

NORTH CAROLINA MUSEUM OF LIFE AND SCIENCES, INC.

433 Murray Avenue
Durham, NC 27704-0190

Financial and Compliance Audit of Actual Indirect Cost Rate Proposed for the Fiscal Year
Ended September 30, 2003

And

NATIONAL SCIENCE FOUNDATION AWARD NUMBERS

ESI-9627030
ESI-9909566
ESI-0307550

For the Period of November 1, 1996 to September 30, 2004

Financial Audit of Financial Schedules
and
Independent Auditors' Reports

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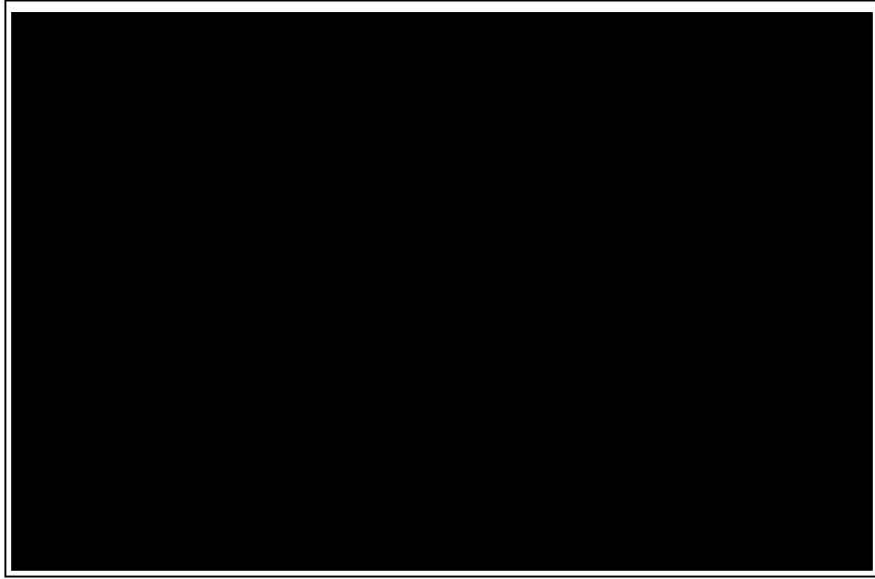


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Acronyms

CFO	Chief Financial Officer
DGA	Division of Grants and Agreements
DIAS	Division of Institution and Award Support
FCTR	Federal Cash Transactions Report
FTR	Federal Travel Regulation
FY	Fiscal Year
MDO	M.D. Oppenheim & Company, P.C.
MTDC	Modified Total Direct Cost
NCMLS	North Carolina Museum of Life and Science
NSF	National Science Foundation
OIG	Office of Inspector General
OMB	Office of Management and Budget

BACKGROUND

The North Carolina Museum of Life and Science, Inc. (NCMLS) is a non-profit, tax-exempt corporation that operates a museum in Durham, North Carolina showcasing aerospace, weather, geology, Carolina wildlife, and traveling exhibits. Of NCMLS's \$5.4 million of total expenditures for the year ending September 30, 2003, the Federal government funded \$678,057. The National Science Foundation (NSF) provided \$318,193 (or 47 percent) of the Federal financial assistance. From November 1, 1996 through September 30, 2004, NCMLS claimed \$2.6 million on three NSF awards. Funding and award dates for these grants are as follows:

	<i>BioQuest</i> ESI-9627030	<i>Easy as Pi</i> ESI-9909566	<i>Mystery Solved</i> ESI-0307550 ¹
NSF Funding	\$2,037,681	\$ 753,156	\$1,295,169
Cost Sharing	<u>1,442,240</u>	<u>521,394</u>	<u>129,516</u>
Total Project Costs	<u>\$3,479,921</u>	<u>\$1,274,550</u>	<u>\$1,424,685</u>
Award Effective Date	11/01/1996	03/01/2000	10/01/2003
Award Expiration Date	09/30/2006	08/31/2004	09/30/2006

Award (ESI-9627030) *BioQuest Woods: Linking Animals and Plants with Interactive Exhibits (BioQuest)* was to develop an outdoor exhibit that will communicate key ideas in biology and physics through combining live animals and plants in their natural settings. This project is being developed with the cooperation of the Austin Nature Center, the National Zoo, and the Indianapolis Zoo.

A second award (ESI-9909566) *Mathematics = Easy as Pi (Easy as Pi)* was to develop programs and exhibits to assist families, children, and teachers in understanding and appreciating mathematics. This award was part of a statewide project involving fifteen member museums of the North Carolina Grassroots Science Museum Collaborative.

The third award (ESI-0307550) *Mystery Solved (Mystery Solved)* was for a project to help visitors learn mathematics through exploring mysteries and adventures. This project consisted of mathematics exhibits and companion take-home materials. The *Mystery Solved* project is also a collaborative project of the North Carolina Grassroots Science Museum Collaborative and builds upon the successes of *Easy as Pi*.

NSF and NCMLS agreed to use two different types of indirect-cost rates on the three awards. In 1996, NSF provided NCMLS the *BioQuest* award with a provisional billing rate that could not exceed [REDACTED] and was in effect for the entire length of the award.² NSF provided NCMLS fixed indirect-cost rates³ of [REDACTED] for the *Easy as Pi* award in 2000 and

¹ Subsequent to our audit period, NSF funding on this award was increased to \$1,432,607 and cost sharing was increased to \$143,259 for total project cost of \$1,575,866.

² NSF refers to this provisional billing rate as a maximum provisional indirect-cost rate.

³ NSF refers to these fixed rates as predetermined indirect-cost rates.

██████████ for the *Mystery Solved* award in 2003. For purposes of charging indirect costs on the *BioQuest* award, the provisional billing rate allows NCMLS to initially charge the full ██████████ rate with the stipulation that it must adjust indirect charges to the actual indirect rate at the end of each fiscal year. Furthermore, NCMLS could only adjust the amount of indirect cost charges downward. In contrast, fixed indirect rates allow NCMLS to charge indirect costs on the *Easy as Pi* and *Mystery Solved* awards without having to adjust indirect cost charges to the actual year-end indirect rate. As a means of comparison, for FY 2003 NCMLS proposed an actual indirect cost rate of ██████████⁴

In accordance with NSF grant requirements, NCMLS is required to follow the requirements of Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations* (OMB Circular A-122) and OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations* (OMB Circular A-110).

⁴ NCMLS submitted its actual indirect cost rate for FY 2003 to NSF in July 2004.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

The NSF Office of Inspector General (OIG), requested M.D. Oppenheim & Company, P.C. (MDO) conduct an audit of NCMLS's methodology and processes for calculating its actual indirect cost rate of [REDACTED] for the year ended September 30, 2003. In addition, MDO audited the \$2.6 million of costs claimed under NSF award numbers ESI-9627030, ESI-9909566 and ESI-0307550 for the period November 1, 1996 through September 30, 2004. The audit objectives were: (1) to evaluate the methodology and processes that NCMLS used to calculate its actual indirect-cost rate for FY 2003 in order to finalize a rate for that year and assist NSF in negotiating a new indirect-cost rate agreement; (2) to determine whether NCMLS over or under-recovered indirect costs on the *BioQuest* award in FY 2003 based on MDO's review of the actual rate; and (3) to verify the allowability, allocability, and reasonableness of claimed costs for each award, particularly costs for subawards and cost sharing.

To accomplish the objectives of the audit related to indirect costs, MDO:

- Obtained an understanding and performed tests of controls over NCMLS's process to account for indirect costs and prepare its indirect-cost rate proposal submitted to NSF;
- Reconciled the costs included in the indirect-cost rate proposal to the audited FY 2003 financial statements and to the books of account;
- Performed substantive tests of transactions to determine if indirect cost pool amounts were allowable, allocable, reasonable, and properly supported;
- Reviewed the direct cost base to determine if it provided for an equitable distribution of indirect charges; and
- Compared the actual indirect-cost rate calculated by MDO with NCMLS's provisional rate to determine whether NCMLS over or under-recovered indirect costs on the *BioQuest* award in FY 2003.

To accomplish the objectives of the audit related to direct costs, MDO:

- Obtained an understanding and performed tests of controls over NCMLS's process to comply with Federal administrative requirements and to account for direct project costs including cost sharing;
- Reconciled the books of account for the three awards to the Federal Cash Transactions Reports (FCTRs) filed with NSF for the period November 1, 1996 to September 30, 2004;

- Reconciled the books of account for cost sharing with amounts claimed for the three awards during the period November 1, 1996 to September 30, 2004; and
- Performed substantive tests of transactions to determine if direct cost amounts and cost sharing amounts were allowable, allocable, reasonable, and properly supported.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* (June 2003, Revision) issued by the Comptroller General of the United States, and the *National Science Foundation Audit Guide* (September 1996), as applicable. Those standards and the guide required that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed to the NSF as presented in the *Schedule of Award Costs* (Schedules A) and *Schedule of Indirect Costs* (Schedule B), were free of material misstatement. The audit therefore included examining, on a test basis, evidence supporting the amounts and disclosures in the *Schedule of Award Costs* (Schedules A) and *Schedule of Indirect Costs* (Schedule B). This audit also involved assessing the accounting principles used and significant estimates made by NCMLS, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

SUMMARY OF AUDIT RESULTS

We identified a material weakness in the controls over NCMLS's calculation of its indirect cost rate for the year ending September 30, 2003. Correcting inaccuracies in the rate calculation necessitated audit adjustments and eliminations to the indirect cost pools of [REDACTED] and additions to the direct cost base of [REDACTED]. These adjustments significantly reduced the proposed actual indirect cost rate from [REDACTED] to [REDACTED]. The lower indirect cost rate should enable NSF to significantly reduce the amount of funds it provides to NCMLS for indirect activities on future awards. Differences in the amounts proposed by NCMLS compared to those validated by the audit are shown in the *Schedule of Indirect Costs* (Schedule B) and are summarized below:

FY 2003	Proposed Costs	Auditor Adjustments	Audit Recommended Costs
Indirect Costs:	[REDACTED]		
Administrative Expenses			
Facilities Expenses			
Total Indirect Expenses			
Direct Costs			
Indirect Cost Rate			

The lower indirect cost rate determined by the audit did not result in significant questioned costs because two of the awards had fixed indirect cost rates and the third award for *BioQuest* incurred a small amount of direct costs during FY 2003 to apply to the audit-recommended indirect rate. However, the audit results should assist NSF in establishing a more accurate and lower indirect cost rate for future NCMLS awards. For example, had NSF been aware that NCMLS's actual rate in 2003 was [REDACTED] percent, NSF could have reduced its indirect cost funding by [REDACTED] on *Mystery Solved*.

