

NATIONAL SCIENCE FOUNDATION  
4201 Wilson Boulevard  
ARLINGTON, VIRGINIA 22230



OFFICE OF  
INSPECTOR GENERAL

MEMORANDUM

Date: MAR 31 2006

To: Mary F. Santonastasso, Director  
Division of Institution and Award Support and Interim  
Director of the Division of Grants and Agreements

From: *Deborah H. Cureton*  
Deborah H. Cureton  
Associate Inspector General for Audit

Subject: Audit Report No. OIG 06-1-005  
San Francisco Unified School District

Attached is the final report prepared by Cotton & Company, an independent public accounting firm, on the audit of NSF Award Nos. ESR-9908165 and ESI-9813936 awarded to the San Francisco Unified School District (SFUSD). The audit covered NSF-funded costs claimed from June 1, 1999 to March 31, 2004 consisting of \$9.2 million of NSF direct funded costs and \$2.7 million of cost sharing.

Overall, we questioned approximately \$.7 million of the \$9.2 million in costs claimed to NSF. Approximately \$68,000 of the \$2.7 million of cost sharing claimed was identified as "unacceptable." Specifically, salaries and wages and related fringe benefit costs of \$69,315 were erroneously charged to NSF award ESR-9813936; a total of \$207,511 of incorrectly calculated indirect costs were claimed on the NSF awards; an excess of \$427,844 was claimed over the amount of costs recorded as expenses in SFUSD's books of accounts; and \$16 of unallowable travel costs were claimed. Finally, \$67,941 of cost share was identified as unacceptable because it was either funded from another federal program or double counted as cost share for the two NSF awards under audit.

SFUSD also had four material internal control deficiencies that contributed to these questioned costs. Specifically, SFUSD lacked the required employee certifications and personnel activity reports to support \$2.9 million (74 percent) of total salary and fringe benefit costs charged to both of its NSF awards. The auditors performed alternate audit procedures to assess the reasonableness and propriety of the claimed labor costs to satisfy their concerns that these costs were reasonable and related to the NSF awards.

Thus, none of these costs were questioned. However, without personnel activity reports or labor effort certifications, SFUSD does not have adequate processes in place to safeguard NSF funds. SFUSD also lacked appropriate policies and procedures over claimed indirect costs. As a result, SFUSD overcharged its two NSF awards for indirect costs in the amount of \$207,511 because it used the California Department of Education (CDE)-approved indirect cost rates ranging from over 8 percent to 13 percent instead of using NSF's predetermined, fixed 8-percent rate specified in its NSF award documents. SFUSD also lacked a system to identify, account for, monitor, and report cost sharing that it contributed to the NSF awards, raising questions as to the reliability and integrity of the \$2,679,560 that it claimed on its certified cost sharing reports submitted to NSF. While SFUSD's accounting system captured all NSF funded grant expenses, it did not separately identify and track those expenses incurred as cost sharing for the NSF awards.

Additionally, SFUSD inaccurately reported expenditures including \$128,808 of stipends and consultant services costs, associated with NSF Award ESR-9908165 to Award ESI-9813936 and \$427,844 more than the expenses in its books of accounts, because a former accountant inadvertently reported expenditures to NSF twice.

Accordingly, we recommend that your office follow-up with SFUSD's reported implementation of policies and procedures related to semi-annual certifications and monthly personnel activity reports to ensure that support for salaries and wages charged to its NSF awards are maintained as required by OMB Circular A-87 Attachment B, Section 11h. We also recommend that your office direct SFUSD to develop and implement written policies and procedures to ensure that appropriate personnel are made aware of accurate indirect cost terms of all NSF awards, and that indirect costs claimed are calculated in accordance with those terms. We also recommend that your office direct SFUSD to establish a system to identify, account for, monitor, and report cost-sharing expenses. Furthermore, we recommend that your office direct SFUSD to strengthen its policies and procedures for making timely adjustments for program accounting errors and for determining how costs are allowable and allocable to a federal award; and, that SFUSD be directed to enhance its procedures for reconciliation of FCTR amounts reported to NSF to its official accounting records.

SFUSD's response to the draft report indicated that SFUSD agreed with most of the report findings and the cost sharing recommendation and indicated that it was working on corrective actions to address the findings in the report. We consider the findings in the audit report to be significant. Accordingly, to help ensure the findings are resolved within six months of issuance of the audit report, please coordinate with our office during the resolution period to develop a mutually agreeable resolution of the audit recommendations. The findings should not be closed nor should additional awards be made to SFUSD 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 Acting Division Director of Elementary and Secondary Informal Education. 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.

Evaluation of Cotton & Company's Audit Performance

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

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

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

We thank your staff for the assistance that was extended to our auditors during this audit. If you have any questions regarding this report, please contact me at 703-292-4985 or Jannifer Jenkins at 703-292-4996.

Attachment

cc: Barbara Olds, Acting Division Director, EHR/ESIE

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT  
555 FRANKLIN STREET  
SAN FRANCISCO, CALIFORNIA 94102**

**NATIONAL SCIENCE FOUNDATION AWARD NUMBERS  
ESR-9908165 AND ESI-9813936**

**FINANCIAL AUDIT OF  
FINANCIAL SCHEDULES AND  
INDEPENDENT AUDITORS' REPORTS FOR THE PERIOD  
JUNE 1, 1999, TO MARCH 31, 2004**

**This audit was performed by:**

**Cotton & Company LLP  
635 Slaters Lane 4th Floor  
Alexandria, Virginia 22314**

[REDACTED]

[REDACTED]

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## **EXECUTIVE SUMMARY**

## BACKGROUND

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We audited funds awarded by the National Science Foundation (NSF) to the San Francisco Unified School District (SFUSD) under Cooperative Agreement No. ESR-9908165 and a Grant No. ESI-9813936 for the periods September 1, 1999, to March 31, 2004, and June 1, 1999, to March 31, 2004, respectively. SFUSD, as a federal awardee, is required to follow cost principles specified in Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, and federal administrative requirements contained in OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments*. In addition, as a NSF awardee, SFUSD is required to follow provisions for financial management systems and cost sharing in OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*.

SFUSD is the fifth largest school district in California, with more than 160 educational facilities and more than 7,000 employees serving over 60,000 students. In Fiscal Year (FY) 2003, it received more than \$76 million in federal funds.

Descriptions of the NSF awards we audited are as follows:

**No. ESR-9908165.** NSF awarded Cooperative Agreement No. ESR-9908165 to SFUSD for the period September 1, 1999, to August 31, 2004, for \$10,245,022. Amendment No. 3, dated February 24, 2004, reduced the original cost-share obligation from \$4,400,820 to \$2,292,018. NSF reduced the cost share requirements because of budgetary constraints incurred by the grantee.

