

EDUCATIONAL BROADCASTING CORPORATION
New York, New York

Financial and Compliance Audit
of
Indirect Costs
For the Years Ended
June 30, 2000 and 2001

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EDUCATIONAL BROADCASTING CORPORATION

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EDUCATIONAL BROADCASTING CORPORATION

Acronyms

<u>Acronym</u>	<u>Explanation of Acronym</u>
AICPA	American Institute of Certified Public Accountants
DACS	NSF Division of Acquisition and Cost Support
DGA	NSF Division of Grants and Agreements
EBC	Educational Broadcasting Corporation
FCTR	Federal Cash Transactions Report
MTDC	Modified Total Direct Costs
NSF	National Science Foundation
OIG	Office of Inspector General
OMB	U.S. Office of Management and Budget

SECTION I

INTRODUCTION AND AUDIT RESULTS

SECTION I - INTRODUCTION AND AUDIT RESULTS

BACKGROUND

The Educational Broadcasting Corporation (EBC), a not-for-profit corporation organized in 1962, produces and broadcasts public educational television programs. Its mission is to deliver programs and services that make a positive difference in the lives of its viewers. Channel 13 (WNET) and other public television stations throughout the United States of America broadcast EBC's programs, which are produced individually and in collaboration with other entities.

EBC generates approximately \$171.5 million of annual revenues mainly from private contributions. Of this total, Federal financial assistance approximates \$4.1 million, or about 2 percent. The National Science Foundation (NSF) provides the most significant portion of the Federal financial assistance to EBC, approximately 39 percent on an annual basis, and is its cognizant Federal audit agency. EBC had two ongoing NSF awards with total budgets of \$4 million and required cost sharing of \$7 million.

OBJECTIVE AND SCOPE OF AUDIT

At the request of the NSF Office of the Inspector General (OIG), M. D. Oppenheim & Company, P.C. conducted a financial and compliance audit of the indirect cost proposals prepared by EBC for the years ended June 30, 2000 and 2001 to determine final indirect cost rates for those years. During the period of our audit there were two NSF awards that included indirect costs, which were specified in the award letter/budget. On the first award (ESI-9909404) indirect costs were based on a predetermined rate; on the second award (ESI-9705292) indirect costs were based on a maximum provisional rate. Our audit objectives were: (1) to determine whether EBC complied with Federal requirements in computing its indirect costs proposals; (2) to determine whether EBC over or under-recovered indirect costs on each NSF award active during the audit period, based upon the audit determined indirect cost rates; and (3) to evaluate the adequacy of EBC's internal controls to administer, account for, and monitor indirect cost charges to Federal awards.

To accomplish the objectives of the audit, we:

- Conducted an on-site audit survey with sufficient observations, interviews and examinations of documents to make an initial determination as to whether predetermined rates were based on allowable indirect costs and whether controls to administer, account for, and monitor indirect costs are adequate to ensure compliance with Federal cost principles and administrative requirements.
- Prepared an audit planning document for OIG review and approval. The planning document included a description of EBC's organizational structure and the process used to administer, account for, and monitor indirect cost charges to Federally sponsored awards. As part of the planning process we performed an assessment of audit risk and obtained an understanding of EBC's control environment.
- Prepared an internal control audit planning document for OIG review and approval. The internal control planning document included the proposed audit programs/procedures for

testing the significant internal controls necessary to accurately administer, account for, and charge indirect cost charges to Federally sponsored awards. As part of the internal control review, we evaluated EBC's control environment, conducted a risk assessment, and analyzed information and communication, and monitoring and control activities.

- Prepared a substantive audit testing planning document for OIG review and approval. The substantive planning document stated the preliminary results of the internal control phase of the audit, including any findings and recommendations and the proposed audit program, which included the tests on compliance with applicable laws and regulations and substantive testing procedures to be applied to the indirect cost pools and the direct cost base.
- Performed testing procedures to determine whether the indirect cost proposals and the resultant indirect cost rates comply with OMB Circulars A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations*, and A-122, *Cost Principles for Non-Profit Organizations*.

