

**NATIONAL SCIENCE FOUNDATION**  
4201 Wilson Boulevard  
ARLINGTON, VIRGINIA 22230



**OFFICE OF  
INSPECTOR GENERAL**

Office of Inspector General

**MEMORANDUM**

Date: March 26, 2009

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

Thru: Jannifer Jenkins /s/  
Senior Audit Manager

From: Billy McCain  
Audit Manager

Subject: Audit Report No. OIG-09-1-005  
Exploratorium

Attached is the final audit report, prepared by Mayer Hoffman McCann P.C., an independent public accounting firm, on the audit of NSF Award Numbers ESI-0119787, ESI-9910207, and ESI-0307925 awarded to Exploratorium. The audit covers NSF-funded costs claimed from June 1, 2000 to March 31, 2008, aggregating to approximately \$ [REDACTED] of NSF direct funded costs and \$ [REDACTED] of claimed cost sharing. Exploratorium was chosen for an audit because of the high dollar value and number of NSF awards, the collaborative nature of many of the awards, and the material internal control deficiencies reported in past OMB Circular A-133 audits.

Overall the auditors determined that except for \$340,204 or [REDACTED] total claimed costs on Exploratorium's Federal Financial Report (FFR) appear fairly stated and are allowable, allocable and reasonable for the NSF awards. The \$340,204 in questioned costs include \$227,109 of subaward costs where one subawardee billed Exploratorium based on budget allocations for all cost categories rather than actual costs during the first seventeen months of the award period and also had \$7,676 of unsupported subaward costs for NSF Award No. ESI-0119787. Of the remaining \$105,419 in questioned costs that affected all cost categories except subawards, \$82,919 of those questioned costs occurred primarily because adequate supporting documentation was not provided to support the claimed costs for NSF

Award Nos. ESI-0119787 and ESI-9910207; and \$ [REDACTED] of the questioned costs were for program income earned during the last three months of the award period that was not added to the funds committed to the project and used to further project objectives for NSF Award No. ESI-0307925 but rather was used to fund Exploratorium's cost share requirement. The auditors also questioned \$81,866 of Exploratorium's claimed cost sharing due to insufficient supporting documentation for NSF Award Nos. ESI-0119787 and ESI-9910207. However, the auditors did not associate any of the questioned cost share to the NSF funded costs because, overall, Exploratorium exceeded its cost share requirement.

The auditor's identified three compliance and internal control deficiencies in Exploratorium's financial management practice that contributed to these questioned costs and if not corrected, could impact current and future NSF awards. Specifically:

- Although Exploratorium did some monitoring of its subaward costs charged to NSF Award No. ESI-0119787, which included two subawards amounting to \$6 million or 54% of the total costs charged to the NSF award and a total of \$551,000 in cost sharing, the monitoring process was limited and could be improved to provide greater assurance that the subaward costs claimed are reasonable, allowable and allocable to its NSF award. To a great extent, Exploratorium relies on the controls and self-assessments made by the subawardees to ensure that subawardee costs are reasonable, allowable, and allocable to the NSF awards. This finding was also noted in prior OMB Circular A-133 audit report management letters. In addition, the monitoring process does not address foreign or other subawardees with no OMB Circular A-133 audit requirement. Therefore, Exploratorium's internal controls over subaward costs do not provide adequate assurance that the expenditures incurred and claimed are accurate, valid, allowable, and adequately documented. In order to validate the subaward charges, the auditors performed additional audit tests at both of the subawardees. At one subawardee, the auditors found direct and indirect costs charged based on budget allocations instead of actual costs incurred and they found that the subawardee had some unsupported costs. As a result, the auditors questioned \$234,785 in subawardee costs. Additional required routine subaward monitoring could prevent or identify unallowable claimed subaward costs on current and future NSF awards.
- Program income earned on NSF Award No. ESI-0307925 of \$ [REDACTED] was not added to the funds committed to the project by NSF and used to further project objectives. The program income was earned during the last three months of the award and was used improperly to fund cost share even though the terms of the award stated that was not allowable. This occurred because Exploratorium did not have policies, procedures, and controls to identify income earned prior to the termination of the award and to properly record program income in Exploratorium's financial accounting system, even though this finding was identified in a prior OMB FY 2003 OMB Circular A-133 audit report. As a result, the total expenditures reimbursed by NSF for the award have been overstated by the program income received during the life of the grant. Therefore, the auditors questioned \$ [REDACTED] in costs charged to Award No. ESI-0307925.

- Exploratorium did not maintain adequate documentation to support some costs claimed on NSF Award Nos. ESI-0119787 and ESI-9910207. During our review of direct costs charged to the NSF awards and cost share claimed, we found 16 transactions of direct costs and 5 transactions for cost share claimed for \$164,785 that were either not supported or supported with insufficient documentation. This occurred because Exploratorium personnel did not comply with existing policies and procedures for maintaining records and sufficiently documenting charges for the NSF awards. As a result, Exploratorium's lack of adequate supporting documentation increases the risk that some of the costs claimed by Exploratorium may be unallowable, unreasonable, or not allocable to the NSF awards. We questioned \$ [REDACTED] of direct costs and cost share claimed, and, \$ [REDACTED] of associated fringe benefits and indirect costs.

To address these compliance and internal control deficiencies, the auditors recommend that your office direct Exploratorium to (1) revise its subaward monitoring policies and procedures to better assess its subawardee's OMB Circular A-133 reports; to include steps to monitor foreign and other subawardees that are not subject to OMB Circular A-133 requirements; and to include a risk-based monitoring approach to better ensure that costs charged to NSF awards are reasonable, allowable, and allocable; (2) develop policies, procedures, and controls to properly account for program income received during the life of an award; and (3) comply with its existing policies and procedures to ensure that all claimed costs are supported with adequate and sufficient supporting documentation.

Exploratorium officials concurred with the report findings and indicated that corrective actions were taken to develop a risk-based monitoring approach in their subawardee monitoring policy and to include steps to monitor foreign subawardees and other subawardees that are not subject to OMB Circular A-133 requirements. They also indicated that they were taking corrective actions to ensure program income was properly identified and recorded, and, adequate supporting documentation for claimed costs were obtained and maintained for all NSF projects.

Given the systemic and continuing nature of these compliance and internal control deficiencies we believe the same deficiencies may exist under Exploratorium's other 15 NSF awards, and if not corrected, will impact future NSF awards. In accordance with OMB Circular A-50, please coordinate with our office during the six-month resolution period to develop a mutually agreeable resolution of the audit findings. Also, the findings should not be closed until NSF determines that all recommendations have been adequately addressed and the proposed corrective actions have been satisfactorily implemented.

We are providing a copy of this memorandum to the Division Director, Deputy Director, and Program Directors in the Division of Research on Learning in Formal and Informal Settings (DRL) and the Director of the Division of Grants and Agreements (DGA). The responsibility for audit resolution rests with the Division of Institution and Award Support, Cost Analysis and Audit Resolution Branch (CAAR). Accordingly, we ask that no action be taken concerning the report's findings without first consulting CAAR at 703-292-8244.

## OIG Oversight of Audit

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

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

Mayer Hoffman McCann is responsible for the attached auditor's report on Exploratorium and the conclusions expressed in the report. We do not express any opinion on the Federal Financial Reports, internal control, or conclusions on compliance with laws and regulations.

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

### Attachment

cc: Joan Ferrini-Mundy, Division Director, EHR/DRL  
David Ucko, Deputy Division Director, EHR/DRL  
Janice Earle, Program Director, EHR/DRL  
Alphonse DeSena, Program Director, EHR/DRL  
Karen Tiplady, Director, DGA

**EXPLORATORIUM**  
3601 LYON STREET  
SAN FRANCISCO, CALIFORNIA 94123

NATIONAL SCIENCE FOUNDATION AWARD NUMBERS  
ESI-0119787, ESI-9910207, ESI-0307925

FINANCIAL AUDIT OF FINANCIAL SCHEDULES AND  
INDEPENDENT AUDITORS' REPORT  
JUNE 1, 2000 TO MARCH 31, 2008

**MAYER HOFFMAN McCANN P.C.**  
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## EXECUTIVE SUMMARY

An audit was performed on \$ [REDACTED] in costs claimed and \$ [REDACTED] in cost sharing claimed as reported on the March 31, 2008 Federal Financial Report (FFR) and cost sharing reports submitted to NSF by Exploratorium on NSF award numbers ESI-0119787, ESI-9910207, and ESI-0307925. Exploratorium is a non-profit organization that experiments with new practices for discovering the world, including a science museum filled with interactive science and art exhibits, a national center for teacher development, an award winning web site of new teaching resources, and a growing global network of partner museums. As of September 30, 2008, Exploratorium had 15 active NSF awards totaling over \$30 million. Ten of those active awards are funded at amounts over \$1,000,000 each. Exploratorium was chosen for an audit because of the high dollar value and number of NSF awards, the collaborative nature of many of the awards, and the material internal control deficiencies reported in past Office of Management and Budget (OMB) Circular A-133 audits.