The agreement was awarded under NSF Program Announcement 99-52, Urban Systemic Program in Science, Mathematics, and Technology Education (USP). USP is a K-12-based program that promotes systemic reform of science and mathematics education for all students. USP also includes programmatic components that seek to foster partnerships between urban school districts and 2- and 4-year colleges and universities and embed research on educational practice and learning. The purpose of the SFUSD USP award is to stimulate dramatic improvement in (a) teaching and learning, enabling significantly more students to pursue careers in science, mathematics, and technology, (b) establishing and expanding a unified system of coalitions that link students, teachers, families, and community members in SFUSD with the city's vast and diverse resources, and (c) establishing an infrastructure that aligns SFUSD's efforts to sustain the highest quality of student learning.

The overall purpose of USP is to improve the scientific and mathematical literacy and achievement of all students; provide mathematics and scientific fundamentals that will permit all students to participate fully in a technological society; empower a significantly greater number of students to pursue careers in mathematics, science, engineering, and technology; and to promote extensive and sustainable alterations in the methods by which science and mathematics are taught and assessed. The purpose of the SFUSD USP award is to stimulate dramatic improvement in inquiry, quality investigations, and reforms in science.



Cumulative disbursements for the USP award reported to NSF through March 31, 2004 (the end of the audit period), were \$7,943,014. Cost-sharing expenses claimed were \$2,141,081.

**No. ESI-9813936.** NSF awarded Grant ESI-9813936 to SFUSD on June 1, 1999, in the amount of \$1,619,775. This award expired following a no-cost extension through May 31, 2004. As a condition of the award, SFUSD agreed to provide total cost sharing in the amount of \$873,911.

The INQUIRES award [Inquiry, Quality Investigations, and Reform in Science] is part of NSF's "local systemic change" projects, which are characterized by: (a) a shift in focus from the professional development of the individual teacher to the professional development of all teachers within the whole school organization; (b) a vision of what the K-12 science/mathematics/technology program should be; and, (c) a plan for implementing exemplary, standards-based instructional materials. The SFUSD INQUIRES award targets middle school teachers who teach science courses either as part or all of their teaching duties.

Cumulative disbursements for this award reported to NSF through March 31, 2004 (the end of the audit period), were \$1,283,752 in NSF-funded costs and \$538,479 in cost sharing.

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

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The objectives of our audit engagement were to:

1. Determine if SFUSD's Schedules of Award Costs present fairly, in all material respects, costs claimed on the Federal Cash Transactions Reports (FCTR), and if costs claimed, including cost sharing, are in conformity with NSF award terms and conditions.
2. Identify matters concerning instances of noncompliance with laws, regulations, and provisions of the award agreements pertaining to NSF awards and weaknesses in SFUSD's internal control over financial reporting that could have a direct and material effect on the Schedules of Award Costs and SFUSD's ability to properly administer, account for, and monitor its NSF awards.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* (2003 Revision) issued by the Comptroller General of the United States; and the *National Science Foundation Audit Guide* (September 1996), as applicable. These standards and the NSF 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 and A-2) 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 SFUSD, 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

An audit was performed on the costs claimed on the financial reports submitted to NSF as well as cost sharing provided by SFUSD on NSF Award Nos. ESR-9908165 and ESI-9813936. These costs and the costs questioned by our audit are shown in the Schedules of Award Costs (Schedules A-1 and A-2) and are summarized as follows:

Award No.	Funding Source	Budget	Claimed Costs	Questioned Costs	Unacceptable Cost Share
ESR-9908165	NSF-Funded	\$10,245,022	\$7,943,014	\$477,083	
	Cost Sharing	<u>2,292,018</u>	<u>2,141,081</u>	<u>0</u>	\$10,500
	Total Project	<u>\$12,537,040</u>	<u>\$10,084,095</u>	<u>\$477,083</u>	
ESI-9813936	NSF-Funded	\$1,619,775	\$1,283,752	\$227,603	
	Cost Sharing	<u>873,911</u>	<u>538,479</u>	<u>0</u>	\$57,441
	Total Project	<u>\$2,493,686</u>	<u>\$1,822,231</u>	<u>\$227,603</u>	

Except for the \$704,686 in questioned salary, wages, fringe benefit, indirect and other costs and \$67,941 in unacceptable cost sharing described below, we determined that the costs claimed by SFUSD appear fairly stated and are allowable, allocable, and reasonable for both NSF awards. NSF funded salaries and wages and related fringe benefit costs of \$69,315 were erroneously charged to the NSF award; \$207,511 of incorrectly calculated indirect costs were claimed; an excess of \$427,844 was claimed over the amount of costs recorded as expenses in SFUSD's books of accounts; and \$16 of unallowable travel costs were claimed. Finally, \$67,941 of cost share was identified as unacceptable because it was either funded from another federal program or double counted as cost share for the two NSF awards under audit.

SFUSD had a number of material control deficiencies that contributed to these questioned costs. In general, SFUSD's systems of internal controls were not adequate to properly administer, account for, and monitor its NSF awards in compliance with NSF and federal grant requirements in the areas related to salaries and wages, erroneous charges, indirect costs, and cost share. Specifically:

- SFUSD lacked employee certifications and personnel activity reports before June 30, 2002 to support \$2.9 million (74 percent) of salary and fringe benefit costs charged to both awards. As a result of this internal control deficiency, we were required to perform extensive alternative procedures. While these procedures ultimately allowed us to verify the propriety of the payroll charges, the controls were not reliable as a means to safeguard NSF funds.

- SFUSD erroneously charged \$128,808 of stipends and consultant services costs associated with Award ESR-9908165 to Award ESI-9813936 and over claimed \$427,844 of costs on Award ESR-9908165.
- SFUSD overcharged the two NSF awards in the amount of \$207,511 for indirect costs because it used the California Department of Education-approved indirect cost rates ranging from beyond 8 through 13 percent instead of NSF's predetermined, fixed 8-percent rate. The controls over calculating indirect costs were not reliable as a means to safeguard NSF funds.
- SFUSD lacked a system to identify, account for, monitor, and report cost sharing it contributed to both NSF awards. Therefore, SFUSD was unable to monitor the cost-sharing expenditures it claimed to NSF to ensure those costs were allowable and that SFUSD met its cost-sharing commitments for the NSF awards.

Accordingly, we recommend that the NSF Directors of the Division of Institution and Award Support (DIAS) and the Division of Grants and Agreements (DGA) direct SFUSD to develop and implement a financial management system, policies, and control processes to effectively administer and monitor NSF funds, employee certifications and personnel activity reports in compliance with OMB Circular A-87; implements proper systems to identify, track, and report on cost sharing; and adequately trains its personnel responsible for determining eligibility of costs and calculating indirect costs.

The awardee responded to the draft report on March 16, 2006. In its response, the awardee stated it concurred with the findings that it lacked adequate supporting documentation for salary and fringe benefit costs, that it did not have appropriate policies and procedures over claimed indirect costs, and that its cost sharing was not recorded in its financial system. The awardee has implemented several actions to address these findings. The awardee disagreed with the representation that it does not understand the requirements of the grant and stated that it has maintained extensive and detailed documentation in its program records to support its cost sharing. Finally, the awardee agreed that there were inaccuracies in its draw-downs in 2003 but these draw downs were corrected on subsequent FCTRs after the audit.