We conducted our audit in accordance with AICPA auditing standards generally accepted in the United States of America, the Comptroller General's, *Government Auditing Standards* and included tests of the accounting records and other auditing procedures that we considered necessary to fully address the audit objectives.

SUMMARY OF AUDIT RESULTS

We audited EBC's indirect cost rate proposals for FY 2000 and 2001. For these two years, we found that EBC did not account for costs by Federal award as mandated by Federal requirements for the two ongoing NSF awards with total budgets of \$4 million, and did not have separate accounts to track the required \$7 million of cost sharing on these awards. In addition, EBC had significant two internal controls deficiencies regarding the allowability of costs and the valuation of bartered goods and services. We determined that the commingling of all Federal and cost-sharing commitments in one project account was a material weakness in the EBC internal control structure, and the internal control deficiencies for identifying allowable costs and valuing bartered goods and services constituted a reportable condition.

- EBC accounts for costs by project not by Federal award as is required. It combines Federal and non-Federal expenditures, in the same general ledger accounts without segregating charges for Federal awards in separate cost centers. In addition, EBC erroneously reported that its accounting system did separately identify the receipt and expenditure of funds for each grant and contract. Further, EBC's accounting system commingles cost sharing in the same general ledger accounts that it uses to track Federal funds; and
- EBC included unallowable lobbying costs (\$32,000 in FY 2000 and \$33,800 in FY 2001) as part of its claimed indirect costs. Further, EBC claimed costs for bartered goods and services without any valuation policy, which resulted in unsupported airfare charges (\$2,099 in FY 2000 and \$7,303 in FY 2001) in the indirect cost pools.

As a result of commingling costs funded by NSF with those funded by other sources, NSF is unable to monitor the use of its \$4 million of funds and \$7 million of cost-sharing, and NSF is unable to ensure its funds actually benefited NSF's awards, a concern that is compounded by NSF's inability to rely on EBC's erroneous written statements that its accounting meets Federal requirements. During the audit period EBC claimed \$2 million of costs but did not incur any cost sharing. EBC plans to charge its \$7 million of cost-sharing commitments to the same project accounts used to track the Federal funds. EBC indicated that it did not separately account for the costs incurred with NSF funds because it thought that accounting for all project costs in the same account was adequate for Federal awards. In addition, EBC slightly overstated its indirect cost rate because it did not have adequate written policies and procedures to identify and segregate unallowable costs or to value bartered goods and services.

We recommend that the directors of NSF's Division of Acquisition and Cost Support (DACS) and the Division of Grants and Agreements (DGA) require EBC to: 1) implement an accounting system that tracks reimbursable and cost sharing expenses separately by Federal award; and 2) develop and implement policies and procedures to separately identify unallowable costs and value bartered goods and services.

The Awardee concurred with the findings and will implement appropriate corrective action.

Exit Conference

An exit conference was held on March 3, 2003 at the Auditee's office located at 450 West 33rd Street, New York, New York. The findings on internal control, the other matter, along with the adjustments and eliminations related to the indirect cost proposals were discussed by the following individuals.

For Educational Broadcasting Corporation:

[REDACTED]

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

[REDACTED]

SECTION II
FINDINGS AND RECOMMENDATIONS

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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND INTERNAL CONTROL**

We have audited the summary schedule of over/(under) recovered indirect costs (Schedule A) and the schedules of indirect/direct costs (B-1 to B-2), which summarize the indirect cost proposals prepared by the Educational Broadcasting Corporation for the years ended June 30, 2000 and 2001, and have issued our report thereon dated March 3, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the *National Science Foundation Audit Guide* (September 1996).