The following is a brief description of the internal control and compliance issues identified in the audit, including those that contributed to the overstatement of the indirect cost rate. For a complete discussion of these 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*.

Material Weakness in Development of Indirect Cost Rate

OMB Circular A-122 provides the criteria for allowability and allocability of indirect costs allocated to Federal awards. In addition, OMB Circular A-110 provides the requirements for an adequate financial management system, for example the requirement that awardees have written procedures that ensure only reasonable, allocable, and allowable costs are charged to Federal awards. However, NCMLS did not comply with several of the requirements of

OMB Circular A-122 and did not have adequate written procedures for the preparation of its FY 2003 actual indirect cost rate. Specifically, NCMLS incorrectly included duplicate costs of \$161,393, direct costs of \$37,527, and other questionable indirect costs of \$86,273 in the indirect cost pools and improperly excluded \$329,240 of direct costs from the direct cost base. These adjustments to the pools and the base resulted in NCMLS overstating the indirect cost rate by nearly [REDACTED] points.

Reportable Conditions

We also identified four reportable conditions that, if corrected, could greatly improve the reliability of NCMLS's costs and management over NSF grant funds.

- OMB Circular A-110 requires that awardees have verifiable data to support its claimed cost sharing and use actual pay rates to value cost sharing paid to employees of outside organizations. However, for 12 of the 22 cost sharing transactions we tested for *Easy as Pi* and *Mystery Solved*, NCMLS used a fixed labor rate as opposed to the actual pay rates for employees of outside organizations. NCMLS did not have documentation in its files showing the actual pay rates but based on other audit procedures, including interviews, we believe the fixed rates used were lower than the actual pay rates, and therefore cost sharing claimed by NCMLS was probably under-valued. Furthermore, NCMLS did not claim the fringe benefits on the salaries of the employees from outside organizations as allowed by OMB. Therefore, while we are not questioning any of the amounts claimed for cost sharing, nonetheless, NCMLS should keep documentation in its files that fully support all cost sharing claimed including salaries contributed from outside organizations.
- Although NCMLS has a policy requiring its employees to record actual time worked by activity as necessitated by OMB Circular A-122, three out of the eleven employees charged to NSF awards did not comply. The timesheets for two supervisors and one administrative staff person were preset to automatically charge a percentage of time to direct and indirect cost centers. While we found no evidence that time charged for these employees was materially misstated, NCMLS should better ensure that all employees follow its timekeeping policy.
- OMB Circular A-122 requires that fringe benefits be claimed in proportion to the relative amount of time or effort actually devoted to the award. However, NCMLS charged authorized absences such as annual and sick leave, directly to NSF awards without a process to ensure those costs are equitably allocated to all of NCMLS's other projects and activities. Since employees who charged the cost of leave to NSF grants during the period of our audit all worked 100 percent of their time on an NSF award, the impact to NSF was negligible. Nevertheless, a process for properly allocating the cost of leave, perhaps through the use of a fringe benefit

rate, is needed to comply with OMB guidance and will be essential if NCMLS employees work on more than NSF awards.

- At FYE 2003, NCMLS had [REDACTED] million in fixed assets of which approximately [REDACTED] million were assets purchased with Federal funds. Federal regulations require grantees to distinguish its Federal from non-Federal fixed assets and conduct a physical inventory of both sets of assets every two years. However, NCMLS did not employ such processes to distinguish or keep track of its Federal and non-Federal assets, resulting in not only risk to its physical security, but also a \$17,871 indirect cost pool overstatement.

The issues noted occurred because NCMLS lacked an adequate understanding of Federal grant regulations and did not have adequate policies and procedures related to indirect cost proposal preparation. In addition, there was a significant change in personnel at NCMLS during FY 2003. Most notably, the current Vice President of Administration/CFO, who is solely responsible for developing the indirect cost rate proposal, had just begun with NCMLS in January 2003.

To address these internal control and compliance findings, we recommend that the Directors of NSF's Division of Institution and Award Support (DIAS) and the Division of Grants and Agreements (DGA) direct NCMLS to obtain training in Federal cost principles (including preparation of indirect cost proposals) and develop written policies and procedures for charging indirect costs compliant with Federal guidelines and requirements. Furthermore we recommend NCMLS improve its controls over cost sharing, timekeeping, and fixed assets.

Summary of Awardee Responses:

NCMLS generally agreed with the findings relating to the lack of adequate documentation of in-kind contributions, the lack of understanding of time keeping based on actual activity, the lack of a methodology for proper allocation of compensated absences, and improper accounting for fixed assets. NCMLS also agreed with the deficiencies we cited related to its indirect cost proposal process. However, management disagreed with [REDACTED] of the audit adjustments to the pool and [REDACTED] of the adjustments to the base and provided additional documentation with its response in support of its position. A copy of NCMLS's response to the draft audit report is included in its entirety as Appendix A of this report.⁵

Summary of Auditor's Comments to Awardee Responses:

We reviewed the additional documentation submitted and then had further discussions with the awardee concerning each adjustment in question. As a result, the auditor and awardee were able to reach agreement on the questioned amounts, and the final report has been revised to reflect all the adjustments to the audit recommended indirect cost rate as agreed to

⁵ The attachments referenced in the awardee's response letter are included in our workpapers and available from the OIG.

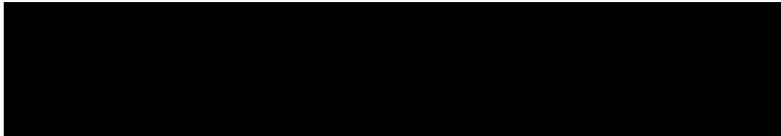
by both parties.⁶ Specifically, the current recommended adjustment to the indirect cost pool is [REDACTED] a decrease of [REDACTED] from the [REDACTED] originally questioned in the draft report. We decreased the questioned pool costs because NCMLS provided information showing that several of the questioned amounts had been removed from the pool prior to the audit. The recommended additions to the direct cost base are [REDACTED] a decrease of [REDACTED] from the [REDACTED] originally recommended. NCMLS provided information showing that the [REDACTED] should not have been included in the base. Appendix C contains a schedule with more detailed information on the differences between the audit adjustments in the draft and final audit reports.

⁶ The attachments referenced in the awardee's letter are included in our workpapers and are available from the OIG.

EXIT CONFERENCE

An exit conference was held on Friday, September 2, 2005. Findings and recommendations as well as other observations contained in this report were discussed with those attending.

Representing the North Carolina Museum of Life and Science



Representing M.D. Oppenheim

Nancy Davis, Partner
Dave Karakashian, Audit Manager
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Tarun Handa, Staff Accountant

AUDIT REPORTS

AND

FINDINGS AND RECOMMENDATIONS

National Science Foundation
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INDEPENDENT AUDITORS' REPORT ON FINANCIAL SCHEDULES

We have audited the costs claimed by the NCMLS to the NSF on the FCTR – Federal Share of Net Disbursements for the NSF awards listed below. In addition, we audited cost sharing claimed on the awards. The FCTR, as presented in the *Schedules of Award Costs* (Schedules A-1 to A-3) are the responsibility of NCMLS management. Our responsibility is to express an opinion on the *Schedules of Award Costs* (Schedules A-1 to A-3) based on our audit.

Award Number	Award Period	Audit Period
ESI-9627030	November 1, 1996 to September 30, 2006	November 1, 1996 to September 30, 2004
ESI-9909566	March 1, 2000 to August 31, 2004	March 1, 2000 to August 31, 2004
ESI-0307550	October 1, 2003 to September 30, 2006	October 1, 2003 to September 30, 2004

We also audited the indirect cost rate NCMLS proposed as applicable to Federal awards for the year ended September 30, 2003. The results of the indirect cost rate audit are presented in Schedule B.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* (June 2003 Revision) issued by the Comptroller General of the United States, and the *NSF Audit Guide* (September 1996), as applicable. Those standards and the *NSF Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed to NSF as presented in the *Schedules of Award Costs* (Schedules A-1 to A-3), 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-3). An audit also includes assessing the accounting principles used and significant estimates made by NCMLS management, as well as evaluating the overall financial schedules presentation. We believe that our audit provides a reasonable basis for our opinion.

National Science Foundation
Office of Inspector General

The accompanying financial schedules were prepared to comply with the requirements of the *NSF Audit Guide* as described in the notes to the financial schedules, and are not intended to be a complete presentation of NCMLS' financial position in conformity with accounting principles generally accepted in the United States of America.

The *Schedule of Indirect Costs* (Schedule B) presents costs totaling \$305 that is questioned as to their allowability under NSF award number ESI-9627030. Questioned costs are (1) costs for which there is documentation that the recorded costs were expended in violation of the laws, regulations or specific conditions of the award, (2) costs that require additional support by the awardee, or (3) costs that require interpretation of allowability by DIAS. NSF will make the final determination as to whether such costs are allowable. The ultimate outcome of this determination cannot presently be determined. Accordingly, no adjustment has been made to costs claimed for any potential disallowance by NSF.

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

In our opinion, except for \$305 of questioned costs on NSF award ESI-9627030, the *Schedules of Award Costs* (Schedules A-1 to A-3) referred to above present fairly, in all material respects, the costs claimed by NCMLS on the Federal Cash Transactions Reports – Federal Share of Net Disbursements and cost sharing claimed for the period November 1, 1996 to September 30, 2004 and the indirect cost rate for the year ended September 30, 2003, in conformity with the *NSF Audit Guide*, *NSF Grant Policy Manual*, and the terms and conditions of the awards and on the basis of accounting described in the notes to the financial schedules.