The findings in this report should not be closed nor should additional awards be made to SFUSD until NSF verifies that all the recommendations have been adequately addressed and the proposed corrective actions have been satisfactorily implemented. SFUSD's response has been included in its entirety in Appendix A.

For a complete discussion of the audit findings, refer to the Independent Auditors' Report on Compliance with Laws and Regulations and Internal Control Over Financial Reporting.

**EXIT CONFERENCE**

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We conducted an exit conference on August 26, 2004, at SFUSD's offices. We discussed findings and recommendations as well as other observations contained in this report with those attending. Representing SFUSD were:

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

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Representing Cotton & Company LLP were:

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

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## **FINDINGS AND RECOMMENDATIONS**

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

## INDEPENDENT AUDITORS' REPORT ON FINANCIAL SCHEDULES

We have audited costs claimed by San Francisco Unified School District (SFUSD) to the National Science Foundation (NSF) on the Federal Cash Transactions Reports (FCTR) for the NSF awards listed below. In addition, we audited the amount of cost sharing claimed on the two awards. The FCTRs, as presented in the Schedules of Award Costs (Schedules A-1 and A-2), are the responsibility of the SFUSD's management. Our responsibility is to express an opinion on the Schedules of Award Costs (Schedule A-1 and A-2) based on our audit.

<b>Award Number</b>	<b>Award Period</b>	<b>Audit Period</b>
ESR-9908165	09/01/99 to 08/31/04	09/01/99 to 03/31/04
ESI-9813936	06/01/99 to 05/31/04	06/01/99 to 03/31/04

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States in 2003, and the *National Science Foundation Audit Guide* (September 1996), as applicable. These standards and the *National Science Foundation 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 and A-2) 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 and A-2). An audit also includes assessing the accounting principles used and significant estimates made by SFUSD management, as well as evaluating overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

The Schedule of Questioned Costs (Schedule B-1) explains the \$477,083 of NSF funded costs (6 percent of total costs) claimed to NSF that we questioned for allowability under Award No. ESR-9908165. These costs include unallowable travel costs, incorrectly calculated indirect costs, and an overclaim of expenditures on the FCTR. The Schedule of Cost Sharing (Schedule C-1) explains cost sharing claimed in the amount of \$10,500 that SFUSD received through another federal grant, which we determined to be unacceptable under this award.

The Schedule of Questioned Costs (Schedule B-2) explains the \$227,603 of NSF funded costs (17 percent of total costs) claimed to NSF that we questioned for allowability under Award No. ESI-9813936. These costs include erroneously charged salary, fringe benefits, stipends, and consulting fees and incorrectly calculated indirect costs. The Schedule of Cost Sharing (Schedule C-2) explains that salary costs in the amount of \$57,441 were already claimed as cost share on another NSF award or double counted as cost share for both NSF awards under audit and thus, were deemed unacceptable for Award ESI-9813936.

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's Division of Institution and Award Support (DIAS). The final determination as to whether such costs are allowable will be made by NSF. The ultimate outcome of this determination cannot presently be determined. Accordingly, no adjustments have been made to costs claimed for any potential disallowance by NSF.

In our opinion, except for \$704,686 of questioned NSF-funded costs, the Schedules of Award Costs (Schedule A-1 and Schedule A-2), referred to above present fairly, in all material respects, costs claimed on the FCTRs for the period June 1, 1999, to March 31, 2004, in conformity with the *National Science Foundation Audit Guide*, *NSF Grant Policy Manual*, terms and conditions of the NSF awards and on the basis of accounting described in the Notes to the Financial Schedules. These schedules are not intended to be a complete presentation of financial position in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* and provisions of the *National Science Foundation Audit Guide*, we have also issued a report dated August 27, 2004, on our tests of SFUSD's compliance with certain provisions of laws, regulations, and the NSF award agreements and our consideration of SFUSD's 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 SFUSD's management, NSF, SFUSD's federal cognizant agency, 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.

COTTON & COMPANY LLP

[REDACTED]

[REDACTED]

Partner

August 27, 2004

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

**INDEPENDENT AUDITORS' REPORT ON  
COMPLIANCE WITH LAWS AND REGULATIONS AND  
INTERNAL CONTROL OVER FINANCIAL REPORTING**

We have audited costs claimed as presented in the Schedules of Award Costs (Schedules A-1 and A-2), which summarize financial reports submitted by San Francisco Unified School District (SFUSD) to the National Science Foundation (NSF) and claimed cost sharing for Award No. ESR-9908165 and No. ESI-9813936 listed below and have issued our report thereon dated August 27, 2004.

<b>Award Number</b>	<b>Award Period</b>	<b>Audit Period</b>
ESR-9908165	09/01/99 to 08/31/04	09/01/99 to 03/31/04
ESI-9813936	06/01/99 to 05/31/04	06/01/99 to 03/31/04

We conducted our audit of the Schedules of Award Costs as presented in Schedules A-1 and A-2 in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States in 2003, and the *National Science Foundation Audit Guide* (September 1996), as applicable. These standards and the *National Science Foundation Audit Guide* require that we plan and perform the audit to obtain reasonable assurance that the financial schedules are free of material misstatement.

**COMPLIANCE WITH LAWS AND REGULATIONS**

Compliance with applicable federal laws, regulations, and NSF award terms and conditions is the responsibility of SFUSD's management. As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatement, we performed tests of SFUSD'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 is not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed instances of noncompliance that are



required to be reported under *Government Auditing Standards* and the *National Science Foundation Audit Guide* and are described in Finding Nos. 1 through 4 below.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

In planning and performing our audit of the Schedules of Award Costs (Schedules A-1 and A-2) for the periods September 1, 1999, through March 31, 2004 and June 1, 1999 through March 31, 2004, respectively, we considered SFUSD's 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 internal control over financial reporting. Accordingly, we do not express such an opinion.

We noted, however, certain matters described below involving the internal control over financial reporting and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. 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 SFUSD's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial schedules. Reportable conditions we found are described in Finding Nos. 1 through 4 below.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control elements does not reduce, to a relatively low-level, the risk that misstatements in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters related to internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider all of the reportable conditions described below to also be material weaknesses.