Except for \$340,204 ([REDACTED]) in questioned subaward costs (\$234,785) and eight other cost categories (\$105,419), we determined that the costs claimed by Exploratorium under NSF award numbers ESI-0119787, ESI-9910207, and ESI-0307925 appear fairly stated and are allowable, allocable and reasonable for the NSF awards.

Specifically, for \$227,109 of the \$234,785 questioned subaward costs, one of the subawardees billed Exploratorium based on budget allocations for all cost categories rather than actual costs from the inception of the award on January 1, 2002 through May 31, 2003. The remaining subawardee costs of \$7,676 were questioned because the subawardee was unable to provide supporting documentation for seven transactions. Of the remaining \$105,419 in questioned costs that affected eight other cost categories, \$82,919 of those questioned costs occurred primarily because adequate supporting documentation was not provided to support the claimed costs. Additionally, program income of \$ [REDACTED] earned prior to the termination of award no. ESI-0307925 was not added to the funds committed to the NSF project and was inappropriately used to fund Exploratorium's cost sharing requirement. In addition, we questioned \$81,866 of Exploratorium's claimed cost sharing due to insufficient supporting documentation. However, we did not associate any of the questioned cost share to the NSF funded costs because, overall, Exploratorium exceeded its cost share requirement.

We also noted three compliance and internal control deficiencies in Exploratorium's financial management practice that contributed to these questioned costs and if not corrected, could impact current and future NSF awards. Specifically:

- Although Exploratorium did some monitoring of its subaward costs charged to NSF Award No. ESI-0119787, which included two subawards amounting to \$6 million or [REDACTED] of the total costs charged to the NSF award and a total of \$551,000 in cost sharing, the monitoring process was limited and could be improved to provide greater assurance that the subaward costs claimed are reasonable, allowable and allocable to its NSF award. To a great extent, Exploratorium relies on the controls and self-assessments made by the subawardees to ensure that subawardee costs are reasonable, allowable, and allocable to the NSF awards. This finding was also noted in prior OMB Circular A-133 audit report management letters. In addition, the monitoring process does not address foreign or other subawardees with no OMB Circular A-133 audit requirement. Therefore, Exploratorium's internal controls over subaward costs do not provide adequate

assurance that the expenditures incurred and claimed are accurate, valid, allowable, and adequately documented. In order to validate the subaward charges, we performed additional audit tests at both of the subawardees. At one subawardee, we found direct and indirect costs charged based on budget allocations instead of actual costs incurred and we found that the subawardee had some unsupported costs. As a result, we questioned \$234,785 in subawardee costs. Additional required routine subaward monitoring could prevent or identify unallowable claimed subaward costs on current and future NSF awards.

- Program income earned on NSF Award No. ESI-0307925 of [REDACTED] was not added to the funds committed to the project by NSF and used to further project objectives. The program income was earned during the last three months of the award and was used improperly to fund cost share even though the terms of the award stated that was not allowable. This occurred because Exploratorium did not have policies, procedures, and controls to identify income earned prior to the termination of the award and to properly record program income in Exploratorium's financial accounting system, even though this finding was identified in a prior OMB FY 2003 OMB Circular A-133 audit report. As a result, the total expenditures reimbursed by NSF for the award have been overstated by the program income received during the life of the grant. Therefore, we questioned \$[REDACTED] in costs charged to Award No. ESI-0307925.
- Exploratorium did not maintain adequate documentation to support some costs claimed on NSF award Nos. ESI-0119787 and ESI-9910207. During our review of direct costs charged to the NSF awards and cost share claimed, we found 16 transactions of direct costs and 5 transactions for cost share claimed for \$164,785 that were either not supported or supported with insufficient documentation. This occurred because Exploratorium personnel did not comply with existing policies and procedures for maintaining records and sufficiently documenting charges for the NSF awards. As a result, Exploratorium's lack of adequate supporting documentation increases the risk that some of the costs claimed by Exploratorium may be unallowable, unreasonable, or not allocable to the NSF awards. We questioned \$138,864 of direct costs and cost share claimed, and, \$25,921 of associated fringe benefits and indirect costs.

Exploratorium currently has approximately 15 additional NSF awards totaling over \$30 million. While we did not assess the impact of these noncompliance and internal control deficiencies on those awards, we believe the same deficiencies may exist under those programs and, if not corrected, could impact future NSF awards.

To address these compliance and internal control deficiencies, we recommend that the Director of NSF's Division of Institutional and Award Support (DIAS) direct Exploratorium to (1) revise its subaward monitoring policies and procedures to better assess its subawardee's OMB Circular A-133 reports; to include steps to monitor foreign and other subawardees that are not subject to OMB Circular A-133 requirements; and to include a risk-based monitoring approach to better ensure that costs charged to NSF awards are reasonable, allowable, and allocable; (2) develop policies, procedures, and controls to properly account for program income received during the life of an award; and (3) comply with its existing policies and procedures to ensure that all claimed costs are supported with adequate and sufficient supporting documentation.

Exploratorium responded to the draft report on March 17, 2009. In its response, Exploratorium agreed with all the recommendations. Exploratorium did state that they believe the situation identified in regard to program income was an isolated incident and that there were program



related expenses in excess of the budget that were not claimed that would be available to offset any questioned costs. Exploratorium stated that policies have been enhanced or put in place to address the recommendations and procedures have been reviewed and communications made with appropriate staff. In addition, Exploratorium did not specifically respond regarding the costs that were questioned in the draft report.

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

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

# EXPLORATORIUM

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## INTRODUCTION

## BACKGROUND

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We audited funds awarded by the National Science Foundation (NSF) to Exploratorium under award numbers ESI-0119787, ESI-9910207, and ESI-0307925 for the period June 1, 2000 to March 31, 2008. Exploratorium, as a Federal awardee, is required to follow the cost principles specified in Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*, and the Federal administrative requirements contained in 2 CFR 215 - *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations* (OMB Circular A-110 has been incorporated into 2 CFR 215).

Exploratorium, located in San Francisco, California, is a nonprofit corporation under Section 501(c) (3) of the Internal Revenue Code. Exploratorium experiments with new practices for discovering the world, including a science museum filled with interactive science and art exhibits, a national center for teacher development, an award winning web site of new teaching resources, and an a growing global network of partner museums. It is also a laboratory for the research and development of innovations in exhibits, web publishing, and programs, linked to a world-wide dissemination network. The Exploratorium's mission is to create a culture of learning through innovative environments, programs, and tools that help people nurture their curiosity about the world around them.

Exploratorium was chosen for an audit because of the high dollar and number of NSF awards, the collaborative nature of many of the awards, and material internal control deficiencies reported in past OMB A-133 audits. As of September 30, 2008, Exploratorium had 15 active NSF awards totaling over \$30 million. Ten of those active awards are funded at amounts over \$1,000,000 each. Its largest award, award number ESI-0119787, was one of the awards chosen for audit because it was valued at over \$11.6 million of which over \$6.2 million (53%) was budgeted for 2 subawards with academic organizations, where Exploratorium is the principal management entity to ensure that the programmatic objectives are accomplished and the financial award terms and conditions are met.

Descriptions of the NSF awards we audited are as follows:

**Award ESI-0119787 – Center for Informal Learning and Schools (CILS).** NSF awarded ESI-0119787 to Exploratorium for the period January 1, 2002 to June 30, 2008 in the amount of \$11,656,749, with a cost sharing requirement of \$1,186,812. The CILS is a collaborative effort between Exploratorium in San Francisco, the University of California at Santa Cruz, and King's College London, the purpose of which is to study the intersection of informal science learning found in museums and science centers with formal classroom learning. The award includes sub awards to the University of California, Santa Cruz (\$3.5 million) and King's College London (\$3.1 million).

