

**Bellevue Community College**  
3000 Landerholm Circle SE, N258  
Bellevue, Washington 98007  
National Science Foundation Award Numbers  
DUE-9553727  
DUE-9813446

Financial Audit of Financial Schedules  
and  
Independent Auditors' Reports

For the Period September 1, 1995 to September 30, 2001

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**Bellevue Community College  
3000 Landerholm Circle  
Bellevue, Washington 98007**

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**EXECUTIVE SUMMARY**

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

## BACKGROUND

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Bellevue Community College (BCC) is a two-year college located in Bellevue, Washington. BCC follows the cost principles specified in OMB Circular A-21, *Cost Principles for Educational Institutions* and the Federal administrative requirements contained in OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*. Descriptions of the two NSF grant awards audited are as follows:

**Grant Award DUE-9553727** - Northwest Center for Emerging Technologies (NWCET) coordinates a network of collaborative partnerships of BCC with the Boeing Corporation, Microsoft, other industries, two and four year colleges and universities, tech prep consortia and secondary schools to support high standard advanced technological education in information technology (IT) and its application to other emerging technologies. The four major goals of the Center are to advance model partnerships linking business, education and government to promote IT education, to provide student pathways to new IT programs and new Advanced Technology degrees, to develop, test and disseminate IT curricula, curriculum products and teaching and learning resources, and to contribute to national leadership through dissemination of "best practices" in IT education.

Under this agreement, NSF awarded BCC \$3,017,054 and BCC agreed to cost share \$5,510,462 from September 1, 1995 to December 31, 1998. BCC claimed costs for the entire \$3,017,054 of NSF funding and \$5,764,027 in cost sharing.

**Grant Award DUE-9813446** - Under this award, NSF's award for the Northwest Center for Emerging Technologies discussed above was renewed for an additional three years to maintain and enhance Center activities.

Under this agreement, NSF awarded BCC \$2,059,941 and BCC agreed to cost share \$327,900 from September 1, 1998 to February 28, 2002. From September 1, 1998 to September 30, 2001, BCC has claimed costs aggregating \$2,057,850 as NSF funding and \$674,349 in cost sharing.

## AUDIT OBJECTIVES, SCOPE, & METHODOLOGY

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We have performed an audit of two awards issued by the National Science Foundation to Bellevue Community College. Details concerning the audit of these awards are in Schedule C-1.

The objectives of our audit were to determine whether:

1. Costs charged to the NSF awards by BCC are allowable, allocable, and reasonable, in accordance with the applicable Federal cost principles and administrative requirements, and NSF award terms and conditions; and
2. BCC's systems of internal controls are adequate to properly administer, account for, and monitor its NSF awards in compliance with NSF and Federal requirements.

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* (1994 Revision) issued by the Comptroller General of the United States of America, and the *National Science Foundation Audit Guide* (September 1996), as applicable. These standards, and the *National Science Foundation Audit Guide*, required that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed to the National Science Foundation as presented in the Schedules of Award Costs (Schedules A-1 and A-2), are free of material misstatement.

**SUMMARY OF AUDIT RESULTS**

An audit was performed on the costs claimed in financial reports submitted to the National Science Foundation (NSF) as well as cost sharing provided by Bellevue Community College for the NSF awards identified below. These costs are shown in Schedules A-1 and A-2 and are summarized as follows:

<b>NSF Award Number</b>	<b>Award Budget</b>	<b>Claimed Costs</b>	<b>Questioned Costs</b>
DUE 9553727	\$3,017,054	\$3,017,054	\$61,442
Cost Sharing	5,510,462	5,764,027	0
DUE 9813446	\$2,059,941	\$2,057,850	\$71,650
Cost Sharing	327,900	674,349	0

With the exception of costs claimed totaling \$133,092, costs charged to the NSF awards by Bellevue Community College (BCC) appear allowable, allocable, and reasonable, in accordance with the applicable Federal cost principles and administrative requirements and NSF award terms and conditions. Our audit of the aforementioned awards disclosed questioned participant support and consultant costs totaling \$133,092. Questioned costs are (1) costs for which there is documentation that the recorded costs were expended in violation of the law, regulations or specific conditions of the award, (2) costs that require additional support by the awardee, or (3) costs that require interpretation of allowability by the National Science Foundation - Division of Acquisition and Cost Support (DACs).

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

Although questioned costs are minimal in comparison to total claimed costs, we noted several compliance deficiencies and internal control weaknesses that could have an impact on BCC's ability to record, process, summarize and report financial data, and effectively and efficiently administer the funds in a manner that is consistent with NSF and other Federal laws and regulations. The findings identified in our audit related to costs claimed for salaries and fringe benefits, participant support, and consultants and in total represent over \$3.3 million or 65% of the costs claimed by BCC on the awards. If BCC fails to address these compliance and internal control weaknesses, similar problems and questioned costs may occur on other existing and future NSF awards. BCC has three current NSF awards totaling \$1,725,357.

BCC did not accumulate and track actual expenditures by NSF budget categories, nor does BCC have a cost accounting process to reconcile its cost categories to NSF budget categories. BCC did not accumulate and track expenditures by NSF budget cost categories because its accounting system is not structured to capture costs budgeted and actual expenditure data by NSF budget category. During the audit, BCC was able to, after the fact, classify its costs within NSF budget categories. Because BCC did not have a method of associating its actual to budgeted costs on NSF awards, it minimized its ability to evaluate the attainment of project objectives in light of budgeted and actual costs.

BCC was not sufficiently familiar with the federal requirements on accounting for cost sharing, and did not track, accumulate, and monitor cost sharing. Cost sharing represents 56% of the total project costs for the two audited awards. BCC also did not report and certify the cost sharing for award DUE-9553727 as required by NSF. We did not question cost sharing because BCC was able to establish a report of cost sharing during the audit. BCC developed a spreadsheet documenting the cost share and provided adequate supporting documentation that we were able to test and verify. A system of collecting and reporting specific amounts and categories of cost sharing is important to ensure that the cost sharing proposed is provided, that cost sharing is not claimed on other Federal awards, and the award objectives are met. If promised cost sharing is not realized, then either the awardee may not meet its programmatic objectives, or the project may cost less than it was originally estimated and NSF could

have used the funds for other projects. Without an adequate system to capture the cost sharing, BCC risks having a portion of the NSF funds claimed disallowed.

BCC did not separately identify and account for participant support costs and as a result, we found that these costs were misclassified as other types of costs. Although participant support costs were identified and properly reclassified as such during the audit, we found that budgeted participant costs of \$251,000 were underspent by \$114,673. This amount was questioned because they were rebudgeted and claimed in other cost categories without NSF approval. BCC officials stated that they were not aware that participant support expenditures needed to be separately tracked and monitored and could not be rebudgeted to other cost categories without NSF's prior approval. They also commented that they spent their own funds in excess of the award amounts on participant support costs, but they did not claim the entire amount of participant support costs that they actually incurred.