## FINDINGS

### Finding 1. Lack of Adequate Supporting Documentation for Salary and Fringe Benefit Costs

SFUSD lacked the required employee certifications and personnel activity reports to support \$2.9 million (74 percent) of total salary and fringe benefit costs charged to both NSF awards. As a result, it was unable to evidence that labor costs charged to NSF awards were actually incurred or benefited NSF programs. Claimed amounts which lacked labor effort certifications are as follows:

Award No.	Amounts Claimed Without Labor Effort Certifications		Total
	Salaries and Wages	Fringe Benefits	
ESR-9908165	\$2,312,380	\$442,540	\$2,754,920
ESI-9813936	<u>162,338</u>	<u>30,501</u>	<u>192,839</u>
	<u>\$2,474,718</u>	<u>\$473,041</u>	<u>\$2,947,759</u>

SFUSD did not require employees working on NSF awards to provide labor effort certifications, personnel activity reports, or semiannual time accounting certifications before June 30, 2002. SFUSD's accounting system allocated payroll charges for each pay period to funding sources (grants or other cost objectives) based on Site Request for Personnel Action (SRPA) or Request for Position Funding (RPF) forms prepared and submitted to the Payroll Department by each employee's supervisor. SRPAs and RPFs detailed the percentage of salary costs to be allocated to each funding source based on the supervisor's estimate of the percentage of time the employee was expected to work on each grant or cost activity. The supervisor completed an SRPA or RPF for all new employees and when an employee's duties changed.

OMB Circular A-87, Attachment B, Section 11h, states that, to be allowable, charges to federal awards for salaries and wages, whether treated as direct or indirect costs, must be based on payroll documented in accordance with the generally accepted practice of the governmental unit (SFUSD) and approved by a responsible official of that unit. Specifically, when employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages must be supported by periodic (at least semi-annual) certifications indicating that the employees worked only on that program. The certification should be signed by the employee or supervisory official having direct knowledge of the work performed by the employee. When employees work on multiple activities or cost objectives, however, a distribution of salaries or wages must be supported by personnel activity reports that reflect an after-the-fact distribution of the actual activity of each employee; account for total activity for which each employee is compensated; be prepared at least monthly; and be signed by the employee.

Because SFUSD did not follow these requirements and instead charged labor costs to NSF awards based on estimates rather than actual time spent, it was necessary for us to perform alternative audit procedures to assess the reasonableness and propriety of the claimed labor costs. We interviewed 17 personnel of 30 who charged time to NSF awards, including two supervisors and recent retirees still living in the San Francisco area. These individuals stated that they performed duties in accordance with the award agreements which, in the absence of personnel activity reporting required by OMB Circular A-87, satisfied our concerns that the labor costs were related to the awards and reasonably approximated the actual costs. Nonetheless, without personnel activity reports or labor effort certifications, SFUSD does not have adequate processes which safeguard NSF funds by providing reliable means of charging labor costs to its NSF awards.

SFUSD lacked a sound labor allocation process because it was not aware of the federal and NSF requirements. SFUSD's Urban Systemic Program's [REDACTED] stated that she learned about OMB Circular A-87 timekeeping requirements at an NSF conference held in the spring of 2003 which was prompted by NSF because of problems found in other USP awards. Consequently, the [REDACTED] prepared fall semester 2002 certifications retroactively and prepared current spring semester 2003 certifications. The certifications were attached to existing weekly activity logs that depicted morning and afternoon activities for the semester for the instructional specialists. These time certifications, however, lacked an actual certification statement above the employee and supervisor signatures and were not prepared at least monthly for partially funded employees, per California School Accounting Manual Procedure No. 407, Documenting Salaries and Wages Charged to Federal Programs (December 2002). SFUSD officials indicated that time certifications had been processed for other federal programs during this same time period. Thus, SFUSD met documentation requirements for other federal awards but did not comply with NSF award requirements.

More recently, SFUSD has adopted a system for accounting for time for federal programs that was approved by the U.S. Department of Education for school districts in California. Per the SFUSD Weekly Administrative Directive (WAD) of September 8, 2004, SFUSD has distributed documentation titled Time Accounting Worksheets to all staff members to complete.

SFUSD will collect these Time Accounting Worksheets twice in FY 2005 for positions that are funded by either a mix of federal and state sources or various federal sources. A multi-funded employee is now required to maintain records of his or her effort worked for each program funding source. For employees funded by a single funding source, they are now required to complete the 100% Work Certification Form at the end of each semester of the school year certifying that services performed relate to a single funding source. This new procedure will allow SFUSD to meet the labor effort reporting requirements of its NSF grants.

**Recommendation 1:** We recommend that the NSF Directors for the Division of Institution and Award Support (DIAS) and the Division of Grants and Agreements (DGA) follow-up on SFUSD's implementation of policies and procedures, per SFUSD Weekly Administrative Directive of September 8, 2004 to ensure that employees maintain semi-annual certifications or

monthly personnel activity reports, as applicable, to support salaries and wages charged to NSF awards, as required by OMB Circular A-87 Attachment B, Section 11h.

*SFUSD Comments:* SFUSD concurred with the finding and stated that the program managers will continue to follow-up with affected employees to ensure proper documentation is maintained for staff members working full time or part time in all categorical funds and federal grants, per their September 2004 weekly administrative directive.

*Auditors' Additional Comments:* SFUSD's corrective actions, as described in its comments, are responsive to our recommendations. This report finding should not be closed until NSF verifies that the corrective action has been satisfactorily implemented.

## **Finding 2. Lack of Appropriate Policies and Procedures over Claimed Indirect Costs**

SFUSD overcharged its two NSF awards in the amount of \$207,511 for indirect costs. This occurred because SFUSD used the California Department of Education (CDE)-approved indirect cost rates instead of the lower rate specified in its NSF award documents.

According to award terms, SFUSD should have claimed indirect costs of \$474,052. Instead, it claimed \$681,563 (Schedules A-1 and A-2), because it incorrectly applied the CDE-approved indirect cost rates (which ranged from beyond 8 to 13 percent) rather than the predetermined, fixed 8-percent indirect cost rate specified in the NSF grant agreements. As a result, SFUSD overcharged Award Nos. ESR-9908165 and ESI-9813936 for \$207,511 for indirect costs.

CDE calculated SFUSD's indirect cost rates using the Standardized Account Code Structure ICR worksheet that SFUSD submitted to CDE along with its year end financial reports. The final approved ICR was released annually in a letter to SFUSD for use, "as allowable," for federal and state programs. However, the letter provided no additional guidance to indicate that the approved indirect cost rate could be limited by the language in federal award documents authorizing a specific rate.

Also, budget and finance personnel were not aware of the indirect cost rates and allocation bases specified in the two NSF awards. SFUSD should have provided, at a minimum, appropriate guidance to staff assigned to determine the prescribed indirect costs for the NSF awards.

***Recommendation 2:*** We recommend that the NSF Directors of DIAS and DGA direct SFUSD to develop and implement written policies and procedures to ensure that appropriate personnel are made aware of accurate indirect cost terms of all NSF awards, and that indirect costs claimed are calculated in accordance with those terms.

*SFUSD Comments:* SFUSD concurred with the finding and stated that documentation stating any restrictions on indirect costs or other program expenditures will be given to the Office of the Chief Financial Officer for distribution to the appropriate budget and accounting offices. Since the period of this audit, the Director of Fiscal Services has placed key staff in the State & Federal Accounting operations unit and the training of accounting staff has improved. It also instituted

quarterly review meetings with accounting and program managers to ensure a shared knowledge of spending restrictions and accurate reporting.