Exploratorium is responsible for overall management of the project. Cumulative disbursements for award number ESI-0119787 reported to NSF through March 31, 2008 were \$10,967,594. Cost share claimed totaled \$1,472,645.

**Award ESI-9910207 – Content, Coaching, and Acculturation: A New Community of Practice for Beginning Teachers.** NSF awarded ESI-9910207 to Exploratorium for the period June 1, 2000 to May 31, 2007 in the amount of \$2,983,974, with a cost sharing requirement of

\$4,384,803. The purpose of this award was to implement a discipline-based, beginning teacher program for middle and high-school science teachers in San Mateo County and Oakland school districts.

Cumulative disbursements for award number ESI-9910207 reported to NSF through December 31, 2007 were \$2,983,974. Cost share claimed totaled \$4,806,205.

**Award ESI-0307925 – Listening: Making Sense of the Sonic Soup.** NSF awarded ESI-0307925 to Exploratorium for the period September 1, 2003 to August 31, 2007 in the amount of \$2,098,873, with a cost sharing requirement of \$209,887. The purpose of this award was to explore the physical nature of sound, the physiology of hearing and the perception of sound, and the process of attentive listening.

Cumulative disbursements for award number ESI-0307925 reported to NSF through March 31, 2008 were \$2,098,873. Cost share claimed totaled \$576,079.

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

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The objectives of our audit were to:

1. Determine whether Exploratorium's system of internal control over administering its NSF awards is adequate to account for and ensure compliance with applicable OMB Circular and NSF award requirements.
2. Identify and report instances of noncompliance with laws, regulations and the provisions of the award agreements and weaknesses in Exploratorium's internal controls over compliance and financial reporting that could have a direct and material effect on the Schedules of Award Costs and Exploratorium's ability to properly administer, account for, and manage its NSF awards.
3. Determine and report on whether Exploratorium adequately monitors its subawards.
4. Determine and report on whether the Schedules of Award Costs of the awardee presents fairly, in all material respects, the cost claimed on the *Federal Financial Report* (FFR) in conformity with Federal and NSF award terms and conditions.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* (2007 Revision) issued by the Comptroller General of the United States, and the guidance provided in the *National Science Foundation OIG Audit Guide* (August 2007), as applicable. These standards and the NSF OIG Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether amounts claimed to NSF as presented in the Schedules of Award Costs (Schedules A-1 through A-3) are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules of Award Costs. An audit also includes assessing the accounting principles used and the significant estimates made by Exploratorium, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

**INTERNAL CONTROLS AND COMPLIANCE**

National Science Foundation  
Office of Inspector General  
4201 Wilson Boulevard  
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**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited costs claimed as presented in the Schedules of Award Costs (Schedules A-1, A-2, and A-3), which summarize financial reports submitted by Exploratorium to the National Science Foundation (NSF) and claimed cost sharing for the awards and periods listed below and have issued our report thereon dated November 7, 2008.

Award Number	Award Period	Audit Period
ESI – 0119787	01/01/02 – 06/30/08	01/01/02 – 03/31/08
ESI – 9910207	06/01/00 – 05/31/07	06/01/00 – 05/31/07
ESI – 0307925	09/01/03 – 08/31/07	09/01/03 – 08/31/07

We conducted our audit of the Schedules of Award Costs as presented in Schedules A-1, A-2, and A-3 in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (2007 revision), and the guidance provided in the *National Science Foundation Audit Guide* (August 2007), as applicable.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the Schedules of Award Costs (Schedules A-1, A-2, and A-3) for the period June 1, 2000 to March 31, 2008, we considered Exploratorium's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of Exploratorium's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Exploratorium's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material

weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Exploratorium's financial schedule that is more than inconsequential will not be prevented or detected by Exploratorium's internal control. We consider the deficiencies described below as Finding Nos. 1 and 3 to be significant deficiencies in internal control over financial reporting.

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

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

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

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

Exploratorium's response to the findings identified in our audit is described after the findings and is included in its entirety in Appendix A. We did not audit Exploratorium's response and, accordingly, we express no opinion on it.

## **FINDINGS AND RECOMMENDATIONS**

### **Finding 1. Fiscal Monitoring of Subawardees Could be Improved**

Although Exploratorium did some monitoring of its subaward costs charged to NSF Award No. ESI-0119787, which included two subawards amounting to \$6 million or █████ of the total costs charged to the NSF award and a total of \$551,000 in cost sharing, the monitoring process was limited and could be improved to provide greater assurance that the subaward costs claimed



are reasonable, allowable and allocable to its NSF award. To a great extent, Exploratorium relies on the controls and self-assessments made by the subawardees to ensure that subawardee costs are reasonable, allowable, and allocable to the NSF awards. This finding was also noted in prior OMB Circular A-133 audit report management letters. In addition, the monitoring process does not address foreign or other subawardees with no OMB Circular A-133 audit requirement. Therefore, Exploratorium's internal controls over subaward costs do not provide adequate assurance that the expenditures incurred and claimed are accurate, valid, allowable, and adequately documented. In order to validate the subaward charges, we performed additional audit tests at both of the subawardees. At one subawardee, we found direct and indirect costs charged based on budget allocations instead of actual costs incurred and we found that the subawardee had some unsupported costs. As a result, we questioned \$234,785 in subawardee costs. Additional required routine subaward monitoring could prevent or identify unallowable claimed subaward costs on current and future NSF awards.

2 CFR 215, Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations (OMB Circular A-110), Subpart C, Section .51(a), states: "Recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award."

Further, OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Subpart D, Section 400(d.3) – Pass-Through Entity Responsibilities, states: "A pass-through entity shall perform the following for the Federal awards it makes:... (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved."

Specifically, we found that Exploratorium did not develop and start implementing its subaward monitoring policies and procedures until FY 2003. Therefore, there were no formal subaward polices or procedures implemented from the inception of the award (January 1, 2002) through FY 2003. According to its policies and procedures a potential subawardee is required to complete a subrecipient fact sheet and attach its Single Audit Report if there were findings or certify that there were no findings. Thereafter, the subawardee is required to certify yearly that they have completed an OMB A-133 Single Audit if required. If there were any material weaknesses or instances of non-compliance the subawardee is required to provide a copy of the A-133 audit report for Exploratorium to review and follow-up with the subawardee to ensure that any issues are properly and timely resolved. However, even with the subaward polices in effect the fiscal monitoring activities for the subawardees of this award, with the exception of random sampling of Kings College London (KCL), were limited to the review of subawardee invoices for mathematical accuracy and budgetary compliance, as well as the review of certification of single audit results of University of California, Santa Cruz (UCSC).

The Program Manager responsible for the subaward with UCSC does not request or perform a review of supporting documentation for claimed costs from UCSC because Exploratorium relies heavily on the A-133 audits for UCSC. Fiscal monitoring procedures were limited to a review of UCSC invoices for mathematical accuracy and budgetary compliance. We believe that Exploratorium's subawardee monitoring could be improved if it's subaward monitoring policy required that, in addition to requesting that the subawardee self-assess, Exploratorium also proactively review the subawardee's A-133 report findings to ensure that the subawardee's self assessment is accurate and complete and ensure that Exploratorium adequately evaluate the sufficiency of the subawardee's award administration process. We also noted that the scope of A-133 audits performed on state university systems such as the University of California system,

that includes multiple campuses, is more limited and may warrant more detailed subawardee monitoring, even though the OMB Circular A-133 report performed appears to have no weaknesses.

Exploratorium could also improve its subaward monitoring policies and procedures by including a risk-based process to assess the risk of its subawards to determine the level of subawardee oversight necessary. The risk level assigned during the risk assessment process would determine the need for performing steps beyond a review of the OMB Circular A-133 audit report results, such as performing desk reviews, site visits, and sampling of support documentation. A formal subaward monitoring risk assessment process could better prevent or identify unallowable subaward costs claimed on NSF awards.

In addition, Exploratorium's current policies and procedures do not address specific monitoring steps for subawardees that are foreign or otherwise not required to undergo an OMB Circular A-133 audit. Although Exploratorium's subawardee monitoring policies and procedures did not address foreign subawardees, the Program Manager for Exploratorium sampled a portion of the invoices from KCL by asking for supporting documentation such as invoices, vendor statements, and expense reports for selected items from the detail transaction listing provided with the invoice. However, even though in this instance the Program Manager took the initiative to request and review limited documentation for the foreign subawardee, Exploratorium's subaward monitoring policies and procedures should include these and other appropriate steps that should be taken to verify subaward costs for foreign and other subawardees that are not subject to OMB Circular A-133 requirements. Exploratorium's policies and procedures should also require that the rationale used to monitor each subawardee be documented.