BCC does not have adequate policies and procedures to ensure that payments to consultants do not exceed the maximum daily rate of pay allowed by NSF. BCC did not determine the consultant's rate or if the consultants' daily rate exceeded the statutory NSF maximum daily rate of pay because, according to BCC officials, they were not aware of the requirement. BCC paid several consultants without maintaining a detailed invoice or price documentation, which would show that the rate paid was within the NSF statutory limit. The amount paid to one consultant, for which the rate of pay information was available, was in excess of the daily maximum by as much as \$1,785, resulting in questioned costs. Also, in one instance, BCC paid \$3,000 to a consultant in excess of its contract and, in another instance; it included a charge of \$13,384 for a consultant twice. These amounts were also questioned. No explanation was given to explain why these exceptions occurred or why the source documentation was not maintained. There was an additional \$186,577 in consultant costs where the auditors were unable to determine whether the consultants' rate of pay exceeded the statutory limit. Overall, consultant costs represents 11 % of total claimed costs for the two awards.

BCC charged the Project Director's and Information Technology Instructor's salary to BCC's general fund and charged the salaries of substitute instructors who taught their classes to the NSF awards, so the Project Director and Information Technology Instructors would be free to work on the NSF awards. BCC did this so that they would not have to move these senior personnel out of the salary base used by the state to determine permanent salaries. We did not question the costs for the replacement teachers, but in charging the salaries of individuals who were teaching and not working directly on the NSF awards, BCC compromised the reliability of its activity reporting system and the costs claimed to NSF for salaries and wages. NSF did not realize the savings from lower paid instructors, because the cost savings was used for other expenses under the awards.

BCC paid stipends totaling \$250 to College faculty members, because they were unaware of NSF's stipulation that it could not charge stipends paid to employees to the award. As a result, BCC was not in compliance with the award terms and conditions and we questioned \$250 in stipend payments to BCC employees.

During the audit, BCC could not provide financial disclosure statements for its NSF principal investigators (PIs). BCC implemented a Conflict of Interest (COI) policy in February 1997, but did not maintain NSF PI's disclosure statements. Therefore, BCC was unable to document whether any financial interests of the investigators would be affected by the research or educational activities funded or proposed for funding by NSF.

To address our findings, we recommended for existing and future awards that the Directors of NSF's Division of Acquisition and Cost Support (DACS) and the Division of Grants and Agreements (DGA) require BCC to (1) implement a cost accounting process to track actual expenditures to budgeted NSF cost categories (2) develop and implement cost-sharing policies and procedures and a process to properly account for and report cost sharing for NSF awards; (3) establish a system to identify and separately account for participant support costs and obtain approval prior to rebudgeting participant support costs on NSF awards; (4) institute policies and procedures for determining that payments to consultants do not exceed the NSF statutory limit, ensure that consultants are not paid in excess of their subcontracts, and documentation is maintained; (5) implement procedures for charging replacement teacher salaries to ensure charges to NSF are appropriately documented, or seek approval from NSF for alternate methods of charging; (6) implement NSF's requirement that stipends may not be paid from the NSF award to any employee of the College; and (7) implement procedures to comply with NSF's conflict of interest policies and require NSF PI's to submit financial disclosure statements.

BCC generally agrees with the findings in the audit, but urges that they not be considered because they have made improvements to their policies and procedures since the audit, or to consider the circumstances under which some of the conditions occurred. The auditors reviewed each of the findings and the Awardee's comments and concluded that the findings and recommendations remain as stated.

**EXIT CONFERENCE**

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An exit conference was held on May 1, 2002 at the BCC office in Bellevue, Washington. Findings and recommendations, as well as other observations contained in this report, were discussed with those attending. BCC was informed that the findings and recommendations were subject to final review by NSF and that the report may include additional findings and recommendations and/or omit certain items discussed. Representing BCC were:

Name	Title
[REDACTED]	[REDACTED]

Representing Conrad and Associates, L.L.P. was:

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



**FINDINGS AND RECOMMENDATIONS**

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

## INDEPENDENT AUDITORS' REPORT ON FINANCIAL SCHEDULES

We were engaged to audit the costs claimed by Bellevue Community College (BCC) to the National Science Foundation (NSF) on the Federal Cash Transactions Reports (FCTR) - Federal Share of Net Disbursements for the NSF awards listed below. In addition, we have also audited the amount of cost sharing on the awards. The FCTRs, as presented in the Schedules of Award Costs (Schedules A-1 and A-2), are the responsibility of Bellevue Community College management. Our responsibility is to express an opinion on Schedules A-1 and A-2 based on our audit.

<u>Award Number</u>	<u>Award Period,</u>	<u>Audit Period</u>
DUE 9553727	09/01/95 - 12/31/98	09/01/95 - 12/31/98
DUE 9813446	09/01/98 - 02/28/02	09/01/98 - 09/30/01

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* (1994 Revision) issued by the Comptroller General of the United States of America, 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 the NSF as presented in the Schedules of Award Costs (A1 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. An audit also includes assessing the accounting principles used and significant estimates made by BCC management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Schedules B-1 and B-2 present costs totaling \$133,092 that are questioned as to their allowability under the award agreements. Questioned costs are (1) costs for which there is documentation that the recorded costs were expended in violation of the law, regulations or specific conditions of the award, (2) costs that require additional support by the awardee, or (3) costs that require interpretation of allowability by the National Science Foundation - Division of Acquisition and Cost Support (DACS). The National Science Foundation will make the final determination regarding whether such costs are allowable. The ultimate outcome of this determination cannot presently be determined. Accordingly, no adjustment has been made to costs claimed for any potential disallowance by NSF.

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

In our opinion, the Schedules of Award Costs (Schedules A-1 and A-2) referred to above present fairly, in all material respects, the costs claimed on the Federal Cash Transactions Reports - Federal Share of Net Disbursements for the period September 1, 1995 to September 30, 2001 in conformity with the National Science Foundation Audit Guide, *NSF Grant Policy Manual*, terms and conditions of the NSF award requirements, and on the basis of accounting described in the Notes to the Financial Schedules.

In accordance with *Government Auditing Standards* and the provisions of the *National Science Foundation Audit Guide*, we have also issued a report dated May 3, 2002 on tests of BCC's compliance with certain provisions of laws, regulations and the NSF award agreement, and our consideration of BCC'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 BCC's management, the National Science Foundation, the Office of Management and Budget, and the Congress of the United States and is not intended to be and should not be used by anyone other than these specified parties.

Conrad and Associates, L.L.P.  
May 3, 2002

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 the Schedules of Award Costs as presented in Schedules A-1 and A-2, which summarize the financial reports submitted by Bellevue Community College (BCC or the College) to the National Science Foundation (NSF) for the awards listed below and have issued our report thereon dated May 3, 2002.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
DUE-9553727	09/01/95 - 12/31/98	09/01/95 - 12/31/98
DUE-9813446	09/01/98 - 02/28/02	09/01/98 - 09/30/01

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* (1994 Revision) issued by the Comptroller General of the United States of America, 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 financial schedules are free of material misstatement.