*Auditors' Additional Comments:* SFUSD's corrective actions, as described in its comments are responsive to our recommendation except that it did not address preparing written policies and procedures. This report finding should not be closed until NSF verifies that the corrective action has been satisfactorily implemented.

### **Finding 3. Lack of a System to Identify, Account for, Monitor, and Report Cost Sharing**

SFUSD lacked a system to identify, account for, monitor, and report cost sharing it contributed to both NSF awards, raising questions as to the reliability and integrity of the \$2,679,560 SFUSD claimed on its certified cost sharing reports submitted to NSF.

NSF's Grant Policy Manual Section 333.6, *Cost Sharing Records and Reports*, and OMB Circular A-110, Section 23, require grantees to maintain records of all costs claimed as cost sharing, and states that those records are subject to audit. These regulations also state that cost-sharing expenses must be verifiable from the recipient's records, not be included as contributions to any other federal award, or funded by any other federal award. OMB Circular A-110, Section 23, also states that, to be accepted as part of the recipient's cost sharing, expenditures must be necessary and reasonable for proper and efficient accomplishment of project or program objectives and allowable under applicable cost principles.

SFUSD's accounting system, while it captured all NSF funded grant expenses, it did not, however, separately identify and track those expenses incurred as cost sharing by SFUSD. Thus, SFUSD could not readily identify in its accounting records the cost-sharing amounts it had claimed under NSF's two awards. In fact, to support claimed cost-sharing, program officials maintained schedules and copies of supporting documentation in separate binders for each award.

Additionally, we identified salary costs of \$67,941 as unacceptable because they were funded from other federal programs or incorrectly claimed as expenses on both NSF awards. Also, \$1.9 million (72 percent) of cost sharing claimed was for salaries and fringe benefit costs; but because SFUSD did not maintain employee certifications and personnel activity reports, as discussed in Finding 1 above, SFUSD could not support that these costs were actually incurred or benefited NSF's awards. Accordingly, to verify that the labor cost sharing claimed was allowable and allocable, we had to perform extensive alternative procedures. While we were able to ultimately ensure the reasonableness of the labor cost sharing amounts, nonetheless, SFUSD's controls were not reliable as a means to safeguard NSF funds.

SFUSD representatives stated that SFUSD does not have a system, neither written policies nor procedures, for identifying and accounting for cost sharing in the accounting system. This may explain why SFUSD representatives did not appear to understand or seem aware that cost-sharing expenditures had to be identified in the accounting records, supported by time certifications in accordance with OMB Circular A-87, and certified and reported to NSF

accurately and annually, as allowable under federal and NSF requirements. As a result, SFUSD was unable to monitor cost-sharing expenditures to ensure that costs claimed were allowable and that it met its commitment under the awards.

***Recommendation 3:*** We recommend that the NSF Directors of DIAS and DGA direct SFUSD to establish a system to identify, account for, monitor, and report cost-sharing expenses and at a minimum, ensure that:

- Cost sharing for NSF funds is separately tracked, accounted for, and verifiable in SFUSD's accounting system records; not included as contributions for any other federally-assisted project or program; necessary and reasonable for proper and efficient accomplishment of project and program objectives; allowable under applicable cost principles; and not paid by the federal government under another award;
- All NSF awards with cost-sharing requirements are identified and recorded in SFUSD's accounting system records as they are required by NSF agreements;
- Cost-sharing costs incurred and claimed on NSF awards are appropriately reviewed, approved, and recorded as they occur to establish that they are reasonable, allocable, and allowable to NSF awards;
- Cost-sharing records for NSF awards are adequately maintained and documented; and,
- Cost-sharing policies and procedures are written and consistent with NSF requirements, and communicated to appropriate SFUSD staff.

*SFUSD's Comments:* SFUSD concurred with the finding and stated that the California Department of Education has not yet identified a way to notate cost sharing in the accounting system using California's Standardized Accounting Code Structure. SFUSD disagrees with the audit report representation that its representatives did not understand the requirements of the grant.

*Auditors' Additional Comments:* Until SFUSD can identify its cost-sharing expenditures in the accounting records it is not responsive to our recommendations to monitor cost sharing expenditures to ensure that costs claimed were allowable and that it met its commitment under the awards. Although usually more efficient, it is not necessary to track cost sharing in SFUSD's accounting system. However, it is imperative that the manual processes used and the written policies and procedures are effective in meeting all the requirements of OMB Circulars A-87, A-110 and the NSF Grant Policy Manual. This report finding should not be closed until this recommendation has been adequately addressed and NSF verifies that the corrective action has been satisfactorily implemented.

#### **Finding 4. Inaccurate Expenditure Reporting**

SFUSD inaccurately reported expenditures on both of the NSF awards as follows:

- It erroneously charged \$128,808 of stipend and consultant costs associated with Award ESR-9908165 to Award ESI-9813936. SFUSD program officials became aware of the errors in August 2003, however they were not corrected until April 2004.
- Claimed costs were \$427,844 more than costs recorded on its books of accounts. A former accountant inadvertently reported expenditures twice on the FCTR.
- It erroneously charged salaries and wages of \$56,246 and associated fringe benefit costs of \$13,069 to the NSF award. These costs were not related to the NSF award and should have been charged to SFUSD's general fund.

Accordingly, expenditures reported to NSF were incorrect and excess Federal funds were drawn down by SFUSD.

OMB Circular A-110, Section 21, requires awardee financial management systems to provide accurate, current, and complete disclosure of the financial results of each award; records that adequately identify the source and application of funds; effective control over and accountability for all funds, assuring that all funds are used solely for authorized purposes; comparison of outlays with budget amounts for each award; written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable federal and award requirements; and accounting records, including cost accounting records, supported by source documentation.

SFUSD program officials noted that expenditures for consultant services of \$29,634 and stipends of \$99,174 for Award No. ESR-9908165 were charged erroneously to Award No. ESI-9813936 in August 2003. Program officials noted this discrepancy that same month while reviewing fiscal year-end expenditure reports and immediately relayed this discrepancy to SFUSD's federal program accountants, however the accountants did not correct the error. Program officials submitted a memorandum to the Director of Fiscal Services on April 30, 2004 to reverse these charges and SFUSD's fiscal office reversed these charges the same day. Although the charges were reversed in SFUSD's financial system, NSF was never notified of these erroneous charges.

SFUSD also over-reported \$427,844 of expenses on its June 30, 2002 FCTR. SFUSD was unaware of this over-reported amount until this audit. Based on an analysis of documentation, SFUSD explained that a former accountant used incorrect expenditure reports as the basis for reporting the erroneous amounts to NSF.