In accordance with *Government Auditing Standards* and the provisions of the *NSF Audit Guide*, we have also issued a report dated April 13, 2006 on our tests of NCMLS' compliance with certain provisions of laws, regulations, the NSF award terms and conditions, and our consideration of NCMLS' internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

August 5, 2006

National Science Foundation
Office of Inspector General
4201 Wilson Boulevard
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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 audited the costs claimed as presented in the *Schedules of Award Costs* (Schedules A-1 to A-3) and the indirect cost rates (Schedule B), which summarizes the financial reports submitted by the NCMLS to the NSF, the indirect costs claimed, and claimed cost sharing, for the awards listed below and have issued our report thereon dated August 5, 2006.

Award Number	Award Period	Audit Period
ESI-9627030	November 1, 1996 to September 30, 2006	November 1, 1996 to September 30, 2004
ESI-9909566	March 1, 2000 to August 31, 2004	March 1, 2000 to August 31, 2004
ESI-0307550	October 1, 2003 to September 30, 2006	October 1, 2003 to September 30, 2004

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, and the *NSF Audit Guide* (September 1996), as applicable.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered NCMLS' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide an opinion on the internal control over financial reporting. However, we consider certain matters involving internal control over financial reporting and its operation to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect NCMLS' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial schedules. Findings one through five are reportable conditions and are presented in the Findings and Recommendations section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described previously, we consider Finding No. 1 to be a material weakness.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether NCMLS' financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the NSF award terms and conditions, noncompliance with which could have a direct and material effect on the determination of the financial schedules 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 disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and the *NSF Audit Guide*. See Findings Nos. 1 and 2 presented in the Findings and Recommendations section of this report.

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

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

August 5, 2006

Material Compliance Deficiency

Finding No. 1 – Indirect Cost Proposal Deficiencies

Several instances of non-compliance with OMB Circular A-122 occurred in the preparation of NCMLS’s FY 2003 actual indirect cost rate. Specifically, we removed [REDACTED] from the indirect cost pool consisting of [REDACTED] of duplicate costs, incorrect inclusion of direct costs of [REDACTED], and other questionable costs of [REDACTED]. We also added improperly excluded direct costs of [REDACTED] to the direct cost base. The overall impact of the adjustments to the indirect cost pools and the direct cost base reduced the FY 2003 actual indirect cost rate from [REDACTED] percent to [REDACTED] percent.

Duplicate costs included in indirect cost pools

Certain costs allocated or transferred to eight of the 14 direct cost centers were improperly included in the Administrative indirect cost pool, as follows:

			Table 1
Cost Center	Amount	Description	
303 <i>BioQuest Woods</i>	\$ 7,747	NSF Award	
304 <i>Easy as Pi</i>	38,290	NSF Award	
305 IMLS	28,774	Library Youth Partnership Grant – a collaboration of Museum, Library and Public Schools that builds on the Museum’s Youth Partner Program	
313 Explore It!	23,485	Science Investigations in Out-of-School Programs.	
314 Discovery	31,786	Discovery in Motion Grant – a collaboration among Museum, Library and Public Schools to create service-learning opportunities for inner city teens and deliver science and reading programs to elementary school children.	
315 ED-FIE	14,292	US Department of Education award	
340 21 st Century YP	8,174	Grant awarded to Durham Public Schools. NCMLS is a subgrantee.	
342 21 st Century 3	8,845	A continuation and expansion of the Durham Public Schools grant above.	
Total	\$ 161,393		

These costs represent the allocated portion of indirect costs to the centers and other transferred or assigned costs. However, the entries to record the allocations or transfers were recorded as an increase to expense and revenue rather than a reclassification of costs from the indirect cost pools to direct cost centers. There is no effect to the financial statements, but there is a significant effect to the indirect cost rate because the pool costs are increased by the duplicate costs of [REDACTED].

Direct costs accounts included in pools

In addition to costs associated with direct cost centers, NCMLS improperly included several direct cost line items in the Administrative and Facilities indirect cost pools. We identified the following general ledger accounts, which contained direct costs:

Table 2		
Account Name	Amount	Description of direct cost
Volunteer programs account	\$ [REDACTED]	Incidental expenses relating to operation of Volunteers program, including meals and entertainment, communications, dues. Volunteers primarily support program activities (exhibits, education) (entire account)
Explorastore purchases account	[REDACTED]	Purchases for gift store are direct cost (entire account)
Railroad maintenance account	[REDACTED]	Train and railroad is a specific project (entire account)
MasterCard/Visa bank charges account	[REDACTED]	Bank fees charged for processing credit card receipts for admissions to exhibits and gift store sales, which are direct charges relating to services provided to the public (entire account)
Maintenance account	[REDACTED]	Transactions relating to train maintenance
Insurance account	[REDACTED]	Transactions relating to train insurance
Total	\$ [REDACTED]	

The direct costs in these general ledger accounts total \$37,527, which is 3% of the total indirect cost pools.

Other questionable costs

During our audit of the indirect cost pools we also removed an additional \$86,273, which are delineated in the following table below:

Table 3		
Account Name	Amount	Description of unallowable cost
	\$ [REDACTED]	Hotel costs for a conference in Charlotte, North Carolina, in excess of Federal Travel Regulations do not appear reasonable (\$155/night charged, \$71/night maximum in FTR for Charlotte, NC). NCMLS does not have a written travel policy regarding costs. ⁷

⁷ OMB Circular A-123 states that in the absence of an acceptable, written travel policy regarding costs, GSA rates shall apply to travel under Federal awards.

Table 3		
Account Name	Amount	Description of unallowable cost
		Hotel costs for a conference in Charlotte, North Carolina, in excess of Federal Travel Regulations do not appear reasonable (\$155/night charged, \$71/night maximum in FTR for Charlotte, NC). NCMLS does not have a written travel policy regarding costs. ⁸
Employee welfare	██████████	Holiday gifts, food, other entertainment expenses
Travel and Staff Development	██████████	Inadequate support
Costs Recorded in Wrong FY	██████████	Prepaid insurance, prepaid conference fees, and electricity expenses recorded in wrong fiscal year
Depreciation Expense	██████████	Depreciation on Federal Assets
Depreciation Expense	██████████	Excess depreciation, found during reconciliation of fixed asset records to general ledger
Depreciation Expense	██████████	Depreciation on assets purchased with County Capital grant
Insurance Recovery	██████████	Insurance recovery related to December 2002 ice storm not offset against Facilities indirect cost pool
307 Co. Capital	██████████	County of Durham Grant – Annual Operating funds to support science education in the community (including subsidized admissions, exhibits, education programs) not offset against Administrative indirect cost pool
307 Co. Capital/Facilities	██████████	County of Durham Grant - facilities improvement funds used to support maintenance of Museum buildings and grounds not offset against facilities indirect cost pool
Total	\$ ██████████	

Direct costs excluded from base

In the preparation of the indirect cost proposal NCMLS excluded all ██████████ of the marketing and development cost center from the administrative indirect cost pool and the direct cost base. This cost center consists of public relations and advertising costs including salaries and wages and related fringe benefits, special events, advertising, fundraising, subcontracts, and other direct costs. These costs appear to have been excluded as

⁸ OMB Circular A-123 states that in the absence of an acceptable, written travel policy regarding costs, GSA rates shall apply to travel under Federal awards.

unallowable costs, however, OMB Circular A-122 stipulates that direct activity costs that include salaries of personnel, occupy space, and benefit from indirect costs, should be included in the direct cost base and allocated their fair share of indirect costs. The [REDACTED] of excluded marketing and development costs equates to [REDACTED] of the claimed direct cost base.

The overall effect of decreasing the indirect cost pool by [REDACTED] (from [REDACTED] [REDACTED] of the total indirect cost pools) and increasing the distribution base by \$329,240 ([REDACTED] of the total direct cost base - from [REDACTED]) decreased the proposed actual indirect cost rate from [REDACTED].

However, because NCMLS had predetermined indirect cost rates on two of the three NSF awards active during this period (*Easy as Pi* – [REDACTED] and *Mystery Solved* – [REDACTED]) no adjustments are possible on these awards. On the third award, *BioQuest*, NCMLS claimed indirect costs during FY 2003 of \$7,747 on a claimed modified total direct cost (MTDC) base of [REDACTED].⁹ Therefore, when the audited indirect cost rate of [REDACTED] is applied, questioned costs are \$305, which equals the claimed indirect costs of \$7,747 less the audit recommended indirect costs of [REDACTED] ([REDACTED] base times [REDACTED] audited rate). See Schedule B-1.1 for more detailed information.

The significantly inflated indirect cost rate that NCMLS had in place for each of the awards, also impacted NSF in other ways. Had NCMLS correctly computed its actual indirect cost rate and applied it on *Mystery Solved*, NSF could have reduced its indirect cost funding by [REDACTED] and directed these budgeted indirect costs to other direct activities on the grant or to grants at other institutions. On *BioQuest*, NCMLS did apply a much lower indirect cost rate over the course of the award than was approved by NSF. This, in effect, redirected funds budgeted for indirect costs to direct cost activities. However, as discussed above, the lower applied rate for FY 2003 of about [REDACTED] was still higher than the audit recommended rate of [REDACTED], resulting in the questioned indirect costs of \$305.

NCMLS does not have adequate training on OMB Circular A-122 cost principles or written procedures for determining the reasonableness, allocability and allowability of costs included in the preparation of its actual indirect cost rate in accordance with applicable OMB Circular A-122 cost principles and the administrative requirements of OMB Circular A-110. For example, NCMLS does not have a process to identify and record unallowable costs in the books of account, or identify activities and transactions that have associated unallowable costs. Additionally, there is a lack of policies and procedures in the areas of travel, year-end cut-off procedures and the recording and reconciliation of fixed asset records that ensure these costs are properly recorded in accordance with Federal regulations. Fixed asset records were also not being maintained and reconciled in a timely manner.

Prior year indirect cost proposals went through numerous NSF desk reviews and adjustments before being approved. However, insufficient supporting schedules were submitted, which, if provided, would have allowed NSF to perform a more thorough review of the indirect cost submissions. The CFO, who was hired in 2003, prepared the FY 2003 actual indirect cost

⁹ This equates to an indirect cost rate of about [REDACTED] which is far less than the [REDACTED] rate that was approved at the beginning of this award

rate by replicating the previous submission because there were no written procedures and supporting schedules to document how NCMLS prepared its annual submissions in the past.