**COMPLIANCE WITH LAWS AND REGULATIONS**

Compliance with applicable Federal laws, regulations, and the NSF award terms and conditions is the responsibility of BCC's management. As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatement, we performed tests of BCC's compliance with certain provisions of laws, regulations, and the NSF award terms and conditions, noncompliance with which could have a direct and material effect on the financial schedules. However, providing an opinion on overall compliance with such provisions was not an objective of our audit of the financial schedules. 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 herein under *Government Auditing Standards* and the *National Science Foundation Guide*. We considered these instances of noncompliance in forming our opinion of whether the Schedules of Award Costs (Schedules A-1 and A-2) presented fairly in all material respects, the costs claimed by Bellevue Community College on the Federal Cash Transactions Reports for the period September 1, 1995 to September 30, 2001, in conformity with National Science Foundation award terms and conditions, and determined that this report does not affect our report dated May 3, 2002 on the financial schedules.

**Finding No. 1: Substitute Salaries - Bellevue Community College's Charges for Salaries and Wages Were Not Supported With Adequate Documentation.**

OMB Circular A-21, Section J, Paragraph 8a, states that charges for salaries and wages "are allowable to the extent that the total compensation to individual employees conforms to the established policies of the institution, consistently applied, and provided that the charges for work performed directly on sponsored agreements and for other work allocable as [facilities and administration] costs are determined and supported..." Section J, Paragraph 8b(1)(a) requires: "The distribution of salaries and wages, whether treated as direct or [facilities and administration] costs, will be based on payrolls documented in accordance with the generally accepted practices of colleges and universities."

The awardee charged "replacement costs" for an instructor to teach the Project Director's classes so that he would be free to work on the NSF grants. Although a portion of the Project Director's salary was provided for in the award budgets for Years One to Five, the awardee elected to charge the salaries of substitute instructors.

The substitutes were hired to teach the classes the Project Director would have taught, so that he would be free to work on the NSF grants. Therefore, none of the Project Director's salary was charged to the NSF awards. Instead the substitute instructors' salaries were charged (at least partially) to the NSF awards. Because the substitute instructor's salaries were less than the Project Director's salary, the result was less salary being charged to the NSF awards. Although the salaries charged were less than the proposed individuals, the money was used for other categories of costs under the award, so no cost savings to NSF were realized. Charging the salaries of personnel not working on the awards was not disclosed to NSF.

A similar situation was noted for the payroll costs of the Information Technology (IT) Instructor. Replacement costs for three temporary instructors were charged to the NSF awards for the IT Instructor; however, he also worked on the NSF awards and charged additional time to them.

BCC does not want to move these personnel out of its salary base, since it is used by the State in the base state funding formula for salaries for the faculty budget. Keeping senior personnel in the salary base results in a higher base for the State-funded amount. If BCC moved a person out and charged them to a special program, they would no longer be included in the salary base for the purposes of the State formula.

By charging the salaries of individuals not shown on the proposal budget and not working directly on the NSF award, BCC compromised the reliability of its time and effort reporting system and the costs claimed to NSF for salaries and wages. We did not question costs because we were able to confirm through other means that the Project Director and Information Technology Instructor worked directly on the project and that their related salaries and wage costs were actually in excess of what was charged to NSF for the replacement teachers.

**Recommendation No. 1:**

We recommend that NSF's Division Directors of the Division of Acquisition and Cost Support (DACS) and the Division of Grants and Agreements (DGA) ensure that on future or existing awards BCC implement procedures for charging replacement teacher salaries to ensure charges to NSF are appropriately documented, or seek approval from NSF for alternate methods of charging.

Awardee's Comments

The way BCC reported some grant staff was questioned in the report. BCC used the reporting method that is required by the State Board for Community and Technical Colleges (SBCTC) that mandates that permanent faculty must be charged to their hiring department to be included in the base formula for state funding of salaries. The way BCC addressed this for the grant was to hire a part time faculty member to replace the teaching duties of a full-time faculty member, when a full-time faculty member was assigned to this grant. BCC kept and accounted for the full-time faculty member's salary in his/her permanent department and charged the replacement cost of the part-time faculty member against the grant. This in fact creates a savings to the grant, since part time salary and benefits costs are less than those of the full-time faculty member who is assigned to the grant. BCC then maintained time-and-effort reports that documented the permanent full-time faculty member's grant assignment.

Further, we understood from both our interpretation of the OMB Circular A-21 under Item C, Basic consideration #4 Allocable Cost and the Program Officers at NSF that using substitute salaries for grant personnel was standard NSF business practice. We believe this practice was standard operating procedure, was endorsed by the grantor, and in no way compromised the reliability of the time and effort reporting system or cost to the NSF for these salaries and wages. In fact, we feel, that having senior faculty members work on the grant provided a higher level of expertise and knowledge to the program and that the method of reporting BCC employees addressed both our state requirements for reporting full-time faculty in the funding base as well as the requirements of our grantor. We urge you to recognize this as a reasonable business practice and not a finding.

Auditors' Response

The Awardee's comments confirm the condition as stated in the finding. The practice of using substitute salaries for grant personnel was not standard NSF business practice, reflected in the solicitation or via a special term or

condition. Charging personnel to the award who were not working on the award was not authorized under the terms of the award. The finding and recommendation remain as stated.

**Finding No. 2: Stipends Paid to Employees - Bellevue Community College Paid Some Stipends to Faculty Members of the College.**

Per NSF's Grant Policy Manual (GPM) 618.1, a., "Participant support costs are direct costs for items such as stipends or subsistence allowances ... paid to or on behalf of participants or trainees (but not employees) in connection with meetings, conferences, symposia or training projects."

However, contrary to this provision, BCC paid stipends to its own faculty members. Because these are employees of BCC, and BCC is the awardee of the grant, these stipends are not allowed. BCC was not aware that they could not charge stipends paid to employees to the grant. Also, BCC indicated they did not consider these faculty members to be employees of the awardee because they do not work for the NSF-funded center - NWCET and their salaries are not charged to NSF.

As a result, NSF has improperly funded unallowable stipends paid to employees of BCC. Accordingly, we questioned the stipends paid to employees, totaling \$250, which were included in our sample in Schedule B-1.

**Recommendation No. 2:**

We recommend that NSF's Directors of DACS and DGA ensure that Bellevue Community College implement NSF's provision that stipends may not be paid to employees of the College on NSF awards.

Awardee's Comments

The original budget the College submitted to NSF provided for Information Technology Faculty Development in which we planned to pay outside participants to attend seminars and training. When the grant was submitted the College interpreted "outside participants in training" to mean anyone who was not part of the NSF grant staff including employees of the College in other programs. At the time the NWCET offered a seminar or classes, there were teaching faculty at BCC - like at other colleges - who needed training, qualified to participate, and benefited from this service. Even though non-NSF grant College staff members attended training at the NWCET independently and after their normal work hours for the College, the Internal Revenue Service required the College pay them as staff, since they are currently on the College's payroll. The College NSF grant staff was given permission to handle our staff training in this manner by Program Officers at NSF through documented email and phone conversations, including the understanding that an official budget revision was not required.

Our payroll system, reports this expense item under salaries and benefits versus a participant support or client service expense item to match the original budget. Although this was explained to the audit team while they were here for the review, they indicated they could not exercise the flexibility or judgment to accept an alternative classification in their report; each item had to appear exactly as budgeted. The College urges you to consider this as an allowable expense versus a finding.

Auditors' Response

We interpret the NSF Grant Policy Manual Section 618.1, a. to include all employees, not just the NSF grant staff. The finding and recommendation remain as stated.