**Recommendation 4:** We recommend that the NSF Directors of DIAS and DGA direct SFUSD to strengthen its policies and procedures for making timely adjustments for program accounting errors communicated between SFUSD program officials and SFUSD Federal program accountants and for determining how costs are allowable and allocable to a federal award. We also recommend that SFUSD be directed to enhance its procedures for reconciliation of FCTR amounts reported to NSF to its accounting records.

*SFUSD Comments:* SFUSD concurred with the finding and stated a new manager in their State and Federal Accounting unit has developed practices to review supporting documentation for claims, to monitor draw downs of Federal funds and provide program managers with copies of supporting documentation to reconcile with their program records.

*Auditors' Additional Comments:* SFUSD's corrective actions, as described in its comments, are responsive to our recommendations. This report finding should not be cleared until NSF verifies that the corrective action has been satisfactorily implemented.

This report is intended solely for the information and use of SFUSD's management, NSF, SFUSD's federal cognizant 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.

COTTON & COMPANY LLP

[REDACTED]

[REDACTED]

Partner

August 27, 2004



**FINANCIAL SCHEDULES  
AND SUPPLEMENTAL  
INFORMATION**

**SCHEDULE A-1**

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT  
SAN FRANCISCO, CALIFORNIA**

**NATIONAL SCIENCE FOUNDATION AWARD NO. ESR-9908165  
SCHEDULE OF AWARD COSTS  
SEPTEMBER 1, 1999 TO MARCH 31, 2004  
INTERIM**

<b>Cost Category</b>	<b>Approved Budget</b>	<b>Claimed Costs</b>	<b>Questioned Costs</b>	<b>Schedule</b>
Salaries and Wages	[REDACTED]	[REDACTED]		
Fringe Benefits	[REDACTED]	[REDACTED]		
Permanent Equipment	[REDACTED]	[REDACTED]		
Travel	[REDACTED]	[REDACTED]	\$16	B-1, Note 1
Participant Support:	[REDACTED]	[REDACTED]		
Stipends	[REDACTED]	[REDACTED]	(99,174)	B-1, Note 2
Other Direct Costs:				
Materials and Supplies	[REDACTED]	[REDACTED]		
Publication Costs	[REDACTED]	[REDACTED]		
Consultant Services	[REDACTED]	[REDACTED]	(29,634)	B-1, Note 2
Subcontracts	[REDACTED]	[REDACTED]		
Other	[REDACTED]	[REDACTED]	_____	
Total Direct Costs	\$9,739,648	\$6,943,388	\$(128,792)	
Indirect Costs	<u>505,374</u>	<u>571,782</u>	<u>178,031</u>	B-1, Note 3
Subtotal	\$10,245,022	\$7,515,170	\$49,239	
Costs Claimed in Excess of Incurred	_____	<u>427,844</u>	<u>427,844</u>	B-1, Note 4
Total Costs	<u>\$10,245,022</u>	<u>\$7,943,014*</u>	<u>\$477,083</u>	
Cost Sharing	<u>\$2,292,018</u>	<u>\$2,141,081</u>		

\* Total claimed costs agree with total expenditures reported on the FCTR for the quarter ended March 31, 2004. Claimed costs are based on the Summary of Claimed Costs prepared by SFUSD from its books of accounts.

**SCHEDULE B-1**

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT  
SAN FRANCISCO, CALIFORNIA**

**NATIONAL SCIENCE FOUNDATION AWARD NO. ESR-9908165  
SCHEDULE OF QUESTIONED COSTS  
SEPTEMBER 1, 1999 TO MARCH 31, 2004**

1. **Travel.** SFUSD claimed \$16 for an unallowable room charge and an erroneous parking fee. Its representatives were unable to explain how the errors occurred, and stated that these costs would be removed from claimed costs.
2. **Erroneously Claimed Costs.** SFUSD erroneously charged costs associated with Award No. ESR-9908165 for consultant services (\$29,634) and stipends (\$99,174) to Award No. ESI-9813936. Its representatives were unable to explain the cause except for errors when the expenditures were coded into the accounting system.

OMB Circular A-87, Subpart C, Basic Guidelines, paragraph 3a, states that a cost is allocable to a particular cost objective if the goods or services are chargeable or assignable to such cost objective in accordance with relative benefits received.

SFUSD program officials submitted a memorandum to the director of fiscal services to reverse these charges from the INQUIRES award to the Urban Systemic Program award 9 months after reporting these expenditures in the June 30, 2003, cost report, or April 30, 2004.

3. **Indirect Costs.** SFUSD did not claim indirect costs in accordance with award terms. Section III, B1, of the award states that indirect costs will be based on a fixed 8-percent indirect rate applied to direct costs less participant support costs. SFUSD did not use the 8-percent rate in all years and applied the rates to total direct costs, including participant support costs. We calculated questioned costs as follows:

Total direct costs claimed	\$6,943,388
Less: Questioned Costs	427,860
Plus: Negative questioned costs	128,808
Less: Participant support costs including negative questioned PSC costs (1,623,280 + 99,174)	<u>\$1,722,454</u>
Indirect cost base per audit	\$4,921,882
Fixed indirect cost rate	8%
Indirect costs per audit	\$393,751
Less: Claimed indirect costs	<u>571,782</u>
Questioned costs	<u>\$178,031</u>

4. **Costs Claimed in Excess of Costs Incurred.** Net disbursements reported on the March 31, 2004, FCTR were \$427,844 more than costs recorded on SFUSD's books of accounts. A former accountant inadvertently reported expenditures twice on the FCTR.

OMB Circular A-87, Attachment A, General Principles for Determining Allowable Costs, Section C, states that to be allowable under federal awards, costs must be reasonable and adequately documented.

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT  
SAN FRANCISCO, CALIFORNIA**

**NATIONAL SCIENCE FOUNDATION AWARD NO. ESI-9813936  
SCHEDULE OF AWARD COSTS  
JUNE 1, 1999 THROUGH MARCH 31, 2004  
INTERIM**

<b>Cost Category</b>	<b>Approved Budget</b>	<b>Claimed Costs</b>	<b>Questioned Costs</b>	<b>Schedule</b>
Salaries and Wages			\$56,246	B-2, Note 1
Fringe Benefits			13,069	B-2, Note 1
Travel				
Participant Support:				
Stipends			99,174	B-2, Note 2
Subsistence				
Other				
Other Direct Costs:				
Materials and Supplies				
Consultant Services			29,634	B-2, Note 2
Other Services				
Subcontracts				
Total Direct Costs	\$1,546,400	\$1,215,728	\$198,123	
Indirect Costs	<u>73,375</u>	<u>109,781</u>	<u>29,480</u>	B-2, Note 3
Subtotal	\$1,619,775	\$1,325,509	\$227,603	
Costs Incurred in Excess of Claimed		41,757		B-2, Note 4
Total Costs	<u>\$1,619,775</u>	<u>\$1,283,752*</u>	<u>\$227,603</u>	
Cost Sharing	<u>\$873,911</u>	<u>\$538,479</u>		

\* Total claimed costs agree with total expenditures reported on the FCTR for the quarter ended March 31, 2004. Claimed costs are based on the Summary of Claimed Costs prepared by SFUSD from its books of accounts.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT  
SAN FRANCISCO, CALIFORNIA

NATIONAL SCIENCE FOUNDATION AWARD NO. ESR-9813936  
SCHEDULE OF QUESTIONED COSTS  
JUNE 1, 1999 TO MARCH 31, 2004

1. **Salary and Wages/Fringe Benefits.** SFUSD erroneously charged salaries and wages of \$56,246 and associated fringe benefit costs of \$13,069 to the NSF award, or \$69,315. Its personnel charged an employee's salary and fringe benefits to the INQUIRES award rather than correctly as a charge to the general fund.