We performed additional on-site procedures at both subawardees, UCSC and KCL, to satisfy ourselves that the subaward costs charged by Exploratorium to the NSF grant were accurate, allowable and allocable. No exceptions were noted during our site visit to UCSC. The following is a description of the exceptions we noted during our on-site visit to KCL:

### **Kings College London (KCL)**

#### **A. Billing based on Budget Allocations**

KCL billed Exploratorium based on budget allocations for all cost categories rather than actual costs from the inception of the award (January 1, 2002) through May 31, 2003. This involved nine invoices which totaled \$227,109. These invoices were not supported by a detailed transaction ledger with supporting documentation. Instead, the costs were based on budget allocations rather than in accordance with what had actually been spent in the period. Because there was no supporting documentation for any costs incurred we were unable to verify the costs billed. As a result, we questioned the total costs billed based on budget allocation rather than actual costs in the amount of \$227,109. Costs billed after May 31, 2003 were based on actual expenses.

In addition, indirect costs totaling \$ [REDACTED] were included in the billings for the first year because indirect costs were included in the budget. However, NSF generally provides no amounts for indirect costs for foreign grantees per Grant Policy Manual (GPM) 633.2 a. 4 and we verified with NSF that indirect costs were not allowed on this award. In response to our inquiries regarding billing for indirect costs, Exploratorium provided us with a revised invoice covering KCL's subawardee costs for the year 2002 that reflected no indirect costs. However, KCL does not currently reflect this revised invoice in its system and it is also not supported by a detailed

transaction journal and supporting documentation. Therefore, we were never provided evidence that the revised invoice was recorded in KCL's or Exploratorium's accounting system. These indirect costs of \$ [REDACTED] are included in the amount of \$227,109 questioned above. Indirect costs were not billed after the first year of the award.

**B. Supporting Documentation Unavailable**

Kings College London was unable to provide supporting documentation for seven transactions tested that were billed during a period from October, 2003 to June, 2006 that totaled \$7,676 (1.01% of total tested). Therefore, we were unable to establish that these charges were allowable, allocable, and reasonable. As a result, we questioned the transactions as scheduled below.

<u>Category</u>	<u>Transactions</u>	<u>Questioned Costs</u>
Consultants	2	[REDACTED]
Materials	2	[REDACTED]
Other	2	[REDACTED]
Travel	1	[REDACTED]
<b>Total</b>	<b>7</b>	<b>\$ 7,676</b>

***Recommendation 1:***

We recommend that NSF's Director of the Division of Institution and Award Support (DIAS) ensure that Exploratorium revise its subaward monitoring policies and procedures to include:

- a. a proactive review of subawardee's OMB Circular A-133 report findings to ensure that the subawardee's self-assessment is accurate and complete and that Exploratorium adequately evaluates the sufficiency of the subawardee's award administration process.
- b. Provisions for subaward monitoring for its foreign or other subawardees with no OMB Circular A-133 audit requirements.
- c. A formal subaward monitoring risk-assessment process.

**Awardee's Comments**

The Exploratorium agrees with this recommendation. As a result of this recommendation the policy has been enhanced to include steps to monitor foreign and other subawardees that are not subject to OMB Circular A-133 requirements; and also to include a risk-based monitoring approach to ensure that costs charged to NSF awards are reasonable, allowable, and allocable. (See Attachment #1 -10.B in Appendix A)

**Auditor's Response**

Exploratorium's comments are responsive to the finding and recommendation.

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

## **Finding 2. Program Income not added to Project**

Program income earned on NSF Award No. ESI-0307925 for \$ [REDACTED] was not added to the funds committed to the NSF project and used to further project objectives. The program income was earned during the last three months of the award and was used improperly to fund cost share even though the terms of the award stated that was not allowable. This occurred because Exploratorium did not have policies, procedures, and controls to identify income earned prior to the termination of the award and to properly record program income in Exploratorium's financial accounting system, even though this finding was identified in a prior 2003 OMB Circular A-133 audit. As a result, the total expenditures reimbursed by NSF for the award have been overstated by the program income received during the life of the grant. Therefore, we questioned \$ [REDACTED] in costs charged to Award No. ESI-0307925.

NSF Grant Policy Manual (GPM), Section 750 Program Income, subsection 752 Definition states, "Program Income means gross income earned by the grantee that is directly generated by a supported activity or earned as a result of the grant. Program income includes, but is not limited to, income from fees for services performed, the use or rental of real or personal property acquired under the grant...."

Subsection 753 NSF Policy, (a) Standard Treatment states "Unless otherwise specified in the grant, program income received or accruing to the grantee during the period of the grant is to be retained by the grantee, added to the funds committed to the project by NSF, and thus used to further project objectives. The grantee has no obligation to NSF with respect to: 1) license fees and royalties for copyrighted material, patents, patent applications, trademarks and inventions; or 2) program income received beyond the period of the grant.

Per Award Document (Grant Letter), page 2, "Program income received or accrued to the grantee during the period of this grant shall be retained and added to the funds committed to the project by NSF and used to further project objectives. Program income cannot be used to fund cost share."

However, we found that program income earned prior to the termination of NSF Award No. ESI-0307925 was not added to the funds committed to the NSF project and the income received during the award was not used to further project objectives. One of the objectives of NSF Award No. ESI-0307925, "Listening: Making Sense of the Sonic Soup" was to construct approximately 30 exhibits that would be used as a traveling exhibition at the conclusion of the award period. The exhibits were constructed during the award period which ended August 31, 2007. The Exhibit Rental and Service Agreement indicated that the traveling exhibition was sent out to a science center for rental in June of 2007 which was three months prior to the end of the award. A review of the detail trial balance report revealed that the traveling exhibition earned \$ [REDACTED] in rental income during the period June 1, 2007 through August 31, 2007. This rental income was recorded in Exploratorium's general fund and not added to the funds committed to the NSF project.

Exploratorium personnel did not make the necessary adjustment to record this income in the Listening Fund instead of in the General Fund. By recording the income in the Listening Fund the funds would have been available to use towards the cost of the exhibits or other project

expenses. However, by recording the income in the General Fund the funds were not available to use to fund project objectives but were part of the general funds that Exploratorium could use to provide cost share or any other use that Exploratorium deemed necessary. By identifying the program income earned prior to the end of the award Exploratorium could have made an adjusting entry to transfer that portion of the income to the Listening Fund. However, the program income was earned during the term of the award and was added to the General Fund and ultimately used improperly to fund cost share, even though the terms of the award stated that was not allowable.

Although Exploratorium had developed and implemented policies and procedures for the accountability of program income received after the termination of awards, those policies and procedures did not include controls to properly identify program income earned prior to the termination of the award, or instructions on how to properly record program income in Exploratorium's financial accounting system. In addition, there were no policies and procedures in place to address how program income should be used to further project objectives. Exploratorium officials indicated that, in most cases, Exploratorium awards would not earn program income prior to the termination of the award. However, in this case, the exhibit was completed and began earning income three months prior to the end of the grant period. As a result, the total expenditures reimbursed by NSF for the award have been overstated by the program income received during the life of the grant. Therefore, we questioned \$22,500 in costs charged to Award No. ESI-0307925.

### ***Recommendation 2:***

We recommend that NSF's Director of the Division of Institution and Award Support (DIAS) instruct Exploratorium to develop policies, procedures, and controls to properly account for program income received during the life of an award to ensure that such income is added to the funds committed to the NSF project and used to further project objectives.

### **Awardee's Comments**

Exploratorium agrees with this recommendation. A policy was put in place in 2007 addressing this recommendation. (See Attachment #2 in Appendix A)

Exploratorium believes the situation cited in this report was an isolated incident. Program income of \$[REDACTED] was not added to the funds committed to the project by NSF. However, there were program related expenses of [REDACTED] in excess of the budget that were not claimed. Because these expenses were not claimed they were available to offset any questioned costs as a result of the program income. The on-site auditors verified this finding.

The importance of properly identifying and recording program income has been communicated to the project management staff involved and to all project management staff responsible for government projects.

### **Auditor's Response**

Exploratorium's comments are responsive to the finding and recommendation.