**Finding No. 3: Conflict of Interest Policies - Bellevue Community College Did Not Require Its Principal Investigators to File a Financial Disclosure Statement.**

Per NSF Grants Policy Manual (GPM), 510 (b), Conflict of Interest Policies: "NSF requires each grantee institution employing more than fifty persons to maintain an appropriate written and enforced policy on conflict of interest. An institutional conflict of interest policy should require that each investigator disclose to a responsible representative of the institution all significant financial interests of the investigator (including those of the investigator's spouse and dependent children)..."

BCC did not require or did not maintain a financial disclosure statement for the investigators on the NSF awards. As a result of BCC not requiring financial disclosure statements, it did not determine whether any financial interests of the investigators would be affected by the research or educational activities funded or proposed for funding by NSF; or if there were entities whose financial interests would reasonably appear to be affected by such activities.

**Recommendation No. 3:**

We recommend that NSF's Directors of DACS and DGA ensure that BCC implement procedures to comply with NSF's conflict of interest policies and require NSF PI's to submit financial disclosure statements on current and future awards.

Awardee's Comments

BCC does have a policy in place requesting financial disclosure statements from all employees and contractors working under federal grants. While we are confident that the College currently requires these forms of all contractors and employees, because the records are as much as eight years old, staff turnover, and file archiving, we were unable to locate all of the disclosures for each contractor at the time of the audit. The College urges you to take this into account, and use the sample that you collected as adequate evidence that our College policy and practice is to gather the proper conflict of interest information required by the NSF grant.

Auditors' Response

The Awardee's comments are responsive to the recommendation. The finding and recommendation remain as stated, so that the policy can be reviewed during audit resolution to ensure that it is adequate.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of BCC is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the 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 the NSF. Because of inherent limitations in any internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation 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 period September 1, 1995 to September 30, 2001, we obtained an understanding of BCC's internal control over financial reporting. With respect to internal control over financial reporting, we obtained an understanding of the design of relevant policies and procedures and whether the procedures have been placed in operation. Furthermore, we assessed control risk 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. Accordingly, we do not express such an opinion.

Our consideration of internal control over financial reporting would not necessarily disclose all matters related to internal control over financial reporting that might be reportable conditions under standards established by the American Institute of Certified Public Accountants and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. 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 the entity's ability to record, process, summarize and report financial data in a manner that is consistent with the assertions of management in the financial schedule. A

material weakness is a reportable condition in which the design or operation of one or more of 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. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

We noted the following matters involving BCC's 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. However, we do not believe that any of the reportable conditions are a material weakness.

**Finding No. 4: - Bellevue Community College Does Not have a Cost Accounting Process to Classify claimed costs Consistent with the Categories used for Estimating its Proposed Budget.**

OMB Circular A-21, Section C.10.b, Consistency in estimating, accumulating and reporting costs requires that "An educational institution's cost accounting practices used in accumulating and reporting actual costs for a sponsored agreement shall be consistent with the educational institution's practices used in estimating costs in pricing the related proposal or application."

BCC did not accumulate and track expenditures by the NSF budget cost categories, nor does BCC have a process to reconcile its cost categories to NSF budget categories. BCC has indicated that its accounting system is not structured to capture costs budgeted and actual expenditure data by NSF budget category. Because BCC did not have a method of associating its actual to budgeted costs on NSF awards, it minimized BCC's ability to evaluate the attainment of project objectives in light of budgeted and actual costs (and make allowability determinations). During the audit, BCC was able to, after the fact, reclassify its costs within NSF budget categories. As a result, at least \$134,236 of participant support costs was misclassified as other types of expenses, and \$114,673 in participant support costs was questioned because funds intended for this purpose were used for other award costs without NSF prior approval as required.

**Recommendation No. 4:**

We recommend that NSF's Directors of DACS and DGA ensure that Bellevue Community College implement a cost accounting process to track actual expenditures to budgeted NSF cost categories for NSF awards in the future. The cost accounting process needs to reconcile to the costs identified in the State system.

Awardee's Comments

The College is part of the Washington Community and Technical College system. It is required to collect and report data through a uniform software and accounting system, managed through a common computer consortium. In short, the College neither has the authority nor the flexibility to change our accounting system. However, the College is able to use its existing system to categorize items in such a way that expenditures may be identified and reported in a consistent, responsive and reliable manner. While the College would agree that a different accounting system would make NSF reporting easier, it does not have the capacity to alter its existing system. We urge that you do not consider our mandated accounting system a finding.

Auditors' Response

We are not recommending that BCC change its accounting system but that the expenditures as reported are mapped to NSF budget categories. The finding and recommendation remain as stated.

**Finding No. 5: Cost Sharing - Bellevue Community College Does Not Track, Accumulate, and Monitor Cost Sharing in its records and report its cost sharing to NSF as required.**

OMB Circular A-110, Subpart C, .23, Cost Sharing or Matching, requires: "All contributions, including cash and third party in-kind, shall be accepted as part of the recipient's cost sharing or matching when such contributions meet all of the following criteria. (1) Are verifiable from the recipient's records; (2) Are not included as contributions for any other federally-assisted programs; (3) Are necessary and reasonable for proper and efficient



accomplishment of project or program objectives; (4) Are allowable under the applicable cost principles; (6) Are provided for in the approved budget when required by the Federal awarding agency; and, (7) Conform to other provisions of this Circular, as applicable."

In addition, GPM 333.6 b. requires the Authorized Organizational Representative to report and certify the amount of cost sharing on an annual and cumulative basis. Cost sharing represents 56 % of the total project costs under the NSF awards.

BCC did not record, track, accumulate and monitor its cost sharing in its records for either NSF award and did not report and certify the cost sharing for award No. DUE-9553727 as required by the GPM. BCC was able to establish a report of cost sharing totaling \$6,438,376 during the audit and provide adequate supporting documentation for the period of the awards. Most of the cost sharing provided was space in the NWCET Building, and the valuation of the contribution was based on actual construction costs. Additional in-kind cost sharing included software, a summer training program, and personnel and equipment that was used specifically for the NWCET program. However, this information was not reported on a timely basis and available to NSF as required. According to BCC officials, BCC was not aware of the OMB Circular requirement on cost sharing or the GPM reporting requirement. A system of collecting and reporting specific amounts and categories of cost sharing is important to ensure that the cost sharing proposed is provided, that cost sharing is not claimed on other Federal awards, and the award objectives are met. If promised cost sharing is not realized, then either the awardee may not meet its programmatic objectives; or the project may cost less than originally estimated and NSF could have used the funds for other projects. Without an adequate system to capture the cost sharing, BCC risks having a portion of the NSF funds claimed disallowed.

#### **Recommendation No. 5:**

We recommend that NSF's Directors of DACS and DGA ensure that BCC develop and implement cost-sharing policies and procedures and a process to ensure that it properly accounts for and reports cost sharing on NSF awards.

#### Awardee's Comments

In all cases we did meet our programmatic objectives for cost sharing. It is true that the College's accounting system does not contain a provision to make accounting entries for cost sharing, it must be noted that the NWCET's cost sharing exceeds the required amounts and was detailed and supplied to the auditors at the time of their visit. If needed this can be submitted in detail. Please consider our documentation for this item satisfactory and not a finding.