Recommendation No. 1

We recommend that the Directors of DIAS and DGA require NCMLS staff to develop written policies and procedures for preparing its indirect cost rate that ensures only reasonable, allocable, and allowable costs are charged to Federal awards, as required by OMB Circular A-110 standards for financial management systems. The policies and procedures should also ensure, at a minimum, OMB Circular A-122 cost principles listed below are followed:

- a) The identification of cost centers to be included as direct and indirect costs;
- b) A process to identify unallowable costs, including an analysis of how Federal cost principles relate to the organizations activities and transactions and a year-end review process for unallowable costs;
- c) The routine identification and reconciliation of both Federal and non-Federal fixed assets; and
- d) A detailed description of the composition of the distribution base, including an analysis for costs excluded. NSF should request that NCMLS provide all the supporting schedules with its submission of future indirect cost proposals so that NSF can adequately review it.

In addition, we also recommend that NCMLS ensure travel, year-end cutoff, and fixed asset costs are treated in accordance with Federal cost principles.

Awardee Response:

NCMLS stated that the CFO and Accounting Manager have now both taken additional training in indirect cost fundamentals and grants financial management. Management intends that its cost centers be used to identify indirect or direct costs and has already improved the way in which expenses are allocated to each cost center. In addition, the Museum reports that its staff has better knowledge about Federal cost principles, particularly as it relates to unallowable costs. The fixed asset procedure has been improved to provide for a regular reconciliation to the general ledger and to distinguish Federally-funded assets from non-Federal assets. The procedure for the development of an indirect cost proposal provides for a detailed analysis of the indirect pool and direct base and provides that adequate supporting documentation be forwarded to NSF at the time of the proposal.

In addition, regarding the audit adjustments proposed to the FY 2003 indirect cost rate calculation, NCMLS disputed [REDACTED] audit adjustments to the indirect cost pool and [REDACTED] audit adjustments to the direct cost base. The disputed indirect cost pool amounts included capital assets that were properly transferred out of the pool prior to the audit and costs not recovered by insurance ([REDACTED]). In addition, NCMLS identified additional questionable costs of [REDACTED], which is for depreciation on assets paid for by a county grant not previously excluded from the pool. The amounts

disputed related to the direct cost base included a capital asset that was incorrectly excluded from the indirect cost pool and added to the base (██████), additional repair costs incorrectly coded as direct costs (██████), and costs recovered by insurance (██████).

Auditor's Comment on Awardee Response:

The proposed actions and written policies and procedures if properly implemented, appear to address the weaknesses noted. Additional discussions were held with the awardee after its response was received in order to address the disputed amounts related to specific audit adjustments. We reviewed each item and both parties agreed to decrease the questioned pool amount by ██████ and the questioned base amount by ██████. The ██████ consists primarily of transactions that NCMLS had properly removed from the pool prior to the audit but which were not adequately identified in its proposal. Accordingly, we questioned them again. The adjustment to the direct cost base was decreased by ██████, which, similar to the decrease to the pool costs, was for an asset that was properly included as part of the base but was not adequately identified in NCMLS's proposal. Consequently, we recommended adding the asset amount of ██████ again. Appendix C includes a schedule itemizing the detailed questioned indirect pool and base costs as originally included in the draft audit report, the adjustments, and the final audited amounts. The report has been revised to reflect the adjustments to the audit recommended indirect cost rate as agreed to by both parties.

Non-Material Deficiency

Finding No. 2 – Cost Sharing Reporting Deficiencies

NCMLS has developed and implemented written cost sharing policies and procedures; however, it does not keep adequate verifiable information in its files and does not properly value support services contributed by another employer as specified in OMB Circular A-110. NCMLS does have a detailed system for recording its cost sharing. Specifically, cost sharing expenses are recorded for each grant in the accounting system by a specific project code (*BioQuest* – 30301, *Easy as Pi* – 30401 and *Mystery Solved* – 31701) that permits these costs to be easily segregated from other grant costs. The NCMLS total cost sharing requirements for the audit period were as follows:

NSF Grant	NSF Funding	Cost Sharing	Total Project Costs	Percent of Cost Sharing to Total Project Costs
<i>BioQuest</i>	\$2,037,681	\$1,442,240	\$3,479,921	41%
<i>Easy as Pi</i>	753,156	521,394	1,274,550	41%
<i>Mystery Solved</i>	<u>1,295,169</u>	<u>129,516</u>	<u>1,424,685</u>	9%
Totals	<u>\$4,086,006</u>	<u>\$2,093,150</u>	<u>\$6,179,156</u>	

The cost share recorded for the *BioQuest* grant is provided by the proceeds from a county bond. The majority of the cost share recorded for the *Easy as Pi* and *Mystery Solved* grants consists of contributed services as illustrated below.

	<i>BioQuest</i> ESI-9627030	<i>Easy as Pi</i> ESI-9909566	<i>Mystery Solved</i> ESI-0307550
Total Reported Cost Sharing	\$603,077	\$558,262	\$26,671
Contributed Services	-0-	417,485	24,888
Percentage of Cost Sharing Claimed as Contributed Services	0%	71%	93%
Award Expiration Date	09/30/2006	08/31/2004	09/30/2006

There are approximately 20 organizations that contributed services to NCMLS to satisfy its cost share requirements. Currently, these outside agencies are required to complete a Contributed Goods and/or Services Form. All documentation supporting the value of the goods and/or services is to be attached to this form. The completed form, along with all supporting documentation, is provided to the Grant Principal Investigator for review. However, even though contributed services represent a major portion of NCMLS's cost sharing, NCMLS does not require outside organizations to provide sufficient information to be in compliance with the OMB Circular A-110 requirements. For example, cost sharing on

Easy as Pi was not verifiable from the records, as required by OMB Circular A-110 subpart C Section .23 (1).

We tested 11 cost-share transactions (totaling \$367,660 or 62% the total contributed of \$558,262) on *Easy as Pi* and an additional 11 transactions (totaling \$16,346 or 61% of the total recorded of \$26,671) on *Mystery Solved*. Two transactions on *Easy as Pi*, \$33,357 of in-kind contributions and \$37,169 of contributed services, did not have adequate verifiable data in the file. Two other transactions on *Easy as Pi* (valued at \$9,140 and \$7,745) and 8 transactions on *Mystery Solved* (valued at \$9,365) did not value services provided by employees of other organizations at the employee's regular rate of pay including fringe benefits as stipulated in OMB Circular A-110 subpart C Section .23 (7) (e).¹⁰ Instead, NCMLS valued the contributed services of \$9,365 at a flat rate of \$30 an hour and the remaining 9 transactions at a fixed rate of \$60.25 an hour (because it was equivalent to NSF's allowable daily consultant rate). NCMLS had no explanation for the \$30 an hour but believed the \$60.25 rate was a fair estimate of the contributed services.

Because NCMLS reported cost sharing \$36,868 greater than what was required to NSF for *Easy as Pi*, we do not believe the inadequately supported cost share salaries would have resulted in questioned costs. In fact, based on interviews with NCMLS and other audit procedures, many of the people whose time was claimed as cost sharing appeared to have pay rates that exceeded the flat rates of \$30/hour and \$60.25/hour. In addition, NCMLS did not claim fringe costs for the contributed services, which would have further increased the recorded amount of cost sharing. Nonetheless, NCMLS's procedures are not in compliance with OMB Circular A-110, and if not corrected could result in future cost sharing requirements not being met.

NCMLS had yet to meet the cost sharing requirement on *Mystery Solved* (Award ESI-0307550) as of the end of our fieldwork, but as the grant does not expire until September 30, 2006, NCMLS can still meet its cost sharing requirement.

Recommendation No. 2

We recommend that the Directors of DIAS and DGA require NCMLS to revise its cost sharing policies and procedures to be in compliance with OMB Circular A-110. Specifically, that it keeps adequate cost sharing documentation on file and properly values contributed services by employees of other organizations.

Awardee Response:

NCMLS stated that its practice of using a consultant rate rather than an actual salary to value contributions by employees of other organizations was intended to minimize the

¹⁰ When an employer other than the recipient furnishes the services of an employee, these services shall be valued at the employee's regular rate of pay (plus an amount of fringe benefits that are reasonable, allowable, and allocable, but exclusive of overhead costs), provided these services are in the same skill for which the employee is normally paid.

administrative effort required to document these contributions. NCMLS also reiterated the audit report position that, in this instance, the methodology probably resulted in an understatement of the value of the in-kind contributions. In summary, NCMLS incorporated the audit recommendations into its policies and procedures and also specifically changed its practice and requests for documentation of cost share information for the Mystery Solved grant.¹¹

Auditor's Comment on Awardee Response:

The awardee's revised and implemented contributed services instructions and form provided with its response appear to address the weaknesses noted.

¹¹ Additional attachments provided with the awardee's response are included in our workpapers and are available from the OIG.

Material Internal Control Weakness

Finding No. 3 – Time Keeping System

NCMLS has a policy requiring time worked to be recorded in compliance with OMB Circular A-122. However, NCMLS overrode this policy for some of the employees charged to NSF awards. Specifically, the written employee timesheet procedures state “employees are required to complete and sign timesheets in order to document actual time worked, leave taken, and other factors in the distribution of time spent on the job during a pay period.” But the timesheets for two supervisors and one administrative staff person did not follow this policy.

We tested [REDACTED] of the [REDACTED] of salaries and wages claimed during the audit period and the NCMLS employees tested followed the timesheet procedures for \$123,089 of the costs claimed (representing eight of eleven employees). However, the electronic timesheets for three employees, totaling [REDACTED] of the amount tested, were set up to automatically charge a preset percentage of time to direct and indirect cost centers. The preset percentages charged to NSF grants were based on the approved NSF grant budgets rather than on actual time spent. The three employees did not maintain diaries or other records of time, but through the use of other audit procedures, including employee interviews and review of other audit documentation (such as emails, reports), we believe that the salary amounts charged to NSF for these three individuals were not materially misstated.