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

### **Finding 3. Lack of Adequate Supporting Documentation**

Exploratorium did not maintain adequate documentation to support some costs claimed on NSF award Nos. ESI-0119787 and ESI-9910207. During our review of direct costs charged to the NSF awards and cost share claimed, we found 16 transactions of direct costs and 5 transactions for cost share claimed for \$164,785 that were either not supported or supported with insufficient documentation. This occurred because Exploratorium personnel did not comply with existing policies and procedures for maintaining records and documenting charges for the NSF awards. As a result, Exploratorium's lack of adequate supporting documentation increases the risk that some of the costs claimed by Exploratorium may be unallowable, unreasonable, or not allocable to the NSF awards. We questioned \$ [REDACTED] of direct costs and cost share claimed, and, \$ [REDACTED] of associated fringe benefits and indirect costs.

CFR Title 2, Part 215 (OMB Circular A-110), Subpart C, 215.21 (b) (7) states recipients' financial management systems shall provide for "Accounting records including cost accounting records that are supported by source documentation." Furthermore, OMB Circular A-122, Part A, section 2, states that for costs to be allowable, they must be both reasonable and allocable.

Documentation could not be located for transactions that occurred from the years 2000 through 2007, with most exceptions in years 2001 through 2005. The exceptions are detailed below by cost category.

**Salaries and Wages** - For 2 salary and wage transactions out of a sample of [REDACTED] at [REDACTED], Exploratorium was unable to provide the related timesheet for one transaction to substantiate the hours paid and the allocation while for the other transaction the entire pay amount was charged to the grant rather than allocated per the timesheet. As a result, we questioned \$ [REDACTED] (\$ [REDACTED] in salaries and wages and \$1,666 in associated fringe benefit and indirect costs).

**Travel Costs** - For 4 travel transactions out of a sample of 52 valued at \$73,427, Exploratorium was unable to provide documentation for one transaction, while support for the other three was insufficient to establish allowability, allocability, and reasonableness. As a result, we questioned \$5,225 ([REDACTED] in travel costs and [REDACTED] in associated indirect costs).

**Participant Support** - For 2 participant support transactions out of a sample of 55 valued at \$ [REDACTED], Exploratorium was unable to provide supporting documentation. Therefore, we were unable to establish allowability, allocability, and reasonableness and as a result, we questioned \$250 in participant support costs.

**Materials and Supplies** - For 2 materials and supplies transactions out of a sample of [REDACTED], Exploratorium was unable to provide supporting documentation and therefore we were unable to establish allowability, allocability, and reasonableness. As a result, we questioned \$10,907 ([REDACTED]).

**Consultant Services** - We noted exceptions in 4 instances, out of a sample of 34 transactions tested valued at \$238,888. In two instances Exploratorium was unable to provide any supporting documentation and in the other two instances Exploratorium provided an approved consulting invoice, but was unable to provide the contract for the services. As a result we were unable to determine what types of services were provided as well as the terms of payment. For consulting services, the NSF Grant Policy Manual, Chapter VI, section 616.1 (a) states that the “adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation and termination provisions),” is a factor in determining the allowability of costs. Additionally, Exploratorium’s policy requires that contracts be entered into for services, and supporting documentation be maintained. As such, we questioned \$52,473 ( [REDACTED] ).

**Other Direct Costs** – For 2 other direct costs transactions out of a sample of [REDACTED], Exploratorium was unable to provide adequate supporting documentation. For one transaction that was related to consulting services, an approved accounts payable form was provided as support along with the vendor's invoice. However, there is only a limited description of the services provided and no reference to the terms of payment. An agreement or contract was not provided by the grantee for our review, even though the approval form stated that the payment was a "contract payment". For the other transaction, documentation was provided but the receipts for food and beverages were unreadable and no listing of attendees for the meeting at Kelly’s Mission was provided in accordance with the Exploratorium food and drink policy. As a result, we questioned a total of \$10,635 in other direct costs ( [REDACTED] ).

**Cost Sharing** – For 5 cost share transactions (1 salaries and wages, 2 consulting and 2 other costs), out of a sample of [REDACTED], Exploratorium was unable to provide adequate documentation. For one salary transaction, Exploratorium was unable to provide the related timesheet to substantiate the hours paid and the allocation. This is part of the same transaction reported in the first finding under Salaries and Wages above. For two consulting transactions, the support contained a check stub and a consultant invoice. An executed agreement or contract was not provided and as such we were unable to determine what types of services were provided as well as the terms of payment. Under the teacher institute grant, Exploratorium claimed as cost share donated time by the school district for teachers and administrators to attend and participate in workshops. Attendees were not compensated by Exploratorium and continued to receive normal wages from the school district during their participation. Part of the strategy to achieve the objectives of the award was for Exploratorium to conduct workshops and summer institutes for leadership training and professional development for teachers. The procedure was for a staff person from Exploratorium to log the number of teachers who attended and the program manager would enter the number into a spreadsheet used for computing and tracking the cost of the donated time. However, in two instances, a record of attendance was not provided as part of the supporting documentation. The grantee provided an agenda of a workshop as support for one of the transactions, but no attendance records were submitted. The other transaction lacked both, an agenda as well as attendance records. As a result, for the 5

transactions, we questioned a total of \$81,866 in cost sharing (\$80,977 in expenses and \$889 in associated fringe benefit and indirect costs).

The above questioned costs are summarized in the following table:

Cost Category	Sample size		Questioned Costs		Fringe Benefits & Indirect Costs	Total Questioned Costs
	Transactions	Value	Transactions	Value		
Salaries & Wages	█	█	█	█	█	█
Travel Costs	█	█	█	█	█	█
Participant Support	█	█	█	█	█	█
Materials & Supplies	█	█	█	█	█	█
Consultant Services	█	█	█	█	█	█
Other Direct Costs	█	█	█	█	█	█
Cost Sharing	█	█	█	█	█	█
<b>Total</b>						<b>\$164,785</b>

Exploratorium did not adequately follow its policies and procedures to ensure that it maintained the necessary supporting documentation to properly support claimed costs under the NSF awards. Exploratorium’s policies and procedures require that adequate supporting documentation, which includes a clear indication of the business purpose of the expenditure be provided and maintained for all payments. Acceptable types of supporting documentation include original invoice, artist or independent contractor contract, honorarium agreement, and original receipts. The project managers are responsible for reviewing the supporting documentation and verifying that all required information is included. The PIs are responsible for monitoring, reviewing supporting documentation, and approving expenditures. Upon payment, the supporting documentation should be filed and maintained in Exploratorium’s office until later moved to storage. The policies and procedures require that archived records be maintained in a locked storage building for five years after closure of a grant, depending on grant guidelines.

Documentation necessary to properly support claimed costs was either missing or insufficient. The missing documentation was misfiled and could not be located in Exploratorium’s archived files. In cases where documentation was received but not complete, a description of the expenses and/or the relation to the purpose of the award was not identified on the supporting documentation as required in existing policies and procedures. Regarding the lack of support for the donated time by the school district referred to above in the cost sharing category, the two workshops were held off site and attendance was taken by school district personnel. No copies of the attendance records were submitted by the school district or obtained by Exploratorium, to support the cost share claimed in accordance with Exploratorium’s normal procedures.

Exploratorium’s failure to obtain and maintain adequate supporting documentation affects its ability to support and report claimed costs under NSF awards and increases the risk that some of the costs claimed by Exploratorium may be unallowable, unreasonable, or not allocable to the NSF awards. We questioned █ of direct costs and cost share claimed, and, █ of associated fringe benefits and indirect costs.



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

We recommend that NSF's Director of the Division of Institution and Award Support (DIAS) instruct Exploratorium to comply with its procedures to:

- a.) obtain, review, and approve adequate documentation to ensure that appropriate charges are made to NSF awards;
- b.) prepare adequate contract agreements for services such as consultants;
- c.) archive records properly to ensure that supporting documentation is not misplaced or misfiled; and
- d.) ensure that proper supporting documentation is obtained from third parties when donated services are received. Principal investigators should review cost share documentation for donated services or time when performing their review and approval of eligible costs.

### **Awardee's Comments**

The Exploratorium agrees with this recommendation. As a result of this report it was communicated to project management staff responsible for government projects the importance of obtaining adequate supporting documentation for government projects. Emphasis was placed on the following:

- a.) Review and approval of documentation to ensure that appropriate charges are made to government projects, including cost share projects.
- b.) Oversight of consultants for federal awards.
- c.) Ensure that proper supporting documentation is obtained from third parties when donated services are received.