#### Auditors' Response

We agree that the cost sharing exceeded the required amounts, but the final cost-sharing reports were not completed until the final days of the audit and were not certified to NSF as required. The finding and recommendation remain as stated.

#### **Finding No. 6: Participant Support Costs Not Identified - Bellevue Community College Does Not Identify and Separately account for Participant Support Costs.**

OMB Circular A-110, Subpart A, .21 (b) requires that recipients' financial management systems shall provide for "accurate, current and complete disclosure of the financial results of each federally-sponsored project or program..." In addition, GPM 618.1 (b) states "Funds provided for participant support may not be used by grantees for other categories of expense without the specific prior approval of the cognizant NSF Program Officer."

BCC did not identify and separately account for participant support expenditures, which were, as a result, misclassified as other types of costs. According to BCC officials, the College was not aware that participant support expenditures should be readily identifiable and distinguishable. Nor, was it aware that participant support costs had to be approved before using them for other purposes. At our request, BCC reviewed all accounts to

properly identify and classify participant support costs. As a result of not tracking these costs separately and obtaining approval before rebudgeting them, participant support costs were under-spent by \$114,673, which is questioned in Schedules B-1 and B-2.

**Recommendation No. 6:**

We recommend that NSF's Division Directors of DACS and DGA ensure that Bellevue Community College establishes a system to identify and separately account for participant support costs, and obtain approval prior to rebudgeting participant support costs on NSF awards.

Awardee's Comments

The College's required state accounting system does not have a separate account-code for participant support. In addition participant support can take a variety of forms; it may be travel, per diem, registration fees, etc. Washington state accounting rules require that state agencies record expenditures by the type of activity that the participant is undertaking. For example, travel is coded under the appropriate object code for travel. Hence, it is very difficult for us to monitor this particular budget item.

As part of the NWCET program objectives we over spent the allowable budgeted amount of the NSF grant. Because of the over expense we transferred the excess expenses from the NSF grant to the BCC operating budget, which included the questioned \$135,307 paying for these expenses with non-grant funds. At the time of the audit we supplied the necessary documentation to the audit team to verify we had expended the total budgeted amount for participant support. We now realize we should have transferred the over expense based on the over-spent line items versus a lump amount from a single category. The audit team would not recognize these as NSF participant support costs since we did not invoice NSF for that particular line item nor did we submit a formal budget revision request for a change in line items. It is important to emphasize that the entire budget was spent and invoiced to meet the program objectives. We realize how important it is to expend and invoice by the budgeted line item and our current practice is to always meet that criteria. The above practice was in the early stage of the grant and we are asking that you consider our current practice as meeting the audit requirements and do not consider this a finding.

Auditors' Response

The Awardee's comments are responsive to the recommendation and reflect the condition stated in the finding. The finding and recommendation remain as stated.

**Finding No. 7: Daily Rate of Pay for Consultants - Bellevue Community College Does Not Determine Whether Payments to Consultants are Within the Maximum Daily Rate of Pay Allowed and in some cases, Paid Consultants in Excess of the Subcontract.**

Per GPM 616.1(c), "payment for a consultant's services may not exceed the daily equivalent of the then current maximum rate paid to an Executive Schedule Level IV Federal employee (exclusive of indirect cost, travel, per diem, clerical services, fringe benefits and supplies), unless specifically authorized by law".

BCC does not have proper policies and procedures to ensure that payments to consultants do not exceed the maximum daily rate of pay allowed. The College could have performed cost analyses or reviewed detailed invoices to determine the daily rate charged, but according to BCC officials, they were unaware of the requirement. As a result, the College paid several consultants without reviewing the consultant's rate of pay to ensure that the rate paid was within NSF's statutory maximum. An amount of \$1,785 in consultant costs paid in excess of the daily maximum rate was questioned. Also, in one instance, BCC paid \$3,000 to a consultant in excess of the agreement. In another instance, BCC included a consultant charge of \$13,384 twice resulting in duplicate charges. These amounts were questioned. No explanation was given to explain why these exceptions occurred. See Schedules B-1 and B-2 for details. There was an additional \$186,577 in consultant costs where the auditors were unable to determine whether the consultants' rate of pay exceeded the statutory limitation.

BCC paid consultants and charged the payments to NSF for \$186,577 in claimed costs for which it could not determine that the rates were within the statutory limit. We have not questioned these costs because we were able to determine that the services were rendered in accordance with the agreement. Overall, consultant costs represent 11 % of the total claimed costs.

BCC was not aware of its responsibility to ensure that the rates paid to consultants do not exceed the maximum rate of pay allowed. During the audit fieldwork, BCC obtained an affirmation statement from some of the consultants that their rates did not exceed the statutory limit.

**Recommendation No. 7:**

We recommend that NSF's Directors of DACS and DGA ensure that Bellevue Community College institute policies and procedures for determining that payments to consultants do not exceed the NSF statutory limit, ensuring that consultants are not paid in excess of their subcontracts and that documentation is maintained.

Awardee's Comments

College staff members contracted with various private companies to provide the services needed to support the grant program. These contracts were written on performance-objectives (not time - and - materials) which is consistent with good fiscal practice and is encouraged by the Washington State Office of Fiscal Management, especially for IT projects. In addition, during this time period, Seattle was a high cost and high demand market area and has not always been able to negotiate or dictate what a consulting firm charges. The College has always demonstrated wise hiring practices and verified that total performance required was received from the contractor.

Since our audit, we now require our program contractors sign a notice that, under a performance-based contract, the equivalent rate does not exceed the maximum daily rate as shown in the Executive Schedule Level IV federal employee requirement. We request that this not be a finding.

Auditors' Response

The Awardee's comments are responsive to the recommendation. In addition to the College's new policy of requiring program contractors to sign a notice that the maximum daily rate is not exceeded, the recommendation requires that the College institute procedures to verify that the payments to consultants do not exceed the maximum daily rate.

We considered these internal control weaknesses in forming our opinion of whether Schedules A-1 and A-2 are presented fairly in all material respects, in conformity with National Science Foundation award terms and conditions, and determined that this report does not affect our report dated May 3, 2002 on the Schedules of Award Costs.

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

Conrad and Associates  
Irvine, California  
May 3, 2002

**FINANCIAL SCHEDULES AND  
SUPPLEMENTAL INFORMATION**

**Bellevue Community College**  
 National Science Foundation Award No. DUE - 9553727  
 Schedule of Award Costs  
 From September 1, 1995 to December 31, 1998  
 Final

<u>Cost Category</u>	<u>Approved Budget</u>	<u>(A) Claimed Costs</u>	<u>(B) Reclassifications</u>	<u>Claimed Costs After Reclassification</u>	<u>Questioned Costs</u>	<u>Schedule Reference</u>
Direct costs:						
Salaries and wages	6	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$	
Fringe benefits		[REDACTED]	-	[REDACTED]		
Travel		[REDACTED]	[REDACTED]	[REDACTED]		
Participant support		-	[REDACTED]	[REDACTED]	56,657	B-1a&b
Other direct costs:						
Materials and supplies		[REDACTED]	[REDACTED]	[REDACTED]	-	
Publication costs		[REDACTED]	-	[REDACTED]	-	
Consultant services		[REDACTED]	[REDACTED]	[REDACTED]	4,785	B-1c&d
Subcontracts		[REDACTED]	-	[REDACTED]	-	
Total direct costs	2,297,058	2,281,660	-	2,281,660	61,442	
Indirect costs	<u>719,996</u>	<u>735,394</u>	-	<u>735,394</u>	-	
Total	<u>\$3,017,054</u>	<u>\$3,017,054</u>	\$ -	<u>\$3,017,054</u>	<u>\$61,442</u>	
Cost sharing	<u>\$ 5,510,462</u>	<u>\$ 5,764,027</u>	\$ -	<u>\$ 5,764,027</u>	\$ -	

(A) The total claimed costs agree with the total expenditures reported by BCC on the Federal Cash Transactions Report - Federal Share of Net Disbursements as of the quarter ending December 31, 1998. Claimed costs reported above are taken directly from the awardee's books of accounts.