NCMLS lacked adequate understanding of the OMB Circular A-122 requirement that allocated time be based on actual time and effort. Specifically, the three employees in question worked on direct and indirect projects during a fiscal year, and for expediency NCMLS set up its time system to charge a preset percentage of its time to NSF grants. Even though there was no impact to NSF grants during the audit period due to this practice, without adequate timekeeping internal controls there is the risk that NSF could be charged for salaries and wages not expended on future grant awards.

Recommendation No. 3

We recommend that the Directors of DIAS and DGA require NCMLS to maintain time and attendance records based on an after-the-fact determination of the actual activity of the employee in accordance with OMB Circular A-122.

Awardee Response:

The Museum Management stated that it recognizes that OMB Circular A-122 calls for time and attendance documentation to be based on actual activity and not on estimated effort and will communicate this to all staff to make sure there is a clear understanding of this requirement.

Auditor's Comment on Awardee Response:

We agree with NCMLS's plans to communicate with the staff concerning proper time keeping, but also recommend that procedures be implemented to ensure completed time cards are also adequately reviewed before being recorded.

Non-Material Internal Control Weakness

Finding No. 4 – Compensated Absences

OMB Circular A-122 requires fringe benefits in the form of compensation paid to employees during periods of authorized absences, to be absorbed by all organization activities in proportion to the relative amount of time or effort actually devoted to each activity.¹² However, NCMLS charges authorized absences such as annual and sick leave, directly to NSF awards without a process to ensure these costs are equitably allocated to all projects and other activities.

Total fringe benefit costs, including compensated absences, claimed by NCMLS for the *Easy as Pi* and *Mystery Solved* grants were [REDACTED], respectively. NCMLS charged leave for these employees directly to NSF grants, and did not have a process to annualize compensated absences across all organization activities. No employees charged partial years on any NSF grants during our audit period; however, there is a risk that NSF may be charged a disproportionate share of fringe costs in the future if NCMLS does not establish a procedure to allocate leave costs across all activities of the organization on an annual basis.

When we apprised NCMLS of our findings, the management was not aware of the OMB Circular A-122 requirements regarding compensated absences. In addition, they were agreeable to the possibility of establishing a fringe rate that would be reconciled yearly, which, if properly implemented, would adequately address this issue.

Recommendation No. 4

We recommend that the Directors of DIAS and DGA require NCMLS develop a methodology to ensure compensated absences are absorbed equitably by all organization activities, including NSF awards.

Awardee Response:

NCMLS Management stated that it plans to investigate this issue further to develop a methodology for addressing this risk.

Auditor's Comment on Awardee Response:

We recommend that DGA follow-up with Museum management to ensure it developed a methodology for allocating fringe benefits in accordance with OMB Circular A-122 requirements.

¹² A-122 Attachment Part B, 8 *Compensation for Personnel Services*, (1) *Fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as vacation leave, sick leave, military leave, and the like, are allowable, provided such costs are absorbed by all organization activities in proportion to the relative amount of time or effort actually devoted to each.*

Finding No. 5 – Improper Accounting for Fixed Assets

OMB Circular A-110 requires grantees to distinguish its Federal from its non-Federal fixed assets and to conduct a physical inventory of Federal assets every two years. OMB Circular A-122 further requires that non-Federal fixed asset records be reconciled to the general ledger on a regular basis and that a physical inventory also be conducted of these assets every two years.¹³ However, NCMLS had not conducted a physical inventory of any of its assets in several years and had to reconstruct its fixed asset records in order to provide information on its assets purchased with Federal funds.

At FYE 2003 NCMLS had [REDACTED] in fixed assets (net book value [REDACTED]) of which approximately [REDACTED] (net book value [REDACTED]) were assets purchased with Federal funds. Of the [REDACTED] of depreciation expense related to assets purchased with Federal funds, NCMLS correctly excluded all but [REDACTED] from the indirect cost pool. NCMLS also had [REDACTED] of indirect depreciation expense in FYE 2003. NCMLS correctly accounted for most of this amount as well, for example, depreciation relating to building improvements, furniture and fixtures, office equipment, software, and vehicles of [REDACTED] was properly included in the indirect cost pools and the remaining [REDACTED] was properly eliminated from the pools and the direct cost base as unallowable exhibit-related depreciation. However, when management reconciled the general ledger to the detail records, an audit adjustment was required reducing the indirect cost pool by [REDACTED] to agree to the updated fixed asset records.

The significant employee turnover in key positions; specifically, within two years NCMLS replaced its President and the Vice President of Administration/CFO contributing to the accounting and reconciliation problems related to its fixed assets. Because of this weakness in controls, NCMLS had to reconstruct its fixed asset records in order to provide information necessary on its Federal assets for this audit and had to revise its indirect depreciation expense, resulting in a decrease to the indirect cost pool of [REDACTED].¹⁴ As of the end of fieldwork NCMLS had yet to conduct a physical count of its assets as required by OMB Circular A-110.

The issues we found were also reported on in the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), FY 2003 Single Audit Report. Specifically, the auditors found that NCMLS was not properly capitalizing certain fixed asset purchases. As a result, NCMLS developed detailed fixed asset procedures, including recording of fixed asset additions and disposals in the general ledger and fixed asset records, and the requirement to perform an annual physical inventory. However, in the FY 2004 Single Audit Report, the auditors found that the fixed asset

¹³ A-122 Attachment B, 11 *Depreciation and use allowances* (h) Charges for use allowances or depreciation must be supported by adequate property records and physical inventories must be taken at least once every two years (a statistical sampling basis is acceptable) to ensure that assets exist and are usable and needed. When the depreciation method is followed, adequate depreciation records indicating the amount of depreciation taken each period must also be maintained.

¹⁴ [REDACTED] due to the reconciled fixed asset records and [REDACTED] for improper inclusion of depreciation for an asset purchased with Federal funds.

problems had yet to be addressed as NCMLS still had unreconciled differences between the general ledger and detail records, and that the physical count had not been reconciled to the detailed records. In response, NCMLS management indicated it would resolve the discrepancy in FY 2005, and reconcile the fixed asset detail to the general ledger on a quarterly basis.

Recommendation No. 5

We recommend that the Directors of DIAS and DGA require NCMLS to ensure its fixed asset policies and procedures for assets purchased with Federal funds meet the requirements of OMB Circular A-110 and the fixed assets purchased with non-Federal funds satisfy the OMB Circular A-122 requirements. At a minimum, NCMLS should include the identification of Federally-purchased equipment in its fixed asset system, exclude depreciation related to these Federal assets from the indirect cost pools, and reconcile Federal and non-Federal fixed asset records to the general ledger at least every other year. Further, we recommend that NSF require NCMLS to submit documentation showing that proposed corrective actions have been taken as this has been an on-going problem as evidenced in the OMB Circular A-133 reports.

Awardee Response:

The Museum responded that its fixed asset policy and procedure has been updated to reflect the requirements of OMB Circulars A-110 and A-122 particularly as it relates to the tracking of Federal assets, the need to perform a physical inventory at least every two years, and the reconciliation of the assets to the general ledger on a regular basis.

The Museum stated that in FY 2005, its Accounting Office performed a comprehensive review of the Museum's fixed assets, completing a reconciliation of the general ledger accounts to the fixed asset detail. Discrepancies in depreciation identified in FY 2003 were resolved and a regular reconciliation of the general ledger to the fixed asset system continues.

Auditor's Comment on Awardee Response:

NCMLS' proposed actions appear to address the weaknesses noted.

Finding No. 6 – Reporting of Award Expenditures

We reported that NCMLS's records agreed with the amounts as reported in the FCTR for every quarter with one [REDACTED] exception. As a result of reviewing additional documentation provided by the awardee in response to the draft report, we concluded that no overcharge occurred. Therefore, this recommendation has been removed.

FINANCIAL SCHEDULES

North Carolina Museum of Life and Science, Inc.
National Science Foundation Award No. ESI-9627030
Schedule of Award Costs
From November 1, 1996 – September 30, 2004
Interim

<u>Cost Category</u>	<u>Approved Budget</u>	<u>(A) Claimed Costs</u>	<u>Questioned NSF Costs and Questioned Cost Sharing</u>	
			<u>Amount</u>	<u>Schedule Reference</u>
Direct costs:				
Salaries and wages			\$ -	
Fringe benefits			-	
Equipment			-	
Travel			-	
Participant support			-	
Other direct costs:				
Materials and supplies			-	
Publication costs			-	
Consultant services			-	
Computer services			-	
Subcontracts			-	
Other			-	
Total direct costs	1,780,765	1,418,922	-	
Indirect costs	256,916	291,260	305	Sch. B
Total	<u>\$ 2,037,681</u>	<u>\$ 1,710,182</u>	<u>\$ 305</u>	Sch. B
Cost sharing	<u>\$ 1,442,240</u>	<u>\$ 603,077</u>	<u>\$</u>	

(A) Total direct cost plus the claimed indirect costs total \$1,710,182 for the period November 1, 1996 – September 30, 2004. There is no difference between the cumulative net disbursements reported on the FCTR as of the quarter ended September 30, 2004.

See accompanying notes to this financial schedule.

North Carolina Museum of Life and Science, Inc.
National Science Foundation Award No. ESI-9909566
Schedule of Award Costs
From March 1, 2000 – August 31, 2004
Final

<u>Cost Category</u>	<u>Approved Budget</u>	<u>(A) Claimed Costs</u>	<u>Questioned NSF Costs and Questioned Cost Sharing</u>	
			<u>Amount</u>	<u>Schedule Reference</u>
Direct costs:				
Salaries and wages			\$	
Fringe benefits				
Travel				
Other direct costs:				
Materials and supplies				
Publication costs				
Consultant services				
Subcontracts/awards				
Total direct costs	542,433	580,324		
Indirect costs	210,723	172,831		
Total	<u>\$ 753,156</u>	<u>\$753,155</u>	<u>\$</u>	
Cost sharing (B)	<u>\$ 521,394</u>	<u>\$ 558,262</u>	<u>\$</u>	

(A) Total direct costs plus the claimed indirect costs total \$753,155 for the period March 1, 2000 – August 31, 2004. There is no difference between the cumulative net disbursements reported on the FCTR as of the quarter ended September 30, 2004.

(B) NCMLS contributed cost sharing of \$36,868 in excess of its cost sharing requirement.

See accompanying notes to this financial schedule.