Also, archive procedures were reviewed with accounting staff to ensure that supporting documentation is not misfiled.

### **Auditor's Response**

Exploratorium's comments are responsive to the finding and recommendation.

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

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

Mayer Hoffman McCann P.C.  
*Conrad Government Services Division*  
Irvine, California  
March 16, 2009

FINANCIAL SCHEDULES AND  
SUPPLEMENTAL INFORMATION

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

### INDEPENDENT AUDITORS' REPORT ON FINANCIAL SCHEDULES

We have audited the costs claimed by Exploratorium to the National Science Foundation (NSF) on the Federal Financial Reports (FFRs) for the NSF awards listed below. In addition, we audited the amount of cost sharing claimed on the NSF awards. The FFRs, as presented in the Schedules of Award Costs (Schedules A-1, A-2, and A-3), are the responsibility of Exploratorium's management. Our responsibility is to express an opinion on the Schedules of Award Costs (Schedules A-1, A-2, and A-3) based on our audit.

Award Number	Award Period	Audit Period
ESI-0119787	01/01/02 – 06/30/08	01/01/02 – 03/31/08
ESI-9910207	06/01/00 – 05/31/07	06/01/00 – 05/31/07
ESI-0307925	09/01/03 – 08/31/07	09/01/03 – 08/31/07

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (2007 revision), and the guidance provided in the *National Science Foundation OIG Audit Guide* (August 2007), as applicable. These standards and the *National Science Foundation OIG Audit Guide*, require that we plan and perform the audit to obtain reasonable assurance that the amounts claimed to NSF as presented in the Schedules of Award Costs (Schedules A-1, A-2, and 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, A-2, and A-3). An audit also includes assessing the accounting principles used and the significant estimates made by Exploratorium's management, as well as evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion. The Schedule of Questioned Costs (Schedule B) explains the \$340,204 (2%) of total claimed NSF funds that we have questioned as to their allowability under the award agreement. These questioned costs include unallowable salaries and wages, fringe benefits, travel, participant support, materials and supplies, consultant services, subawards, other direct costs, and indirect costs.

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

In our opinion, except for the \$340,204 of questioned NSF-funded costs, the Schedules of Award Costs (Schedules A-1, A-2, and A-3) referred to above present fairly, in all material respects, the costs claimed on the FFRs for the period June 1, 2000 to March 31, 2008 in conformity with the provisions of the *National Science Foundation OIG Audit Guide*, *NSF Grant Policy Manual*, terms and conditions of the NSF award and on the basis of accounting described in the Notes to the Financial Schedules, which is a comprehensive basis of accounting other than generally accepted accounting principles. These schedules are not intended to be a complete presentation of financial position of Exploratorium in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, and guidance provided in the *National Science Foundation OIG Audit Guide*, we have also issued a report dated November 7, 2008, on our consideration of Exploratorium's internal control over financial reporting and our tests of Exploratorium's compliance with certain provisions of laws, regulations, and NSF award terms and conditions and other matters. The purpose of that report is to describe the scope of our testing over internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Mayer Hoffman McCann P.C.  
*Conrad Government Services Division*  
Irvine, California  
March 16, 2009

**Schedules A-1, A-2, A-3 Redacted**

**SCHEDULE B**

**EXPLORATORIUM**

National Science Foundation Award Numbers  
ESI-011978790, ESI-9910207, ESI-0307925  
Schedule of Questioned Costs  
From June 1, 2000 to March 31, 2008

REDACTED

**EXPLORATORIUM**

National Science Foundation Award Numbers  
ESI-0119787, ESI-9910207, ESI-0307925  
Schedule of Questioned Costs  
From June 1, 2000 to March 31, 2008

(Continued)

**Note B-3**

**Subaward Costs**

We performed additional on-site procedures at the two subawardees to satisfy ourselves that the subaward costs charged by Exploratorium to the NSF grant were accurate, allowable and allocable. We found that Exploratorium claimed \$234,785 of questionable subaward costs to the NSF award. Costs of \$227,109 claimed by one of Exploratorium's subawardees, Kings College, London (KCL), were based on budget allocations instead of actual costs for the first seventeen months of the program. In addition, KCL was unable to provide supporting documentation for seven transactions tested totaling \$7,676. These questionable costs from the subawardee were passed on to NSF through the "Subaward" cost category claimed by Exploratorium. (See Finding and Recommendation No. 1 in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.*)



**SCHEDULE C**

**EXPLORATORIUM**

Summary Schedule of Awards Audited and Audit Results  
From June 1, 2000 to March 31, 2008

**Summary of Awards Audited**

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
ESI-0119787	01/01/02 – 06/30/08	01/01/02 – 03/31/08
ESI-9910207	06/01/00 – 05/31/07	06/01/00 – 05/31/07
ESI-0307925	09/01/03 – 08/31/07	09/01/03 – 08/31/07

<u>Award Number</u>	<u>Type of Award</u>	<u>Award Description</u>
ESI-0119787	Grant	This award is a collaborative effort between Exploratorium in San Francisco, the University of California at Santa Cruz, and King’s College London, the purpose of which is to study the intersection of informal science learning found in museums and science centers with formal classroom learning.
ESI-9910207	Grant	The purpose of this award was to implement a discipline-based, beginning teacher program for middle and high-school science teachers in San Mateo County and Oakland school districts.
ESI-0307925	Grant	The purpose of this award was to explore the physical nature of sound, the physiology of hearing and the perception of sound, and the process of attentive listening.

**Summary of Questioned and Unsupported Costs by Award**

<u>Award Number</u>	<u>Award Budget</u>	<u>Claimed Costs</u>	<u>Questioned Costs</u>	<u>Unsupported Costs</u>
ESI-0119787	\$ 11,656,749		310,205	309,109
ESI-9910207	2,983,974		7,499	7,499
ESI-0307925	<u>2,098,873</u>		<u>22,500</u>	<u>-</u>
<b>Total</b>	<b>\$ <u>16,739,596</u></b>		<b><u>340,204</u></b>	<b><u>316,608</u></b>
<u>Cost Sharing</u>	<u>Award Budget</u>	<u>Claimed Costs</u>	<u>Questioned NSF-Funded Costs</u>	<u>Questioned Unsupported Costs</u>
ESI-0119787	\$ 1,186,812		-	1,866
ESI-9910207	4,384,803		-	80,000
ESI-0307925	<u>209,887</u>		<u>-</u>	<u>-</u>
<b>Total</b>	<b>\$ <u>5,781,502</u></b>		<b><u>-</u></b>	<b><u>81,866</u></b>

**SCHEDULE C**

**EXPLORATORIUM**

Summary Schedule of Award Audited and Audit Results  
From June 1, 2000 to March 31, 2008

(Continued)

**Summary of Questioned Cost by Explanation**

<b>Category</b>	<b>Questioned Costs</b>	<b>Internal Controls</b>	<b>Non-Compliance</b>
Salaries and Wages	\$ [REDACTED]	Yes	Yes
Fringe Benefits	[REDACTED]	Yes	Yes
Travel	[REDACTED]	Yes	Yes
Participant Support	[REDACTED]	Yes	Yes
Material & Supplies	[REDACTED]	Yes	Yes
Consulting	[REDACTED]	Yes	Yes
Subawards	[REDACTED]	Yes	Yes
Other Direct Costs	[REDACTED]	Yes	Yes
Indirect Costs	[REDACTED]	Yes	Yes
Cost Sharing	[REDACTED]	Yes	Yes

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

<b>Findings</b>	<b>Non-Compliance and/or Internal Control</b>	<b>Significant Deficiency</b>	<b>Material Weakness</b>	<b>Amount of Questioned Costs Affected</b>	<b>Amount of Claimed/ Incurred Costs Affected</b>
Lack of Adequate Fiscal Monitoring of Subawardees	Non-Compliance and Internal Control	Yes	No	\$ 234,785	\$ 6,104,939
Program Income not added to Project	Non-Compliance	No	No	22,500	22,500
Lack of Adequate Supporting Documentation	Non-Compliance and Internal Control	Yes	No	164,785	9,945,502

## EXPLORATORIUM

Notes to Financial Schedules  
From June 1, 2000 to March 31, 2008

### Note 1: Summary of Significant Accounting Policies

#### Accounting Basis

The accompanying financial schedules have been prepared in conformity with National Science Foundation (NSF) instructions, which are based on a comprehensive basis of accounting other than generally accepted accounting principles. Schedules A-1, A-2, and A-3 have been prepared by Exploratorium from the Federal Financial Reports (FFRs) submitted to NSF and Exploratorium's accounting records. The basis of accounting utilized in preparation of these reports differs from generally accepted accounting principles. The following information summarizes these differences:

#### A. Equity

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

#### B. Inventory

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

#### Income Taxes

The Exploratorium is a nonprofit corporation under Section 501(c) (3) of the U.S. Internal Revenue Code and has received rulings from the Internal Revenue Service and the California Franchise Tax Board granting it exemption from income taxes.