(B) To reclassify participant support costs included in other cost categories. See Finding No. 6.

See accompanying notes to this financial schedule.

**Bellevue Community College**  
 National Science Foundation Award No. DUE - 9553727  
 Schedule of Questioned Costs  
 From September 1, 1995 to December 31, 1998

**Note B-1a Participant Support Re-budgeted**

BCC did not spend the entire budget for participant support on participant support but used these funds for other categories of expenditures. Award No. DUE-9553727 reflected total expenditures claimed up to the limit of the award amount but under spent participant support by \$56,407. This appeared to be partially due to expenditures for participant support being transferred to non-NSF accounts and therefore not included as part of the grant costs.

GPM 618.1 (b) states "Funds provided for participant support may not be used by grantees for other categories of expense without the specific prior approval of the cognizant NSF Program Officer."

We questioned costs for rebudgeted participant support as follows:

Budgeted amount per grant award	;	[REDACTED]
Expenditures charged to the grant	-	[REDACTED]
Questioned amount spent on costs other than participant support		;\$ 56,407
		\$ 56,407

**Note B-1 b Stipends Paid to Employees**

BCC paid some stipends to faculty members of the College. Because these are employees of BCC and BCC is the awardee of the grant, these stipends are not allowable.

Per GPM 618.1, a., "Participant support costs are direct costs for items such as stipends or subsistence allowances, travel allowances and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with meetings, conferences, symposia or training projects."

BCC indicated they did not consider these employees of the awardee because they do not work for the NSF funded center -NWCET and their salaries are not charged to NSF.

We questioned the stipends paid to employees that were included in our sample as follows:

Faculty and teacher enhancement workshop	[REDACTED]	\$ [REDACTED]
Faculty and teacher enhancement workshop	[REDACTED]	[REDACTED]
Faculty and teacher enhancement workshop	[REDACTED]	[REDACTED]
Faculty and teacher enhancement workshop	[REDACTED]	[REDACTED]
Total		\$250

**Note B-1c Daily Rate for Consultants**

BCC paid one consultant at a rate of pay in excess of the daily maximum allowed by NSF's Grant Policy Manual. The consultant was paid at a rate of pay equivalent to \$800 per day while the daily maximum at the time was \$443 per day.

Per GPM 616.1(c), payment for a consultant's services may not exceed the daily equivalent of the then current maximum rate paid to an Executive Schedule Level IV Federal employee unless specifically authorized by law.

BCC did not monitor the rates paid to consultants, because according to BCC officials, it was unaware of its responsibility to assure that the rates of pay for consultants did not exceed the statutory maximum rate of pay allowed.

We are questioning the amount charged to NSF because the payment to the consultant was at a rate in excess of the maximum daily rate, calculated as follows:

<u>Name</u>	<u>Date of Services</u>	<u>Ck Number</u>	<u>Amount Charged</u>	<u>Hours Worked</u>	<u>Hourly Rate</u>	<u>Allowable Rate (Y)</u>	<u>Questioned Costs (Z)</u>
			\$4,000	40	\$100.00	\$55.375	\$1,785.00

- (y) Per NSF guidelines, the daily allowable limit is \$443, which is approximately \$55.375 per hour. (Assuming 8 hours per day.)
- (z) Questioned costs are calculated based on the number of hours worked times the difference between the hourly rate charged and the daily allowable rate. [40 x (100-55.37) = 1785].

**Note B-1d Consultant Payments in Excess of Contract**

BCC charged NSF for payments to one consultant that were in excess of the consultant agreement. The consultant agreement was for an amount not to exceed \$3,500 with a payment of \$2,000 to commence work and \$1,500 upon receipt of final document. The College made two payments of \$2,000 and one payment of \$2,500 for a total of \$6,500. It is not clear if the initial payment of \$2,000 was made twice or additional work for that amount was performed. An additional billing for \$1,000 that was not included in the agreement was paid as part of the \$2,500 payment.

Per OMB Circular A-110, Subpart C .21 (b) (7), recipients financial management systems shall provide for "Accounting records including cost accounting records that are supported by source documentation".

BCC did not follow procedures to properly review the transactions in question to determine if payments were in accordance with the consultant agreement and did not maintain the source documents.

We are questioning the payments in excess of the agreement for the following consultant:

	\$3,000
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Schedule A-2

**Bellevue Community College**  
 National Science Foundation Award No. DUE - 9813446  
 Schedule of Award Costs  
 From September 1, 1998 to September 30, 2001  
 Interim

<u>Cost Category</u>	<u>Approved Budget</u>	<u>(A) Claimed Costs</u>	<u>(B) Reclassifications</u>	<u>Claimed Costs After Reclassification</u>	<u>Questioned Costs</u>	<u>Schedule Reference</u>
Direct costs:						
Salaries and wages	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$	
Fringe benefits	[REDACTED]	[REDACTED]	-	[REDACTED]	-	
Travel	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	-	
Participant support	[REDACTED]	-	[REDACTED]	[REDACTED]	58,266	B-2a
Other direct costs:						
Materials and supplies	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	-	
Publication costs	[REDACTED]	[REDACTED]	-	[REDACTED]	-	
Consultant services	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	13,384	B-2b
Other	[REDACTED]	[REDACTED]	-	[REDACTED]	-	
Total direct costs	1,675,184	1,626,897	-	1,626,897	71,650	
Indirect costs	<u>384,757</u>	<u>430,953</u>	<u>-</u>	<u>430,953</u>	<u>-</u>	
Total	<u>\$2,059,941</u>	<u>\$2,057,850</u>	<u>\$ -</u>	<u>\$2,057,850</u>	<u>\$71,650</u>	
Cost sharing	<u>\$ 327,900</u>	<u>\$ 674,349</u>	<u>\$ -</u>	<u>\$ 674,349</u>	<u>\$ -</u>	

(A) The total claimed costs agree with the total expenditures reported by BCC on the Federal Cash Report - Federal Share of Net Disbursements as of the quarter ending September 30, 2001. Claimed costs reported above are taken directly from the awardee's books of accounts.

(B) To reclassify participant support costs included in other cost categories. See Finding No. 6.

See accompanying notes to this financial schedule.