North Carolina Museum of Life and Science, Inc.
National Science Foundation Award No. ESI-0307550
Schedule of Award Costs
From October 1, 2003 – September 30, 2004
Interim

<u>Cost Category</u>	<u>Approved Budget¹⁵</u>	<u>(A) Claimed Costs</u>	<u>Questioned NSF Costs and Questioned Cost Sharing</u>	
			<u>Amount</u>	<u>Schedule Reference</u>
Direct costs:				
Salaries and wages			\$	
Fringe benefits				
Travel				
Participant support				
Other direct costs:				
Material and supplies				
Publication costs				
Consultant services				
Computer services				
Subcontracts/awards				
Other				
Total direct costs	1,061,960	96,238		
Indirect costs	233,209	38,533		
Total	<u>\$ 1,295,169</u>	<u>\$ 134,771</u>	<u>\$</u>	
Cost sharing	<u>\$ 129,516</u>	<u>\$ 26,671</u>	(B) <u>\$</u>	

(A) Total direct costs plus the claimed indirect costs total \$134,771 for the period October 1, 2003 – September 30, 2004. There is no difference between the cumulative disbursements reported on the FCTR as of the quarter ended September 30, 2004.

(B) Cost sharing totaling \$26,671 has not yet been certified with NSF.

See accompanying notes to this financial schedule.

¹⁵ Subsequent to our audit period, NSF funding on this award was increased to \$1,432,607 and cost sharing was increased to \$143,259, for total project costs of \$1,575,866.

North Carolina Museum of Life and Science, Inc.
National Science Foundation
Schedule of Indirect Costs
For the year ended September 30, 2003

	(A) Actual Costs	NCMLS Eliminations	(B) Proposed Costs	(C) Auditor Adjustments	Appendix Ref.	Audited Costs
Indirect Costs:						
Administrative Expenses					B-1	
Facilities Expenses					B-2	
Total indirect expenses						
Direct Costs:						
Marketing/Development					B-3	
Animal Expenses						
Education Expenses						
Exhibit Expenses						
Butterfly house Expenses						
Guest Services/Gift Shop						
Other					B-4	
Total direct expenses	<u>3,599,154</u>	<u>(551,435)</u>	<u>3,047,719</u>	<u>329,240</u>		<u>3,376,959</u>
Total expenses	<u>\$ 5,412,836</u>	<u>\$ (1,056,190)</u>	<u>\$ 4,356,646</u>	<u>\$ 44,047</u>		<u>\$ 4,400,693</u>
<u>Computation of the Indirect Cost Rate:</u>			<u>Per NCMLS</u>			<u>Per Audit</u>
Total indirect costs			<u>\$ 1,308,927</u>			<u>\$ 1,023,734</u>
Modified total direct costs			<u>\$ 3,047,719</u>			<u>\$ 3,376,959</u>
Computed Indirect Cost Rate			<u>42.95%</u>			<u>30.32%</u>

- (A) The total costs before eliminations and adjustments agree with NCMLS's books of account.
(B) The amounts agree with the indirect cost rate proposal prepared by NCMLS.
(C) See Appendix B for detailed costs.

See accompanying notes to this financial schedule below.

North Carolina Museum of Life and Science, Inc.
National Science Foundation
Schedule of Indirect Costs
For the year ended September 30, 2003

<u>Award Number</u>	<u>Rate Type</u>	<u>Rate</u>	<u>Indirect costs</u>		
			<u>Claimed to NSF</u>	<u>Per Audit</u>	<u>Questioned costs</u>
ESI - 9627030	Maximum Provisional	61.00%	\$ 7,747 (E)	\$ 7,442 (F)	\$ 305
ESI - 9909566	Predetermined	59.12% (D)			
ESI - 0307550	Predetermined	52.95% (D)			

(D) Predetermined rate per award letter, not subject to adjustment.

(E) NCMLS did not apply the maximum provisional rate of 61% to compute the claimed indirect costs for FY 2003. Based on our calculations it used a rate of 31.55%. Had NCMLS applied the 61% to the MTDC of \$24,547 the indirect costs claimed would have been \$14,974.

(F) \$24,547 audited modified total direct costs for the period October 1, 2002 to September 30, 2003
x 30.32% audited indirect cost rate
\$ 7,442 audited indirect costs

NORTH CAROLINA MUSEUM OF LIFE AND SCIENCE, INC.
National Science Foundation Awards
Notes to Financial Schedules
From November 1, 1996 to September 30, 2004

1. Summary of significant accounting policies:

Accounting basis

The accompanying financial schedules have been prepared in conformity with NSF instructions. Schedules have been prepared from the reports submitted to NSF. The basis of accounting utilized in preparation of these reports differs from accounting principles generally accepted in the United States of America. The following information summarizes these differences:

a. Equity

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

b. Equipment

Equipment is charged to expense in the period during which it is purchased instead of being recognized as an asset and depreciated over its useful life. As a result, the expenses reflected in the statement of award costs include the cost of equipment purchased during the period rather than a provision for depreciation.

The equipment acquired is owned by NCMLS while used in the program for which it was purchased or in other future authorized programs. However, NSF has the reversionary interest in the equipment. Its disposition, as well as the ownership of any proceeds there from, is subject to Federal regulations.

c. Inventory

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

d. Income taxes

The Museum is a non-private foundation and is exempt from Federal income taxes under Section 501(c) (3) of the Internal Revenue code and from State income taxes under similar provisions of North Carolina tax laws.

2. NSF cost sharing and matching:

The following represents the cost sharing requirements and actual cost sharing for the periods November 1, 1996 to September 30, 2004 for NSF award number ESI-9627030; March 1, 2000 to August 31, 2004 for award number ESI-9909566; and October 1, 2003 to September 30, 2004 for award number ESI-0307550.

Award Number	Cost Sharing Required	(a) Certified Cost Sharing	(b) Recorded Cost Sharing Not Yet Certified	Net Cost Sharing (a) + (b)	Over/ (Under)	Note
ESI-9627030	\$1,442,240	\$ 603,077	\$ 0	\$ 603,077	\$(839,163)	1
ESI-9909566	521,394	558,262	0	558,662	36,868	
ESI-0307550	129,516	0	26,671	26,671	(102,845)	2

Notes:

- 1) NCMLS has a state funded bond obligation dedicated for this project that far exceeds the cost-sharing obligation of \$1.4 M.
- 2) Subsequent to the period of our audit, the cost sharing obligation was increased from \$30,403 to \$129,516. The cost sharing amount recorded of \$26,671 has yet to be certified with NSF, but this is primarily an administrative step, otherwise we have no other concerns about the reasonableness of the amount.

APPENDICES

NORTH CAROLINA MUSEUM OF LIFE AND SCIENCE, INC.
Awardee Comments to Report

Finding No. 1 – Indirect Cost Proposal Deficiencies

Before addressing the audit findings related to the FY2003 indirect cost proposal, management would like to point out that FY2003 was an unusual year for the Museum and one in which indirect costs were expected to decrease somewhat dramatically. Vacancies for a portion of the year in the CEO and CFO positions as well as reductions in the Facilities and Human Resources functions were anticipated to result in a temporarily reduced indirect cost pool. The hiring of a CEO in FY2005 and fewer vacancies in key Administrative positions have recently resulted in a level of indirect costs that is more typical for the Museum.

The audit identified several instances of non-compliance in the preparation of the NCMLS FY2003 indirect cost rate:

- a. NCMLS included \$260,958 of duplicate costs in the indirect cost pool.

Management agrees that \$161,393 of indirect costs charged to BioQuest Woods, Easy as Pi, IMLS, Explore It!, Discovery in Motion, ED-FIE, and two 21st Century grants were incorrectly included in the indirect cost pool. Due to an error in accounting procedure in FY2003, these costs were incorrectly coded to Operations rather than to their respective direct cost centers. During the preparation of the indirect cost proposal, this error should have been identified to avoid the overstatement of the indirect cost pool. The Museum's accounting procedure charging indirect costs to grants has been corrected and the procedure for developing an indirect cost proposal specifically identifies these costs as direct costs.

An additional \$99,565 (\$86,231 + \$13,334) was identified as duplicate cost in the indirect cost pool:

Management believes that the costs included in the \$86,231 of County capital should be treated as indirect costs. They include the following:

██████████ – Heat exchanger repair in the main building, a lease payment on the tractor used by the facilities staff and battery pack for phone system. These facilities and operations costs should be part of the indirect cost pool.

██████████ – Drainage pipe and roof repair that are part of Facilities (they should have been coded to Department 05 rather than to Department 01). A review of these costs indicates that an additional ██████████ should be added to the indirect costs for facility improvements that were incorrectly coded to Exhibits (roof repair for ██████████ and a drainage credit for ██████████).

██████████ – Telephone equipment lease (Operations/Administration)

NORTH CAROLINA MUSEUM OF LIFE AND SCIENCE, INC.

Awardee Comments to Report

While Management agrees that the [REDACTED] in assets (Train Canopy [REDACTED] and Special Events Tent [REDACTED]) are direct expenses rather than indirect expenses, we believe that the adjustment to the indirect cost pool is not in the amount of \$19,724.37. The transfer expense that the audit refers to represents the transfer of the two fixed assets to the Plant Fund. This transfer expenditure is offset by a transfer credit in the Plant Fund that was also included in the proposed indirect cost pool. The only impact of recognizing these assets as part of the direct cost pool rather than as part of the indirect cost pool is the reduction of their FY2003 depreciation from the Administrative Expenses.

The FY2003 depreciation for the Train Canopy and Tent are respectively [REDACTED] and [REDACTED] for a total of [REDACTED].

c. Other questionable costs totaling \$137,520 were included in the indirect cost pool.

Travel \$252 – in excess of Federal Travel Regulations. NCMLS is implementing a travel policy that uses GSA rates as the guide for reimbursement to prevent this from occurring in the future (see attached Travel Expense policy).

Employee Welfare \$3,041 – Before 2005, NCMLS used the Employee Welfare account for a number of employee-related costs, some of which are allowable and some which are not. Management has established separate accounts in order to distinguish these costs to eliminate confusion in the future. Management agrees that the \$3,041 should have been eliminated from the indirect cost pool.