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

### Note 2: NSF Cost Sharing and Matching

The following represents the cost share requirement and actual cost share as of March 31, 2008:

<u>Award Number</u>	<u>Cost Share Required</u>	<u>Actual Cost Share Provided</u>	<u>Over/(Under)</u>
ESI-0119787	\$ 1,186,812	\$ 1,472,645	\$ 285,833
ESI-9910207	4,384,803	4,806,205	421,402
ESI-0307925	209,887	576,079	366,192

**EXPLORATORIUM**  
Notes to Financial Schedules  
From June 1, 2000 to March 31, 2008

(Continued)

**Note 3: Indirect Cost Rates**

REDACTED

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

## Exploratorium

### APPENDIX A – AUDITEE'S COMMENTS TO REPORT

#### Auditor recommendations

- 1.) **Revise its subaward monitoring policies and procedures to better assess its subawardee's OMB Circular A-133 reports; to include steps to monitor foreign and other subawardees that are not subject to OMB Circular A-133 requirements; and to include a risk-based monitoring approach to better ensure that costs charged to NSF awards are reasonable, allowable, and allocable.**

The Exploratorium agrees with this recommendation. As a result of this recommendation the policy has been enhanced to include steps to monitor foreign and other subawardees that are not subject to OMB Circular A-133 requirements; and also to include a risk-based monitoring approach to ensure that costs charged to NSF awards are reasonable, allowable, and allocable. (See Attachment #1 - 10.B)

- 2.) **Develop policies, procedures, and controls to properly account for program income received during the life of an award.**

The Exploratorium agrees with this recommendation. A policy was put in place in 2007 addressing this recommendation. (See Attachment #2)

The Exploratorium believes the situation cited in this report was an isolated incident. Program income of [REDACTED] was not added to the funds committed to the project by NSF. However, there were program related expenses of [REDACTED] in excess of the budget that were not claimed on the FACP. Because these expenses were not claimed they were available to offset any questioned costs as a result of the program income. The on-site auditors verified this finding.

The importance of properly identifying and recording program income has been communicated to the project management staff involved and to all project management staff responsible for government projects.

**3.) Comply with existing policies and procedures to ensure that all claimed costs are supported with adequate and sufficient supporting documentation.**

The Exploratorium agrees with this recommendation. As a result of this report it was communicated to project management staff responsible for government projects the importance of obtaining adequate supporting documentation for government projects. Emphasis was placed on the following:

- a.) Review and approval of documentation to ensure appropriate charges are made to government projects, including cost share projects.
- b.) Oversight of consultants for federal awards.
- c.) Ensure that proper supporting documentation is obtained from third parties when donated services are received.

Also, archive procedures were reviewed with accounting staff to ensure that supporting documentation is not misfiled.

### Oversight of Sub-Recipients for Federal Grants

**Statement of Purpose:** Under Federal Guidelines, Sub-Recipients paid for with federal grants will follow the same rules and regulations as the primary grantee. It is the primary grantee's responsibility to monitor Sub-Recipients to ensure compliance. Sub-recipients shall maintain financial records and financial management systems in accordance with OMB Circular A-110.

#### Monitoring Process for Sub-Recipients:

	Who Performs Task:
1) Hiring a Subaward: <ul style="list-style-type: none"> <li>a) A subaward may not be contracted without prior NSF (or other Federal agency) authorization. The intent to enter into such an arrangement should be disclosed in the proposal submission.</li> <li>b) The PI should ensure that the most qualified subaward be selected for the services required.</li> <li>c) All sub-awardees must be authorized by Director of Programs during budget approval process.</li> <li>d) Procurements under NSF grants are also subject to AAG Chapter V.C. and OMB Circular A-110 Sections .41 through .48.</li> </ul>	PI Dir. Program
2) Obtain a written Sub-Award Agreement (contract) between the Exploratorium and the Sub-Recipient negotiated and signed by both Parties. Agreement should include: <ul style="list-style-type: none"> <li>a) Reference to current version of Federal Granting Agencies "General Grant Conditions" (<i>Note Foreign sub-recipients have special "Foreign Grant General Conditions"</i>),</li> <li>b) Clear statement of work to be performed.</li> <li>c) Required deliverables.</li> <li>d) Approved Sub-Recipient grant budget and terms of payment,</li> <li>e) Invoices from Sub-Recipient to be accompanied by financial back-up reports by expense line item</li> <li>f) Reference to OMB circulars and other Federal regulations that must be adhered to under the terms of the grant. (<i>For information only: we use a version created by MIT and modify it for current regulations, scope of work etc.</i>)</li> <li>g) The CFDA title and number, award name, name of federal agency, and dollar amount of award.</li> <li>h) For non-profit recipients, a requirement to comply with</li> </ul>	PI Development PI PI



<p>Audit requirements of OMB circular 133</p> <p>i) For for-profit and foreign recipients, a requirement to comply with appropriate OMB cost circulars.</p>	SGA
<p>3) Consult the Excluded parties list (<a href="http://www.epls.gov">www.epls.gov</a>) to insure the potential sub-awardee has not been barred from accepting federal awards.</p>	SGA
<p>4) File signed copies of the sub-award documents in Development's permanent grant files</p>	PI/SGA
<p>5) Review invoices and financial back up reports from sub-Recipients against the grant budget.</p>	PI
<p>6) Conduct periodic review of sub-Recipients content and site visits</p>	SGA
<p>7) Determine if the sub-recipient is required to have an A133 audit. (Current threshold is \$500k in Collective Grant support.)</p>	SGA
<p>8) Obtain an update of the sub-recipient A-133 checklist annually.</p>	SGA
<p>9) Review of progress against milestones set in the grant or agreement prior to approving payments</p>	PI
<p>10) Sub-recipient Audit monitoring file shall be maintained in the Accounting Department to include:</p>	
<p>A. For A-133 compliant Subawardees:</p>	
<p>1) Copy of the Sub-Recipient Fact Sheet</p>	SGA
<p>2) Copies of A-133 or other audit/ financial oversight reports at the start of the sub-agreement and for each year thereafter that the sub-award is active</p>	
<p>3) If sub-recipient meets thresholds requiring an audit under OMB A-133, but does not have one, documentation with sub-recipient until A-133 audit is obtained document progress until audit it obtained</p>	
<p>4) Request a copy of the A-133 audit submitted by the sub-awardee</p>	
<p>5) Review all audits for findings related to the sub-award or material weakness</p>	
<p>6) Request copies of Client Advisory Comments and Management Responses and review for corrective action being taken</p>	

<p>7) Documentation of communication to the sub-recipient whether the corrective action plan received in f) is acceptable.</p> <p>8) Document continued monitoring until the finding or weakness is resolved</p> <p>9) Enforce compliance with Federal program requirements by with-holding payments from the sub-recipient if necessary</p> <p>B. For foreign or other sub-awardees with no OMB Circular A-133 audit requirements:</p> <p>1) Copy of Sub-Recipient Fact Sheet.</p> <p>2) Risk-assessment of sub-awardee based on findings in Sub-Recipient Fact Sheet</p> <p>3) Customized plan for sub-award monitoring to ensure that all costs charged to the federal award are reasonable, allowable and allocable.</p> <p>4) Plan to ensure sub-awardee internal controls adhere to federal guidelines.</p> <p>5) Documentation of communication to the sub-recipient outlining corrective action plan (if necessary) for any findings.</p> <p>6) Document continued monitoring until finding or weakness is resolved.</p> <p>7) Enforce compliance with Federal program requirements by with-holding payments from the sub-recipient if necessary.</p> <p>11) Offer Sub-recipients technical assistance as needed</p>	<p>SGA/PI</p>
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## H.18 Program Income Policy

**Statement of Purpose:** Proper management of program income is essential to meet the fiduciary responsibilities of the Exploratorium. Program income must be correctly accounted for, used, and reported in accordance with federal regulations and the terms and conditions of each sponsored agreement.