**Bellevue Community College**  
 National Science Foundation Award Number DUE - 9813446  
 Schedule of Questioned Costs  
 From September 1, 1998 to September 30, 2001

**Note B-2a**      **Participant Support Re-Budgeted**

BCC did not spend the entire budgeted amount for participant support on participant support, but used these funds for expenditures in other cost categories. Award No. DUE-9813446 reflected total expenditures claimed of \$2,057,850 of a total award budget of \$2,059,941. Participant support was under-expended by \$60,357.

GPM 618.1 (b) states "Funds provided for participant support may not be used by grantees for other categories of expense without the specific prior approval of the cognizant NSF Program Officer."

College officials indicated they neglected to request that the budget be revised or request approval from NSF to rebudget participant support costs.

We question costs for rebudgeted participant support as follows:

Participant support budget per grant award		\$	██████████
Participant support expenditures			██████████
Underspent participant support			60,357
Total budgeted expenditures	2,059,941		
Total claimed expenditures	<u>2,057,850</u>		<u>2,091</u>
Rebudgeted participant support questioned			<u>\$58,266</u>

**Note B-2b**      **Duplicate Charge**

A journal entry for \$30,000 for ██████████, which was charged to consulting services, included in error an encumbrance of \$13,384. Payments made against this encumbrance were also charged to the NSF grant, resulting in a duplication.

Per OMB Circular A-21, C 4 d (1), "The recipient institution is responsible for insuring that costs charged to a sponsored agreement are allowable, allocable, and reasonable under these cost principles."

The College did not follow established review procedures to detect that a transfer in included an encumbrance instead of an actual expenditure.

The result is that NSF was charged \$13,384 for the amount twice, once when the encumbrance was charged and once when the actual expenditures were made. We question the duplicate charge as follows:

██████████	<u>\$13,384</u>
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**Bellevue Community College**  
**Summary Schedules of Awards Audited and Audit Results**  
**From September 1, 1995 to September 30, 2001**

**Summary of Awards Audited**

Award Number	Award Period	Audit Period
DUE-9553727	09/01/95 – 12/31/98	09/01/95 – 12/31/98
DUE-9813446	09/01/98 – 02/28/02	09/01/98 – 09/30/01

Award Number	Type of Award	Award Description
DUE-9553727	Grant	Northwest Center for Emerging Technologies
DUE-9813446	Grant	Northwest Center for Emerging Technologies

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

NSF Award Number	Award Budget	Claimed Costs	Questioned Costs	Unsupported Costs
DUE-9553727	\$3,017,054	\$3,017,054	\$ 61,442	None
DUE-9813446	\$2,059,941	\$2,057,850	\$ 71,650	None
Total	\$5,076,995	\$5,074,904	\$133,092	None

**Summary of Questioned Cost by Explanation**

Condition	Questioned Cost Amount	Internal Control Weaknesses	Non-Compliance
Participant Support Re-budgeted	\$114,673	Yes	Yes
Stipends Paid to Employees	\$ 250	No	Yes
Daily Rate for Consultants	\$ 1,785	Yes	Yes
Consultant Payments in Excess of Contract	\$ 3,000	Yes	Yes
Duplicate Charge	\$ 13,384	Yes	Yes
Total Questioned Costs	\$133,092		

**Summary of Internal Control Weaknesses and Non-Compliance Issues**

Condition	Non-Compliance or Internal Control?	Material, Reportable or Other?
Substitute Salaries	Non-Compliance	Reportable
Stipends Paid to Employees	Non-Compliance	Reportable
Conflict of Interest Policies	Non-Compliance	Reportable
Accounting System	Internal Control	Reportable
Cost Sharing	Internal Control	Reportable
Participant Support	Non-Compliance & Internal Control	Reportable
Daily Rate for Consultants	Non-Compliance & Internal Control	Reportable

**Bellevue Community College**  
Notes to Financial Schedules  
From September 1, 1995 to September 30, 2001

**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 the reports submitted to NSF and information obtained from the accounting records maintained for the grant award by BCC. 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 budget at the end of the award period are to be returned to NSF. Therefore, the awardee does not maintain any equity in the award and any excess cash received from NSF over final expenditures is due back to NSF.

B. Equipment

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

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.

**Bellevue Community College**  
Notes to Financial Schedules  
From September 1, 1995 to September 30, 2001

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

The following represents the cost share requirements and actual cost share as of September 30, 2001:

	<u>Cost Share Required</u>	<u>Actual Cost Share Claimed</u>	<u>Unsupported Cost Share</u>	<u>Actual Supported Cost Share</u>	<u>Actual Cost Share Over/(Under) Required</u>
<b>Award No. DUE-9553727</b>					
Year 1	\$ 356,758	\$ 136,902	\$ -	\$ 136,902	\$ (219,856)
Year 2	4,651,673	278,544	-	278,544	(4,373,129)
Year 3	472,031	5,348,581	-	5,348,581	4,876,550
Year 4	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(30,000)</u>
Total	<u>\$5,510,462</u>	<u>\$5,764,027</u>	<u>\$ -</u>	<u>\$5,764,027</u>	<u>\$ 253,565</u>

**Award No. DUE-9813446**

Year 1	\$ 129,300	\$ 352,749	\$ -	\$ 352,749	\$ 223,449
Year 2	94,300	221,600	-	221,600	127,300
Year 3	94,300	100,000	-	100,000	5,700
Year 4	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,000)</u>
Total	<u>\$ 327,900</u>	<u>\$674,349</u>	<u>\$ -</u>	<u>\$674,349</u>	<u>\$ 346,449</u>

See Finding and Recommendation No. 5 on Cost Sharing in the *Independent Auditor's Report on Compliance with Laws and Regulations and Internal Controls*.

**Note 3: Indirect Cost Rates**

Award Number	Indirect Cost Rate	Base
DUE-9553727	46.1%	Salaries and Wages and Fringe Benefits
DUE-9813446	46.1%	Salaries and Wages and Fringe Benefits

**APPENDIX A -AWARDEE S COMMENTS TO REPORT**

HOW TO CONTACT  
THE OFFICE OF INSPECTOR GENERAL

**Internet**

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

**Email Hotline**

[oiQ@nsf.gov](mailto:oiQ@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



# Bellevue Community College

3000 Landerholm Circle Southeast, Bellevue, Washington 98007-6484

August 15, 2003

████████████████████  
 Conrad and Associates 1100  
 Main Street, Suite C Irvine, CA  
 92614

This is Bellevue Community College's response to the draft audit report for the National Science Foundation (NSF) audit your firm conducted in September of 2000 and provided to the college July 2003. First of all, the college wishes to commend ██████████ and ██████ audit team for their professionalism and helpfulness in all their dealing with the college.

In assessing the audit, it is important to note that this was the first and only audit for the college's NSF Center of Excellence in Advanced Technological Education (ATE) grant, covering the entire six-year time period of the grant award, September 1, 1995 to September 30, 2001. This was an extremely difficult audit because it required: 1) reconstructing six years worth of records, 2) the records included a number of conflicts between state of Washington, IRS and federal grant mandated budget line items, accounting process and chart of accounts requirements, and 3) there has been significant turn-over among key staff members who had fiscal reporting responsibility for the Center since the end of the grant time period. Despite these challenges, we believe the audit objectives, scope and methodology requirements were met satisfactorily.