Travel and Staff Development \$94 – Management agrees that adequate support of this cost is unavailable.

Capital Asset [REDACTED] – Management disagrees with the assertion that this capital asset was expensed without capitalization. On 9/30/03, this asset consisting of land ([REDACTED]), a single family dwelling ([REDACTED]) and a storage building ([REDACTED]) was transferred to the Plant Fund by AJE 21. The buildings are currently being depreciated.

Costs Recorded in Wrong Fiscal Year \$11,248 – Management agrees that invoices that crossed fiscal years were recorded in the wrong year. A system has been implemented that includes a careful coding of year end invoices and a review by the Accounting Manager to reduce this type of error.

Depreciation Expense [REDACTED] – Management agrees that incorrect depreciation expense was included in the indirect cost pool. In FY2005 the depreciation expense was reconciled to the general ledger and the current procedure that reconciles fixed assets on a regular basis and identifies federal fixed assets separately will prevent such an error from occurring again.

NORTH CAROLINA MUSEUM OF LIFE AND SCIENCE, INC.

Awardee Comments to Report

Insurance Recovery [REDACTED] – Management now understands that the language in OMB Circular A-122 provides that any insurance recovery would offset any applicable indirect or direct costs. NCMLS procedure for developing an indirect cost proposal identifies this ‘applicable credit’ specifically to avoid future error. The insurance recovery for the December 2002 storm totaled [REDACTED] with [REDACTED] due to lost revenues. The balance of the recovery totaling [REDACTED] should offset indirect ([REDACTED]) and direct ([REDACTED]) costs (see the attached detail of insurance recovery).

d. The NCMLS excluded [REDACTED] in marketing and development costs from the direct cost base.

This resulted from a misunderstanding regarding language in OMB Circular A-122. Management understands now that, while the costs associated with these activities are not allowable as charges to federal awards, they nonetheless must be treated as direct costs for purposes of proposing an indirect cost rate. The Museum cost policy included in the procedure for developing an indirect cost proposal will prevent this error from occurring in the future.

Management recognizes that accounting errors in FY2003 resulted in incorrect assumptions in the development of the indirect cost proposal and the CFO and Accounting Manager did not have adequate training and experience in indirect cost determination at the time. The CFO and new Accounting Manager have now both taken additional training on this topic (“Indirect Cost Fundamentals Sponsored by Thompson Publishing Group 2/7/06 and “Grants Financial Management” sponsored by NSF on 3/7/06) and have gained considerable knowledge by establishing a procedure for developing an indirect cost proposal that adheres to the requirements of OMB Circulars A-110 and A-122. We have also reviewed and improved many of our accounting practices and internal controls to assure more accurate financials upon which the indirect cost proposal is based.

Recommendation No. 1 – Audit recommends that NCMLS develop written policies and procedures for preparing its indirect cost rate that ensures only reasonable, allocable, and allowable costs are charged to Federal awards, as required by OMB Circular A-110 standards for financial management systems and that specific OMB Circular A-122 cost principles be followed.

Management intends that its cost centers be used to identify indirect or direct costs and has already improved the way in which expenses are allocated to each cost center. In addition, Museum staff has better knowledge about federal cost principles, particularly as it relates to unallowable costs. We have improved the fixed asset procedure that provides for a regular reconciliation to the general ledger and that distinguishes federally-funded assets from non-federal assets. Our procedure for the development of an indirect cost proposal provides for a detailed analysis of the indirect pool and direct base and provides that adequate supporting

NORTH CAROLINA MUSEUM OF LIFE AND SCIENCE, INC.

Awardee Comments to Report

documentation be forwarded to NSF at the time of the proposal (see the attached Indirect Cost Rate Proposal policy).

Finding No. 2 – Cost Sharing Reporting Deficiencies

The audit indicated that NCMLS did not require outside organizations to provide sufficient information to be in compliance with the OMB Circular A-110 requirements. The audit points out that this is a non-material deficiency but recommends that NCMLS revise its cost sharing policies and procedure.

The NCMLS practice of using a consultant rate rather than an actual salary to value contributions by employees of other organizations was intended to minimize the administrative effort required to document these contributions. As the audit pointed out, this probably resulted in an understatement of the value of the in-kind contributions. NCMLS has changed its practice and requests for documentation of cost share information for the Mystery Solved grant have incorporated the audit recommendations (see the attached Instructions for Completing the Documentation of In-Kind Expenditures and Documentation of In-Kind Expenditures).

Finding No. 3 – Time Keeping System

The audit identified timesheets in which the time allocated to indirect and direct activities was pre-set according to approved budgets. While the audit points out that it is their opinion that the salary amounts charged to NSF were not materially misstated, they believe that the failure to maintain time and attendance records based on an after the fact determination of the actual activity in accordance with OMB Circular A-122 poses a possible risk to future grant awards.

Management recognizes that OMB Circular A-122 calls for time and attendance documentation to be based on actual activity and not on estimated effort. Management will communicate this to all staff to make sure there is a clear understanding of this requirement.

Finding No. 4 – Compensated Absences

The audit suggests that the NCMLS method of allocating fringe benefits to projects does not guarantee that compensated absences are absorbed equitably by all organization activities. The NCMLS methodology provides for each activity to absorb the cost of the compensated absence that is consistent with that employee's effort on the activity. Therefore an employee who works 100% on a federal award would have 100% of the compensated absence paid for by that award. The risk is that an employee uses all of the annual benefit, charges it to the federal award, but does not work on the award for an entire year. Management plans to investigate this issue further to develop a methodology for addressing this risk.

NORTH CAROLINA MUSEUM OF LIFE AND SCIENCE, INC.

Awardee Comments to Report

Finding No. 5 – Improper Accounting for Fixed Assets

The audit recommends that the NCMLS Fixed Asset policies and procedures meet the requirements of OMB Circulars A-110 and A-122.

Management recognizes the importance of proper policies and procedures related to the recording, monitoring and reporting of fixed assets. The Museum's fixed asset policy and procedure has been updated to reflect the requirements of OMB Circulars A-110 and A-122 particularly as it relates to the tracking of Federal assets, the need to perform a physical inventory at least every two years, and the reconciliation of the assets to the general ledger on a regular basis (see the attached Fixed Assets policy). In FY2004, the Museum did perform a physical inventory, but failed to make the necessary adjustments to the fixed assets until FY2005.

In FY2005, the Accounting Office performed a comprehensive review of the Museum's fixed assets, completing a reconciliation of the general ledger accounts to the fixed asset detail. Discrepancies in depreciation that were identified in FY2003 were resolved and a regular reconciliation of the general ledger to the fixed asset system continues. The next physical inventory of the Museum's assets is scheduled to occur during the summer of 2006. All necessary adjustments to the general ledger and to the fixed asset detail based on the findings of the physical inventory will be completed before the end of FY2006.

Finding No. 6 – Reporting of Award Expenditures

The audit points out that NCMLS's records did not support the award expenditures as reported to NSF for award number ESI-9627030 on the FCTR for the quarter ended September 30, 2004. While the auditors point out that the \$636 difference is not material, they recommend that NCMLS address the overcharge and ensure that the error is not repeated.

It is correct that a discrepancy existed between NCMLS records and the expenditures reported in the 9/30/04 FCTR. Normally, cash reimbursements are requested for a period through a month end. However, in 2004, a portion of the federal funds were scheduled to expire mid-September 2004. In order to avoid losing the federal funds, a cash request was submitted for the period through September 10, 2004 and included encumbered amounts that changed slightly after the cash request was processed. The FCTR for the period through 9/30/04 tied to the amounts for the period that included the 9/10/04 cash request. The following cash request was reduced by the amount of the discrepancy and the 12/31/04 FCTR tied to this adjusted amount. As a result, there is no overcharge to be resolved and NCMLS is confident that its procedures in this area assure accurate disclosure of the financial results.

NORTH CAROLINA MUSUEM OF LIFE AND SCIENCE, INC.
Indirect Cost Adjustments to Administrative Expense Pool

Dept	GL Title	Transaction Amount/ Account Balance	Explanation	Adjustment Amount	Ref#
<i>Duplicate costs included in indirect cost pools</i>					
303 BQ Woods	ICA - Facility	\$	NSF Award is a direct cost ↓	\$	
303 BQ Woods	ICA-Admin				
304 Easy as Pi	ICA - Facility				
304 Easy as Pi	ICA-Admin				
305 IMLS	ICA - Facility		Library Youth Partnership Grant – a collaboration of Museum, Library and Public Schools that builds on the Museum’s Youth Partner Program is a direct cost ↓		
305 IMLS	ICA-Admin				
313 Explore It!	ICA - Facility		Science Investigations in Out-of-School Programs should be treated as a direct cost ↓		
313 Explore It!	ICA-Admin				
314 Discovery	ICA - Facility		Discovery in Motion Grant – a collaboration among Museum, Library and Public Schools to create service-learning opportunities and deliver science and reading programs should be treated as a direct cost ↓		
314 Discovery	ICA-Admin				
315 ED-FIE	ICA - Facility		US Department of Education award is a direct cost ↓		
315 ED-FIE	ICA-Admin				
340 21stCentury YP	ICA - Facility		Grant awarded to Durham Public Schools. NCMLS is a subgrantee. ↓		
340 21stCentury YP	ICA-Admin				
342 21stCentury 3	ICA - Facility		A continuation and expansion of the Durham Public Schools grant above.		
342 21stCentury 3	ICA-Admin				
Subtotal					

NORTH CAROLINA MUSUEM OF LIFE AND SCIENCE, INC.
Indirect Cost Adjustments to Administrative Expense Pool

