and funding source) and account code (salaries, travel, etc.). GHSPI management reviews accounts payable weekly to ensure that necessary payments have been made. Upon receipt of invoices, new payables are entered into the system with the applicable coding. The payroll service provider processes payroll biweekly and sends state and federal tax filings electronically. GHSPI management verifies payroll runs, and receives, signs, and distributes the payroll checks. GHSPI maintains timesheets to identify hours worked by project. Wages and taxes are allocated to funding sources and other cost objectives, using spreadsheets, and entered into the small business accounting software accounts. Receipts or invoices support purchases. Travel expenses are supported by expense reports, which must be filed within 15 days of the trip, and show the traveler's name, travel dates, and destination and purpose of the trip. Accounts payable, checking accounts, and credit card accounts are reviewed and reconciled monthly. Actual expenses are compared to the approved budgets on a monthly basis as well. GHSPI management reviews tax withholdings quarterly. The accounting service provider compiles financial statements at the end of each fiscal year. GHSPI provides the documents necessary for the preparation of the financial statements and reviews those statements annually.

Accounting and Tracking Cost Sharing Obligations

GHSPI maintains supplementary schedules by project year with a detailed list of cost sharing under the grant. The cost sharing generally represents unreimbursed costs borne by co-sponsors of events and activities related to the grant. GHSPI ensures that they receive documentation to support the amount of the cost-sharing provided by other entities. GHSPI's books and records indicate that as of December 31, 2004, they received \$249,755 in cost sharing in grant years 1 and 2. We tested and verified \$131,141 – the cost-sharing requirement for the entire grant was \$113,813.

Subcontractor Monitoring

GHSPI awarded a number of subcontracts. Most of the subcontracts were for short durations and for specific tasks; such as procuring the services of camera operators to film segments or film editors to prepare segments for programs. They also awarded 3 larger subcontracts for tasks of longer duration that are more continuous in nature. The 3 subcontracts were awarded to (1) the Program Evaluation and Research Group (PERG) at Lesley University to conduct external formative and summative evaluations of "To Mars with MER"; (2) Space Science Institute (SSI) for presenting workshops for educators and museum personnel and; (3) DePaul University to perform outreach activities. GHSPI

negotiated a final flat fee for the services of each. All three of the subcontracts were described in detail in the GHSPI proposal for the “To Mars with MER” project.

For the shorter duration subcontracts, GHSPI prepares a list of potential sources that is based on past experience with the subcontractors, recommendations from other professionals, etc. From the list of potential sources, GHSPI selects two to three best-qualified subcontractor candidates. They request and check references for each of these best-qualified candidates. If the candidates’ references show them to be qualified, GHSPI discusses the services needed and requests a price quote from each respective candidate. From the price quotes, GHSPI selects the best candidate based on both cost and qualifications. Additional negotiations are conducted in order to determine the terms of a flat-fee arrangement with the selected subcontractor.

GHSPI’s management works with and monitors its subcontractors’ performance on-site as the work is being performed and provides direction to subcontractors as needed. When the work is completed, GHSPI requests invoices to be submitted promptly, including any receipts for incidental costs. Through inquiry of management, we noted that GHSPI makes hotel, airfare, and other arrangements for its subcontractors and funds those costs directly rather than through reimbursement in an effort to control overall costs.

Internal Controls to Ensure that NSF Awards Are Properly Administered, Accounted for, and Monitored for Compliance with Requirements

GHSPI’s management is actively involved in grant performance, including, but not limited to financial controls, attendance at grant-funded events and, as producers of the television programming deliverables, on-site coordination of all aspects of production. GHSPI maintains an accounting system that contains accounts and related coding sufficient to record, process, summarize, and report on the financial status and activities at funding source, project, and corporate levels. The system enabled GHSPI to prepare an indirect cost proposal in NSF format during the fieldwork for this engagement. Although the company is very small, it achieves adequate separation of incompatible duties by outsourcing its payroll processing functions to a separate service provider, and having a CPA firm compile its financial statements.

GHSPI controls costs and compliance with Federal requirements by directly arranging and funding certain expenses, such as airline and hotel reservations for consultants, contractors, and event participants. Except for the two instances found where costs were questioned (for inadequate support documentation for participant support costs and for unallowable costs for alcoholic beverages, as discussed in the Findings and Recommendations section of the Independent Accountant’s Report), GHSPI reviews and approves expenses and subcontractor contracts and deliverables to ensure compliance with applicable requirements.

APPENDIX A

AWARDEE COMMENTS



★ passporttoknowledge.com

TO MARS WITH MER

LEON SNEAD AND COMPANY, P.C.
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Rockville, MD 20850

Dear Mr. [REDACTED],

Thank you for the opportunity to comment on the Draft report of your examination of GHSPI's work on NSF ESI-0229696, dated February 10th, 2005, mailed to us with a cover letter dated August 2nd, 2006. Since we were away on location from August 2nd through August 23rd 2006 inclusive, Ms. Layfield indicated you were willing to allow us an additional week to respond, which we appreciate.

In the Exit Interview of February 10th, 2005, Pat Layfield and Richard Dix indicated we would have the opportunity to comment on the Draft report before it was submitted to NSF. However we have already heard from [REDACTED] that there appear to be no issues of major concern, which seems to be borne out by the substance of your report. Nevertheless, this letter responds point-by-point to your Findings, and commits GHSP to conform to the letter and spirit of your Recommendations in all future work.