What follows is the college's response to, each of the audit findings.

1. Substitute Salaries: The way the college reported some grant staff was questioned in the report. The college used the reporting method that is required by the State Board for Community and Technical Colleges (SBCTC) that mandates that permanent faculty of the college must be charged to their hiring department to be included in the base state funding formula for salaries. The way the college addressed this for the grant was to hire a part time faculty member to replace the teaching duties of a full-time faculty member, when a full-time faculty member was assigned to this grant. The college kept and accounted for the full-time faculty member's salary in his/her permanent department and charged the replacement cost of the part-time faculty member against the grant. This in fact creates a savings to the grant, since part time salary and benefits costs are less than those of the full-time faculty member who is assigned to the grant. The college then maintained time-and-effort reports that documented the permanent full-time faculty member's grant assignment.

Further, we understood from both our interpretation of the OMB Circular A-21 under Item C. Basic considerations # 4 Allocable cost and the Program Officers at NSF that using substitute salaries for grant personnel was standard NSF business practice. We believe this practice was standard operating procedure, was endorsed by the grantor, and in no way compromised the reliability of the time and effort reporting system or cost to the NSF for these salaries and wages. In fact, we feel, that having senior faculty members work on the grant provided a higher level of expertise and knowledge to the program and that the method of reporting the college employees addressed both our state requirements for reporting full-time faculty in the funding base as well as the requirements of our grantor. We urge you to recognize this as a reasonable business practice and not a finding.

2. Stipends Paid to Employees: The original budget the college submitted to NSF provided for Information Technology Faculty Development in which we planned to pay outside participants to attend seminars and training. When the grant was submitted the college interpreted "outside participants in training" to mean anyone who was not part of the NSF grant staff including employees of the College in other programs. At the time the NWCET offered a seminar or classes, there were teaching faculty at Bellevue Community College -- like at other colleges - who needed training, qualified to participate, and benefited from this service. Even though non-NSF grant college staff members attended training at the NWCET independently and after their normal work hours for the college, the Internal Revenue Service required the college pay them as staff, since they are currently on the college's payroll. The College NSF grant staff were given permission to handle our staff training in this manner by Program Officers at NSF through documented

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email and phone conversations, including the understanding that an official budget revision was not required.

Our payroll system, reports this expense item under salaries and benefits versus a participant support or client service expense item to match the original budget. Although this was explained to the audit team while they were here for the review, they indicated they could not exercise the flexibility or judgment to accept an alternative classification in their report; each item had to appear exactly as budgeted. The college urges you to reconsider this as an allowable expense versus a finding.

3. Conflict of Interest Policies: BCC does have a policy in place requesting financial disclosure statements from all employees and contractors working under federal grants. While we are confident that the college currently requires these forms of all contractors and employees, because the records are as much as eight years old, staff turn over, and file archiving, we were unable to locate all of the disclosures for each contractor at the time of the audit. The college urges you to take this into account, and use the sample that you collected as adequate evidence that our college policy and practice is to gather the proper conflict of interest information required by the NSF grant.
4. Accounting System: The college is part of the Washington Community and Technical College system it is required to collect and report data through a uniform software and accounting system, managed through a common computer consortium. In short the college neither has the authority nor the flexibility to change our accounting system. However, the college is able to use its existing system to categorize items in such a way that expenditures may be identified and reported in a consistent, responsive and reliable manner. While the college would agree that a different accounting system would make NSF reporting easier, it does not have the capacity to alter its existing system. We urge that you do not consider our mandated accounting system a finding.
5. Cost Sharing: In all cases we did meet our programmatic objectives for cost-sharing. It is true that the college's accounting system does not contain a provision to make accounting entries for cost sharing, it must be noted that the *NWCET's* cost-sharing exceeds the required amounts and was detailed and supplied to the auditors at the time of their visit. If needed this can be submitted in detail. Please consider our documentation for this item satisfactory and not a finding.
6. Participant Support Not Identified: Here again the college's required state accounting system does not have a separate account-code for participant support. In addition participant support can take a variety of forms; it may be travel, per diem, registration fees, etc. Washington state accounting rules require that state agencies record expenditures by the type of activity that the participant is undertaking. For example, travel is coded under the appropriate object code for travel. Hence, it is very difficult for us to monitor this particular budget item.

As part of the *NWCET* program objectives we over spent the allowable budgeted amount of the NSF grant. Because of the over expense we transferred the excess expenses from the NSF grant to the BCC operating budget, which included the questioned \$135,301 paying for these expenses with non-grant funds. At the time of the audit we supplied the necessary documentation to the audit team to verify we had expended the total budgeted amount for participant support. We now realize we should have transferred the over expense based on the over-spent line items versus a lump amount from a single category. The audit team would not recognize these as NSF participant support costs since we did not invoice NSF for that particular line item nor, did we submit a formal budget revision request for a change in line items. It is important to emphasize that the entire budget was spent and invoiced to meet the program objectives. We realize how important it is to expend and invoice by the budgeted line item and our current practice is to always meet that criteria. The above practice was in the early stage of the grant and we are asking that you consider our current practice as meeting the audit requirements and do not consider this a finding.

7. Daily Rate for Consultants: College staff members contracted with various private companies to provide the services needed to support the grant program. These contracts were written on performance-objectives, (not time - and - materials) which is consistent with good fiscal practice and is encouraged by the Washington State Office of Fiscal Management, especially for IT projects. In addition, during this time



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period, Seattle was a high cost and high demand market area and has not always able to negotiate or dictate what a consulting firm charges. The college has always demonstrated wise hiring practices and verified that total performance required was received from the contractor.

Since our audit, we now require our program Contractors to sign a notice that, under a performance ebased contract, the equivalent rate does not exceed the maximum daily rate as shown in-the. Executive Schedule Level IV federal employee requirement. We request that this not be a finding.

As a general response to the audit, the college has added a new position, reporting to the finance office that monitors grants and contracts and verifies that all reporting requirements are being met in the manner that the grantor requires. Even though our state requires us to maintain a different chart of accounts we have implemented some subsidiary account codes and are keeping better documentation of grantors contracts, especially when they provide authorization for the college to expense funds outside a direct budget item without formalizing a budge revision.

In summary, the college stresses that all funds provided through the National Science Foundation were used to support a very successful and well-respected program. In no case was there any evidence that the college misused funds. The college has provided the auditor with information that shows that several of the expense categories in question were accounted for and documented, although not in the format that the auditor would have preferred. The items in question pertained to appropriate accounting, documentation, archiving and inherent conflicts between the college's sate accounting requirements, IRS and grantor expectations. Through the audit, the college has learned more about the requirements, expectations, acceptable accounting for and documentation of NSF grants, and has established supplementary provisions to address them.

Bellevue Community College is audited for financial compliance and internal controls annually by the Washington States Auditors Office and, even though they do not do complete comprehensive program reviews they have noted that we demonstrate a high level of professionalism and care in our financial records and reporting as required by Washington State Accounting Principles.

The college asks that you consider this information in determining if the college has dispensed its NSF requirements responsibly and with integrity. We believe we have.

Sincerely,

[Redacted signature]

[Redacted signature]