Dept	GL Title	Transaction Amount/ Account Balance	Explanation	Adjustment Amount	Ref#
01	Volunteer programs		Incidental expenses relating to operation of Volunteers program, including meals and entertainment, communications, dues. Volunteers primarily support program activities (exhibits, education) therefore should be treated as direct costs.		
01	Explorastore purchases		Purchases for gift store should be treated as direct costs		
01	Railroad maintenance		Train and railroad is a specific project and should be treated as a		
01	MasterCard/Visa bank charges		Bank fees charged for processing credit card receipts for admissions to exhibits and gift store sales, which are direct charges relating to services provided to the public		
<i>Subtotal</i>					
<i>Other questionable costs</i>					
01	Travel & Staff Development		Hotel costs for conference in Charlotte, NC (3 nights) in excess of FTR (\$155/night claimed; \$71 per night maximum.		
01	Employee Welfare		Expenses appear to be for entertainment, which is unallowable per OMB A-122.		
01	Employee Welfare		Holiday gift		
01	Travel & Staff Development		No evidence of purpose of expense.		
01	Travel & Staff Development		ASTC 2003 Annual Conference for November 2003. FY 2004 expense.		
01	Depreciation		Depreciation on assets purchased with Federal funds are unallowable as indirect costs		
01	Depreciation		Depreciation adjustment after reconciling to physical inventory		
01	Depreciation		Depreciation related to County of Durham grant assets		
307 Co. Capital	Equipment/Furniture Mtce/Repair		County of Durham Grant – Annual Operating funds to support science education in the community (including subsidized admissions, exhibits, education programs) should be treated as a direct cost		
307 Co. Capital	Facility Improvements				
307 Co. Capital	Leasing Contract		↓		
<i>Subtotal</i>					
TOTAL					

NORTH CAROLINA MUSUEM OF LIFE AND SCIENCE, INC.
Indirect Cost Adjustments to Facilities Expense Pool

Dept	GL Title	Transaction Amount/ Account Balance	Explanation	Adjustment Amount	Ref #
<i>Direct cost accounts included in pools</i>					
05	Maintenance		Transactions relating to train maintenance should be treated as direct costs		
05	Property Insurance		Liability insurance for train, should be a direct cost. Coverage for insurance is 4/30/03-4/30/04		
Subtotal					
<i>Other questionable costs</i>					
05	Property Insurance		10 months of coverage in FY 2004.		
05	Electricity		sept-oct 2002 electricity charges. FY 2002 expenses, not FY 2003 expenses.		
01	Recovery - Casualty Loss		Insurance recovery from December 2002 storm damage		
307 Co. Capital/Facilities	Equipment/Furniture Mtce/Rep		County of Durham Grant - facilities improvement funds used to support maintenance of Museum buildings and grounds.		
307 Co. Capital/Facilities	Equipment/Furniture Purchase				
307 Co. Capital/Facilities	Railroad Mtce		↓		
Subtotal					
TOTAL					

NORTH CAROLINA MUSUEM OF LIFE AND SCIENCE, INC.
Indirect Cost Adjustments to Marketing/ Development Cost Base

<u>Dept</u>	<u>GL Title</u>	<u>Amount/ Account Balance</u>	<u>Explanation</u>	<u>Adjustment Amount</u>
<i>Direct costs excluded from base</i>				
Various	Various	\$ [REDACTED]	Excluded by NCMLS as unallowable costs. These costs represent activities that include salaries of personnel, occupy space, and benefit from indirect costs, therefore should be included in base.	\$ [REDACTED]
TOTAL		\$ [REDACTED]		\$ [REDACTED]

NORTH CAROLINA MUSEUM OF LIFE AND SCIENCE, INC.
Indirect Cost Adjustments to Other Direct Cost Base

Dept	GL Title	Transaction Amount/ Account Balance	Explanation	Adjustment Amount	Ref#
<i>Direct cost accounts included in pools</i>					
01	Volunteer programs		Incidental expenses relating to operation of Volunteers program, including meals and entertainment, communications, dues. Volunteers primarily support program activities (exhibits, education) therefore should be treated as direct costs.		
01	Explorastore purchases		Purchases for gift store should be treated as direct costs		
01	Railroad maintenance		Train and railroad is a specific project and should be treated as a		
01	MasterCard/Visa bank charges		Bank fees charged for processing credit card receipts for admissions to exhibits and gift store sales, which are direct charges relating to services provided to the public		
01	Maintenance		Transactions relating to train maintenance should be treated as direct costs		
05	Property Insurance		Liability insurance for train, should be a direct cost. Coverage for insurance is 4/30/03-4/30/04		
TOTAL					

NORTH CAROLINA MUSUEM OF LIFE AND SCIENCE, INC.
 Reference to Appendix B-1 through B-4

<u>Ref#</u>	<u>Dept</u>	<u>GL Title</u>	<u>Date</u>	<u>Transaction Amount</u>	<u>Payee</u>	<u>Check No.</u>	<u>Adjustment</u>
1	01	Travel & Staff Development	11/1/2002		Bankcard Services	051234/05104 3/051253	
2	01	Employee Welfare	11/1/2002		Bankcard Services	051043, 051234, 051253	
3	01	Employee Welfare	12/10/2002		Queen Wilson		
4	01	Travel & Staff Development	11/1/2002		Bankcard Services	051234/05104 3/051253	
5	01	Travel & Staff Development	9/18/2003		Bankcard Services	055702	
6	05	Property Insurance	5/1/2003		BB&T Insurance - Asura	053378	
7	05	Property Insurance	8/1/2003		BB&T Insurance - Asura	054982	
8	05	Electricity	10/9/2002		Duke Power Company	050919	
9	01	Recovery - Casualty Loss	6/12/2003		N/A	N/A	

NORTH CAROLINA MUSEUM OF LIFE AND SCIENCE, INC.
Adjustment Detail for Easy as Pi Contributed Goods and Services

*GL Account 8910 - Contributed Goods and Services***EASY AS PI (Fund 304, Dept 01)**

<u>Transaction description</u>	<u>Date</u>	<u>Transaction Amount</u>	<u>Adjustment Amount</u>	<u>Hours Claimed</u>	<u>Rate Claimed</u>	<u>Description</u>	<u>Donor</u>
IN-KIND 2001 - ROCKY MT CHILDREN'S MUSEUM	9/28/2001					No support for hourly wage. Invoice is not mathematically correct.	Rocky Mount Children's Museum
IN-KIND 2001- GRASSROOTS SCIENCE	9/28/2001					Source documents not provided. No support for salary rates.	Grassroots Science Museums Collaborative
IN-KIND CONTRIBUTIONS	9/30/2001					No support for salary rates.	11 different institutions
TO RECORD CONTRIBUTED GOODS/SERVICES	9/30/2002					Mathematical error in entry made in FY 2002, corrected in FY 2004.	Schide Museum of Natural History
<u>MYSTERY SOLVED (Fund</u>							
DISCOVERY PLACE - MYSTER SOLVED ADV MEETING	6/30/2004					No support for salary rates.	Discovery Place, Inc.
HEALTH ADVENTURE - MYSTERY SOLVED ADV MEETING	6/30/2004					No support for salary rates.	Health Adventure
SCIWORKS - MYSTERY	6/30/2004					No support for salary rates.	Sciworks
DISCOVERY PLACE ADVISORY MEETING 8/13/04	9/30/2004					No support for salary rates.	Discovery Place, Inc.
IMAGINATION STATION ADV MEETING 8/13/04	9/30/2004					No support for salary rates.	Imagination Station
CAPE FEAR MUSEUM - MYSTERY SOLVED ADV MEETING	6/30/2004					No support for salary rates.	Cape Fear Museum
FASCINATE-U CHILDREN'S MUSEUM ADV MTG 8/13/04	9/30/2004					No support for salary rates.	Fascinate-U Children's Museum
NC MUSEUM OF NATURAL SCS ADVISORY MTG 8/13/04	9/30/2004					No support for salary rates.	NC Museum of Natural Sciences

N/D - Not determinable

N/A - Not applicable

NORTH CAROLINA MUSUEM OF LIFE AND SCIENCE, INC.
Adjustments to Finding 1 Based on Awardee Response to Draft Report

Indirect Cost Pool Adjustments:

	Draft	Adjustment:	Final	Explanatory Notes
<i>Table 1: Duplicate costs included in indirect cost pools</i>				
Administrative:				
303 BioQuest Woods				
304 Easy as Pi				
305 IMLS				
307 Co. Capital				The questionable amount of [REDACTED] consisted of two amounts: [REDACTED] and [REDACTED]. The [REDACTED] is no longer questioned because the awardee had already removed this amount from the pool. See Table 3 below for an explanation regarding the
313 Explore It!				
314 Discovery				
315 ED-FIE				
340 21st Century YP				
342 21st Centruy 3				
Facilities:				
307 Co. Capital/Facilities				The [REDACTED] was moved to Table 3, see below
Subtotals				

Table 2: Direct costs accounts included in pools

Volunteer programs account				
Exploratore purchases account				
Railroad maintenance account				
Mastercard/Visa bank charges				
Maintenance account				
Insurance account				
Transfer from				Amount no longer questioned because the awardee had already removed this amount from the pool.
Subtotals				

NORTH CAROLINA MUSUEM OF LIFE AND SCIENCE, INC.
Adjustments to Finding 1 Based on Awardee Response to Draft Report

Table 3: Other questionable costs

Administrative				
Travel				Amount no longer questioned because the awardee had already removed this amount from the pool.
Employee welfare				
Travel and staff development				
Capital asset				
Costs recorded in Wrong FY				
Depreciation expense				Questionable depreciation related to assets purchased with funds from other sources.
Depreciation expense				
Depreciation expense				
Insurance recovery				The questionable amount was revised based on additional information provided by the awardee
307 Co. Capital				Costs paid with funds from a county grant
Facilities:				
307 Co. Capital/Facilities				Costs paid with funds from a county grant
Subtotals	137,520	(51,247)	86,273	
Totals	455,729	(170,536)	285,193	Questioned pool costs decreased from \$455,729 in the Draft report to \$285,193 in the Final report based on additional information from the awardee

Adjustments to Direct Cost Base Based on Awardee Response to Draft Report

Direct Cost Base Adjustments:	Draft	Adjustment:	Final	Explanatory Notes
Questionable Marketing & Development Direct costs in indirect cost pool (Table 2)				Amount no longer questioned because the awardee had already removed this amount from the direct cost base.
Recommended increase to base				

Impact of Adjustments to Audit Recommended Indirect Cost Rate

Direct Cost Base Adjustments:	Draft	Adjustment:	Final
Proposed Indirect Cost Pool			
Questioned pool costs			
Audit Recommended Indirect Cost Pool			
Proposed Direct Cost Base			
Increased base costs			
Audit Recommended Direct Cost Base			
Indirect Cost Rate			