### Policy

- Program Income earned during the project period shall be retained by the recipient and, in accordance with Federal awarding agency regulations or the terms and conditions of the award, shall be used in one or more of the ways listed in the following:
  1. Added to funds committed to the project to be used to further eligible project or program objectives.
  2. Used to finance the non-Federal share of the project or program.
  3. Deducted from the total project or program allowable cost in determining the net allowable costs on which the Federal share of costs is based.
- When an agency authorized the disposition of program income as described in 1 and 2 above, program income in excess of any limits stipulated shall be used in accordance with #3.
- If the Federal awarding agency does not specify in the regulations or terms and conditions of the award #3 shall apply automatically to all projects or programs.
- Unless Federal awarding agency regulations or the terms and conditions of the award provide otherwise, recipients shall have no obligation to the Federal Government regarding program income earned after the end of the project period.
- If authorized by Federal awarding agency regulations or the terms and conditions of the award, costs incident to the generation of program income may be deducted from gross income to determine program income, provided these costs have not been charged to the award.

Unless Federal awarding agency regulations or the terms and condition of the award provide otherwise, recipients shall have no obligation to the Federal Government with respect to program income earned from license fees and royalties for copyrighted material, patents, patent applications, trademarks, and inventions produced under an award. However, Patent and Trademark Amendments (35 U.S.C. 18) apply to inventions made under an experimental, developmental, or research award.

**APPENDIX B- PRIOR AUDIT FINDINGS**

## **PRIOR AUDIT FINDINGS**

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The Exploratorium OMB Circular A-133 audit reports and management letters for years 2003 through 2007 contained several audit findings and weaknesses. We reviewed these findings and weaknesses and all appeared to have been addressed. However, we found two that remain issues in this audit report.

The 2003 OMB Circular A-133 audit report included a finding for program income not used to reduce current Federal expenditures. Corrections have been made for the 2003 finding; this condition was not found in the subsequent OMB Circular A-133 audits for FYs 2004 – 2007. However, this condition was found during our audit of award ESI-0307925. See Finding No. 2.

The 2003 OMB Circular A-133 management letter included a recommendation that Exploratorium review its current level of controls over subcontractor monitoring, and institute a higher level of monitoring controls. Also, the 2007 management letter recommended that Exploratorium obtain and review the actual OMB Circular A-133 audit reports rather than just written documentation from the subcontractor and confirm that no findings were noted. We found that this weakness continued to exist at Exploratorium. See Finding No. 1.

**APPENDIX C – EXIT CONFERENCE**

**EXIT CONFERENCE**

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We conducted an exit conference on February 9, 2009 via telephone with the Exploratorium office in San Francisco, California. We discussed preliminary findings and recommendations noted during the audit. Representing Exploratorium was:

<b>Name</b>	<b>Title</b>
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

Representing the National Science Foundation – Office of Inspector General was:

<b>Name</b>	<b>Title</b>
Billy McCain	Audit Manager

Representing Mayer Hoffman McCann P.C. – Conrad Government Services Division was:

<b>Name</b>	<b>Title</b>
[REDACTED]	[REDACTED]

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4201 Wilson Blvd., Suite 1135  
Arlington, VA 22230



## Exploratorium

### APPENDIX A – AUDITEE’S COMMENTS TO REPORT

#### Auditor recommendations

- 1.) Revise its subaward monitoring policies and procedures to better assess its subawardee’s OMB Circular A-133 reports; to include steps to monitor foreign and other subawardees that are not subject to OMB Circular A-133 requirements; and to include a risk-based monitoring approach to better ensure that costs charged to NSF awards are reasonable, allowable, and allocable.**

The Exploratorium agrees with this recommendation. As a result of this recommendation the policy has been enhanced to include steps to monitor foreign and other subawardees that are not subject to OMB Circular A-133 requirements; and also to include a risk-based monitoring approach to ensure that costs charged to NSF awards are reasonable, allowable, and allocable. (See Attachment #1 - 10.B)

- 2.) Develop policies, procedures, and controls to properly account for program income received during the life of an award.**

The Exploratorium agrees with this recommendation. A policy was put in place in 2007 addressing this recommendation. (See Attachment #2)

The Exploratorium believes the situation cited in this report was an isolated incident. Program income of [REDACTED] was not added to the funds committed to the project by NSF. However, there were program related expenses of [REDACTED] in excess of the budget that were not claimed on the FACP. Because these expenses were not claimed they were available to offset any questioned costs as a result of the program income. The on-site auditors verified this finding.

The importance of properly identifying and recording program income has been communicated to the project management staff involved and to all project management staff responsible for government projects.

**3.) Comply with existing policies and procedures to ensure that all claimed costs are supported with adequate and sufficient supporting documentation.**

The Exploratorium agrees with this recommendation. As a result of this report it was communicated to project management staff responsible for government projects the importance of obtaining adequate supporting documentation for government projects. Emphasis was placed on the following:

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### Oversight of Sub-Recipients for Federal Grants

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#### Monitoring Process for Sub-Recipients:

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2) Obtain a written Sub-Award Agreement (contract) between the Exploratorium and the Sub-Recipient negotiated and signed by both Parties. Agreement should include: <ul style="list-style-type: none"> <li>a) Reference to current version of Federal Granting Agencies "General Grant Conditions" (<i>Note Foreign sub-recipients have special "Foreign Grant General Conditions"</i>),</li> <li>b) Clear statement of work to be performed.</li> <li>c) Required deliverables.</li> <li>d) Approved Sub-Recipient grant budget and terms of payment,</li> <li>e) Invoices from Sub-Recipient to be accompanied by financial back-up reports by expense line item</li> <li>f) Reference to OMB circulars and other Federal regulations that must be adhered to under the terms of the grant. (<i>For information only: we use a version created by MIT and modify it for current regulations, scope of work etc.</i>)</li> <li>g) The CFDA title and number, award name, name of federal agency, and dollar amount of award.</li> <li>h) For non-profit recipients, a requirement to comply with</li> </ul>	PI Development PI PI

<p>Audit requirements of OMB circular 133</p> <p>i) For for-profit and foreign recipients, a requirement to comply with appropriate OMB cost circulars.</p>	SGA
<p>3) Consult the Excluded parties list (<a href="http://www.epls.gov">www.epls.gov</a>) to insure the potential sub-awardee has not been barred from accepting federal awards.</p>	SGA
<p>4) File signed copies of the sub-award documents in Development's permanent grant files</p>	PI/SGA
<p>5) Review invoices and financial back up reports from sub-Recipients against the grant budget.</p>	PI
<p>6) Conduct periodic review of sub-Recipients content and site visits</p>	SGA
<p>7) Determine if the sub-recipient is required to have an A133 audit. (Current threshold is \$500k in Collective Grant support.)</p>	SGA
<p>8) Obtain an update of the sub-recipient A-133 checklist annually.</p>	SGA
<p>9) Review of progress against milestones set in the grant or agreement prior to approving payments</p>	PI
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<p>3) If sub-recipient meets thresholds requiring an audit under OMB A-133, but does not have one, documentation with sub-recipient until A-133 audit is obtained document progress until audit it obtained</p>	
<p>4) Request a copy of the A-133 audit submitted by the sub-awardee</p>	
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  3. Deducted from the total project or program allowable cost in determining the net allowable costs on which the Federal share of costs is based.
- When an agency authorized the disposition of program income as described in 1 and 2 above, program income in excess of any limits stipulated shall be used in accordance with #3.
- If the Federal awarding agency does not specify in the regulations or terms and conditions of the award #3 shall apply automatically to all projects or programs.
- Unless Federal awarding agency regulations or the terms and conditions of the award provide otherwise, recipients shall have no obligation to the Federal Government regarding program income earned after the end of the project period.
- If authorized by Federal awarding agency regulations or the terms and conditions of the award, costs incident to the generation of program income may be deducted from gross income to determine program income, provided these costs have not been charged to the award.

Unless Federal awarding agency regulations or the terms and condition of the award provide otherwise, recipients shall have no obligation to the Federal Government with respect to program income earned from license fees and royalties for copyrighted material, patents, patent applications, trademarks, and inventions produced under an award. However, Patent and Trademark Amendments (35 U.S.C. 18) apply to inventions made under an experimental, developmental, or research award.