Most importantly, of course, we were glad to read that "GHSPI maintained adequate internal control, in all material respects, over financial reporting as of and for the 21 months ended December 31, 2004, to properly administer, account for, and report costs and cost sharing on its NSF award..." and that "GHSPI's accounting system was adequate to prepare the required indirect cost proposals for submission to NSF." We note that while we need to address certain technical issues, and take specific steps in respect of two improperly reported items, your summary concludes "We do not consider the findings described below (sic) to be material weaknesses." Following please find specific responses to your report.

Finding 1: Timesheet and Labor Allocation Issues

During the subject award, GHSPI used timesheets which had been pre-approved by NSF. Your staff, however, told us that we should more appropriately have been using a reporting system like those of university staff, for example, rather than hourly employees. The problem appears to be that both [REDACTED], as principals in GHSPI, were spending *more* time working on the

subject award, in excess of that anticipated in the proposal and *beyond* the periods compensated by the grant. We assume all PIs commit much more time to awards than are directly compensated, however we commit to establishing a more appropriate time and effort reporting system for any and all future work. GHSPI is pleased to read that “we ██████████ do not believe this finding resulted in unreasonable allocations to the NSF award during the period covered by our fieldwork.”

Finding II. Subcontract Documentation Needed.

A. Related Party Subcontract

Notwithstanding the fact that your staff found that “the individual was qualified to do the work and delivered the required output at a cost that was consistent with the amount in the approved budget for this task, so we are not questioning the cost”, GHSPI acknowledges that any such work in future must (1) be expressly noted in proposals, and/or (2) be formally disclosed to and approved by NSF. We will include language from OMB Circular A-110, Part 42, in company Procedures and Practices Manuals, and fully comply in all future work.

B. Subcontracts Missing Some Applicable Clauses and Conditions

Upon being informed that two subcontracts (to SSI and PERG) were missing certain required articles, GHSP drafted supplemental agreements embodying these and submitted them to both SSI and PERG for execution. SSI complied. PERG refused, despite repeated requests and explanations. However, ██████████ indicated that there was no further need to insist on PERG’s execution of this supplemental agreement, and GHSP therefore did not pursue this issue.

GHSPI commits (as recommended, your page 13) to embodying all relevant articles as cited in your report and/or otherwise applicable in all future subcontracts, and including them in the corporate Procedures and Practices Manual. However, as in other findings, we note that your report found that “during our examination we did not note any claimed consultant fees over the current maximum rate or any other non-compliances that relate to the other missing clauses.”

Finding III. Inadequate Documentation and Unallowable Costs Claimed

A. Inadequate Documentation for Participant Support Costs

There are two issues related to this finding: (1) “GHSPI’s policy did not require subcontractors to include support for invoices” (your page 13, para 3) and (2) “we have questioned \$7,691 of costs claimed on the SSI invoice that we reviewed due to inadequate support.”

As to (1), GHSPI’s agreement with SSI, executed as of 11/4/2003, reads as follows, emphasis added:

“Payment shall be made by GHSP to SSI upon delivery by SSI and acceptance by GHSP of reports, *receipts and a summary Invoice of actual expenses*, and other Deliverables as itemized in the attached Statement of Work.”

GHSPI believes SSI was obligated to report the details of expenses, and commits to expressly so obligating any and all subcontractors in future work.

As to (2), subsequent to your examination GHSPI went back to SSI and requested additional support for the amount in question. SSI certified that all but \$2,000 was appropriately expended on

participant support for a workshop at the Durango Children's Museum. GHSPI accordingly deducted \$2,000 from a later SSI invoice, and re-allocated these funds to participant support expenses associated with subsequent educator workshops.

In respect of your Recommendations 3a, 3b and 3c, GHSPI has already addressed the question of additional documentation, and resolved the questioned matter. Names of participants in the Durango workshop are on file.

B. Unallowable Costs Questioned

The billing of \$217 for alcoholic beverages was an inadvertent book-keeping error, was and is contrary to written company travel policies, and has been reversed and removed. GHSP commits to reminding all staff, consultants and subcontractors of NSF policies in this regard, and expressly commits to full compliance in any and all future work.

In respect of your Recommendations 3d, GHSPI travel policies explicitly conform to NSF guidelines, and the amount in question has already been adjusted.

We trust the above indicates that we are now in full compliance with all Findings and Recommendations resulting from your examination of our records. In the Exit interview and now in writing we are pleased your staff found that GHSPI "achieves adequate separation of incompatible duties by outsourcing its payroll processing functions... and having a CPA firm compile its financial statements..." and that with the exception of the two instances noted and responded to above, "GHSPI reviews and approves expenses and subcontractors' contracts and deliverables to ensure compliance with applicable requirements."

Immediately after the successful workshop and MARSAPALOOZA presentations in Raleigh, North Carolina, and while engaged in planning for the Detroit and Wichita events, we were nonetheless willing and able to comply fully with all requests for written documentation made by your staff during the ten days they spent at our offices, and in several face-to-face conferences, and are glad their report concludes (page 9) "We do not consider the findings described below to be material weaknesses."

Thank you for the opportunity to address your Draft report and its Preliminary findings. We expressly obligate ourselves to take whatever additional steps required to comply with your Recommendations, and to implement your suggestions and all relevant NSF policies in future work.

Yours very sincerely

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