OMB Circular A-87, Attachment A, General Principles for Determining Allowable Costs, Section C3a, states that a cost is allowable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

2. **Erroneously Claimed Costs.** SFUSD erroneously charged Award No. ESR-9908165 costs for consultant services of \$29,634 and stipends of \$99,174 to Award No. ESI-9813936. Its representatives were unable to explain the cause except for error when the expenditures were coded into the accounting system.

OMB Circular A-87, Subpart C, Basic Guidelines, Paragraph 3a, states that a cost is allocable to a particular cost objective if the goods or services are chargeable or assignable to such cost objective in accordance with relative benefits received.

SFUSD program officials submitted a memorandum to the Director of Fiscal Services to reverse these charges from the INQUIRES award to the Urban Systemic Program award 9 months after reporting of these expenditures in the June 30, 2003 cost report, or April 30, 2004.

3. **Indirect Costs.** SFUSD did not claim indirect costs in accordance with award terms. Section III, B1, of the award states that indirect costs will be based on a fixed 8-percent indirect rate applied to direct costs less participant support costs. SFUSD did not use the 8-percent rate in all years and applied the rates to total direct costs, including participant support costs.

GPM 632.2 states that NSF generally provides no amounts for indirect costs for participant support costs. According to SFUSD representatives, its accounting personnel were not notified of special provisions in the award or NSF regulations related to indirect costs. We calculated questioned costs as follows:

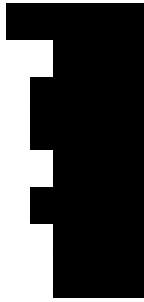
Total direct costs claimed	\$1,215,728
Plus: Unclaimed expenditures	41,757
Less: Questioned costs	198,123
Less: Participant support costs not questioned (\$154,776 - \$99,174)	<u>55,602</u>
Total indirect cost base per audit	\$1,003,760
Fixed indirect cost rate	<u>8%</u>
Indirect costs per audit	\$80,301
Less: Claimed indirect costs	<u>109,781</u>
Questioned costs	<u>\$29,480</u>

4. **Costs Incurred in Excess of Costs Claimed.** Net disbursements reported on the March 31, 2004, FCTR were \$41,757 less than costs recorded on SFUSD's books of accounts, because SFUSD had reached the authorized funding level of the award as of December 31, 2003.

OMB Circular A-87 Attachment A, General Principles for Determining Allowable Costs, Section C, Paragraphs d and e, states that to be allowable under federal Awards, costs must conform to any limitations or exclusions set forth in these principles, federal laws, terms and conditions of the federal award, or other governing regulations as to types or amounts of cost items and be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit.

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT  
SAN FRANCISCO, CALIFORNIA**

**NATIONAL SCIENCE FOUNDATION AWARD NO. ESR-9908165  
SCHEDULE OF COST SHARING  
SEPTEMBER 1, 1999 TO AUGUST 30, 2003  
INTERIM**

<b>Cost Category</b>	<b>Claimed Costs</b>	<b>Unacceptable Costs</b>	<b>Schedule Reference</b>
Salaries and Wages		\$10,500	Note 1
Teacher Lead Substitutes			
Fringe Benefits			
Permanent Equipment			
Travel			
Supplies			
Printing			
Math Activities			
<b>Total</b>	<u>\$2,141,081*</u>	<u>\$10,500</u>	


\* Total claimed costs are based on the Summary of Claimed Costs prepared and certified by SFUSD as of August 30, 2003.

1. **Salary and Wages.** SFUSD claimed \$10,500 in salaries and wages that were paid with federal funds. GPM Section 333.6, *Cost Sharing Records and Reports*, requires a grantee to maintain records of all costs claimed as cost sharing to verify that these costs are not included as contributions to any other federal award or funded by any other federal award. The \$10,500 was funded from the Eisenhower Fund (Title II) passed to SFUSD through the California Department of Education.



**SAN FRANCISCO UNIFIED SCHOOL DISTRICT  
SAN FRANCISCO, CALIFORNIA**

**NATIONAL SCIENCE FOUNDATION AWARD NO. ESI-9813936  
SCHEDULE OF COST SHARING  
JUNE 1, 1999 TO JUNE 30, 2003  
INTERIM**

<b>Cost Category</b>	<b>Claimed Costs</b>	<b>Unacceptable Costs</b>	<b>Schedule Reference</b>
Salaries and Wages		\$57,441	Note 1
Substitute Teachers			
Stipends			
Fringe Benefits			
Science Equip. & Supplies			
<b>Total</b>	<u>\$538,479*</u>	<u>\$57,441</u>	

\* Total claimed costs are based on the Summary of Claimed Costs prepared and certified by SFUSD as of June 30, 2003.

1. **Salary and Wages.** SFUSD claimed \$57,441 in salaries and wages either funded from another federal program or double counted for both Award No. ESR-9908165 and No. ESI-9813936 from non-federal sources. GPM Section 333.6, *Cost Sharing Records and Reports*, requires grantees to maintain records of all costs claimed as cost sharing to verify that these costs are not included as contributions to any other federal award or funded by any other federal award. The \$57,441 in unacceptable costs claimed as cost sharing included:

- SFUSD claimed \$16,400 (0.2 full-time equivalent) as Award No. ESI-9813936 cost-share expenses, but this employee’s full salary had already been claimed (one full-time equivalent) as NSF share under Award No. ESR-9908165.
- SFUSD claimed \$16,130 and \$12,046 for two employees as cost-share expenses under Award No. ESI-9813936 cost-share expenses that were also claimed as NSF share under Award No. ESR-9908165.
- SFUSD claimed \$12,865 of salary costs as cost-sharing expenses on both NSF grants. We questioned these duplicate costs under Award No. ESI-9813936.

**SCHEDULE D**

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF AWARDS AUDITED AND AUDIT RESULTS  
JUNE 1, 1999 TO MARCH 31, 2004**

**Summary of Awards Audited**

<b>Award Number</b>	<b>Award Period</b>	<b>Audit Period</b>
ESR-9908165	09/01/99 – 08/31/04	09/01/99 – 03/31/04
ESI-9813936	06/01/99 – 05/31/04	06/01/99 – 03/31/04

<b>Award Number</b>	<b>Type of Award</b>	<b>Award Description</b>
ESR-9908165	Cooperative Agreement	Urban Systemic Program
ESI-9813936	Grant	Inquiry, Quality Investigations and Reform in Science (Inquires)

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

<b>NSF Award Number</b>	<b>Award Budget</b>	<b>Claimed Costs</b>	<b>Questioned Costs</b>	<b>Unresolved Costs</b>	<b>Unsupported Costs</b>
ESR-9908165	\$10,245,022	\$7,943,014	\$477,083	\$0	\$0
ESI-9813936	\$1,619,775	\$1,283,752	\$227,603	\$0	\$0

**Summary of Questioned Cost by Explanation**

<b>Category</b>	<b>Questioned Costs</b>	<b>Internal Control Finding</b>	<b>Noncompliance Finding</b>
Salary & Wages	\$69,315	Yes	Yes
Travel	16	No	No
Indirect Costs	207,511	Yes	Yes
Erroneously Claimed Costs	128,808	Yes	Yes
FCTR Overclaim	427,844	Yes	Yes
Negative Questioned Cost	(128,808)	Yes	Yes
<b>Total Questioned Cost</b>	<b><u>\$704,686</u></b>		

## Summary of Noncompliance and Internal Control Findings

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<b>Findings</b>	<b>Noncompliance or Internal Control?</b>	<b>Material or Reportable?</b>
Salaries and Wages	Both	Material
Cost Sharing	Both	Material
Indirect Costs	Both	Material
Inaccurate Expenditure Reporting	Both	Material

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**SAN FRANCISCO UNIFIED SCHOOL DISTRICT  
SAN FRANCISCO, CALIFORNIA**

**NOTES TO THE FINANCIAL SCHEDULES  
FROM JUNE 1, 1999 TO MARCH 31, 2004**

**Note 1: Summary of Significant Accounting Policies**

**Accounting Basis**

The accompanying financial schedules have been prepared in conformity with National Science Foundation (NSF) instructions. Schedules A-1 and A-2 have been prepared from reports submitted to NSF. The basis of accounting used in preparing these reports differs from generally accepted accounting principles. The following information summarizes these differences:

**A. Equity**

Under 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, expenses reflected in the Schedule of Award Costs include the cost of equipment purchased during the period rather than a provision for depreciation.

Except for awards with nonstandard terms and conditions, title to equipment under NSF awards vests in the recipient, for use in the project or program for which it was acquired, as long as it is needed. The recipient may not encumber the property without approval of the federal awarding agency, but may use the equipment for its other federally sponsored activities, when it is no longer needed for the original project.

**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**

SFUSD is a local governmental entity and is exempt from income taxes under the Internal Revenue Code.

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

The following represents cost sharing requirements and actual cost sharing as of August 30, 2003 for Award No. ESR-9908165 and June 30, 2003 for Award No. ESI-9813936:

<b>Award No.</b>	<b>Cost Sharing Required</b>	<b>Actual Cost Sharing Claimed</b>
ESR-9908165	\$2,292,018	\$2,141,081
ESI-9813936	\$873,911	\$538,479

**Note 3: Indirect Cost Rates**

<b>Award No.</b>	<b>Indirect Cost Rate</b>	<b>Base</b>
ESR-9908165	8.0%	Total direct costs less participant support costs.
ESI-9813936	8.0%	Total direct costs less participant support costs.

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

San Francisco Unified School District's Response to the  
Draft Financial Audit Report Received for  
National Science Foundation Award Number ESR –9908165 and ESI – 9813936

**Finding 1. Lack of Adequate Supporting Documentation for Salary and Fringe Benefit Costs**

The District concurs with the finding. As stated in the audit report, program and financial staff were made aware of this deficiency in compliance at an NSF conference held in the spring of 2003 and steps were taken to remedy the problem. In September of 2004, a weekly administrative directive was distributed with appropriate forms to collect proper documentation for staff members working full time or part time in all categorical funds and federal grants. The program managers will continue to follow-up with affected employees to ensure the proper documentation is maintained.

**Finding 2. Lack of Appropriate Policies and Procedures over Claimed Indirect Costs**

The District concurs with the finding and recommendation. Using the state-determined rate, SFUSD did incorrectly overcharge the indirect cost rate for these grants. Since the period of this audit, ██████████ of Fiscal Services has placed key staff in the State & Federal Accounting operations unit and the training of accounting staff has improved. To prevent improper indirect costs charges from occurring in the future, documentation stating any restrictions on indirect costs or other program expenditures will be given to the Office of the Chief Financial Officer for distribution to the appropriate budget and accounting offices. The District has also instituted quarterly review meetings with accounting and program managers to ensure a shared knowledge of spending restrictions and accurate reporting.

**Finding 3. Lack of a System to Identify, Account for, Monitor, and Report Cost Sharing**

The District agrees with the finding that there was not a record of cost sharing in the financial system; however, the District has maintained extensive documentation in the program records to support cost sharing claims. The State of California requires the District to use the Standardized Accounting Code Structure to identify all income sources, goals, functions and expenditures and there is no apparent mechanism for flagging cost sharing or matching funds and linking them to a specific funding source. We have placed several inquires into the California Department of Education to seek guidance on how to follow the auditor's recommendation while continuing to comply with the State requirements.

The District disagrees with the representation that SFSUD representatives do not understand the requirements of the grant. As noted in the audit report, SFUSD developed policies and procedures to ensure that requirements of OMB Circular A-87 were addressed upon receiving notification of these requirements at an NSF conference. Discussions with the California Department of Education have not yet identified a way to notate cost sharing *in the accounting system*; however, detailed documentation has been maintained in the program records to meet the grant obligation.

#### **Finding 4. Inaccurate Expenditure Reporting**

The District agrees that there were inaccuracies in draw downs in 2003 that have been corrected. Since that time, the a new [REDACTED] has been hired for the State and Federal Accounting unit and [REDACTED] has developed practices to monitor all draw downs of State and Federal funds including reviewing all documentation to support the claims. Additionally, program managers now receive a copy of the supporting documentation to reconcile with their program records.

The finding does not report that the errors in reporting on the FCTR were addressed. Because the term of the grant exceeded the term of this audit, it does not include the period in which FCTR reports were adjusted to rectify the overpayment in the prior periods. It should be clear that there is not an overpayment for the term of the grant.



HOW TO CONTACT  
THE OFFICE OF INSPECTOR GENERAL

Internet

[www.nsf.gov/oig](http://www.nsf.gov/oig)

Email Hotline

[oig@nsf.gov](mailto:oig@nsf.gov)

Telephone

703-292-7100

Toll-free

1-800-428-2189

**Fax**

703-292-9158

**Mail**

Office of Inspector General  
National Science Foundation  
4201 Wilson Blvd., Suite 1135  
Arlington, VA 22230