Compliance

As part of obtaining reasonable assurance about whether the Educational Broadcasting Corporation's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and policies, noncompliance with which could have a direct and material effect on the determination of the financial schedules' amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed the instances of noncompliance, as reported in the accompanying adjustments and eliminations noted in Schedule C, that are required to be reported under *Government Auditing Standards* and the *National Science Foundation Audit Guide*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Broadcasting Corporation's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial schedules and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Educational Broadcasting Corporation's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial schedules. The reportable conditions noted are described in the accompanying Findings and Recommendations on Internal Control.

National Science Foundation
Office of Inspector General
Arlington, Virginia

Internal Control Over Financial Reporting (Cont.)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the above reportable condition, described in the finding titled, Accounting System Does Not Track Costs by Federal Award, is a material weakness.

This report is intended solely for the information and use of the Educational Broadcasting Corporation and the National Science Foundation and is not intended to be and should not be used by anyone other than these specified parties.

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

March 3, 2003

EDUCATIONAL BROADCASTING CORPORATION
Findings and Recommendations on Internal Control
For the years ended June 30, 2000 and 2001

We audited EBC's indirect cost rate proposals for FY 2000 and 2001; and although we found that the audited rates were only slightly lower than the proposed rates¹ we did find serious internal control weaknesses in EBC's accounting for Federal funds. Specifically, we found that EBC did not account for costs by Federal award as mandated by Federal requirements for the two ongoing NSF awards with total budgets of \$4 million, and did not have separate accounts to track the required \$7 million of cost sharing on these two awards. In addition we found two internal controls deficiencies regarding the allowability of costs and the valuation of bartered goods and services.

Material Weakness

1. Accounting System Does Not Track Costs by Federal Award

Effective internal controls over Federal funds include a financial management system that accounts for costs by award. However, in its general ledger EBC does not record expenses by award but only by project. For example, EBC records costs to develop television programming for a series such as *Cyberchase* in one project account, but cannot identify specific costs paid with Federal funds in that account. In addition, EBC erroneously reported to NSF in writing on June 2, 1997 and June 7, 2001 that its system did identify the receipt and expenditure of funds for each grant and contract. As a result of the commingling, EBC is unable to monitor its use of NSF funds or to identify the costs that it claims were provided to the project in order to meet its cost-sharing commitment. Therefore, NSF is unable to ensure that costs charged to NSF benefited NSF or that EBC had adequately identified the required cost-sharing funds. EBC combines funds for its projects in single accounts because project accounting is all that is necessary for its internal purposes, and its managers erroneously believed that this method of accounting was also adequate to account for Federal funds.

Recommendation

We recommend that the directors of NSF's Division of Acquisition and Cost Support (DACS) and the Division of Grants and Agreements (DGA) require EBC to implement an accounting system that tracks reimbursable and cost sharing expenses separately by Federal award.

Auditee's Response

We concur that the general ledger is by project, however, our OMB A-133 audit has never disclosed material weaknesses. In the future, we will segregate the Federal costs for the project.

Auditors' Comment to Auditee's Response

No further comment deemed necessary.

¹ See Schedule A attached to this report.

Reportable Condition

2. Unallowable and Unsupported Costs

EBC included unallowable lobbying costs (\$32,000 in FY 2000 and \$33,800 in FY 2001) in its indirect cost pools. Specifically, in FY 2000 EBC contracted with a law firm for “government relations” services, including lobbying. In FY 2001 EBC again contracted with a lobbying organization for similar services.

EBC also included airfare charges in the indirect cost pools (\$2,099 in FY 2000 and \$7,303 in FY 2001) without adequate support. Specifically, EBC made a barter arrangement with a major airline for 48 domestic round-trip airline tickets and 15 international round-trip tickets, valued at \$170,000 per the agreement (all tickets were coach class). In exchange, the airline received credit for helping underwrite a television program EBC produced. EBC did not have a valuation policy for such barter arrangements and arbitrarily expensed the individual tickets at \$2,099 each. Later the parties revised the agreement to include additional domestic airfares and fewer international airfares, thus revising the per-ticket charge to \$1,217. All the airfares under the agreement were utilized by June 30, 2001, and EBC recognized revenue and charged expense as each ticket was used. However, EBC was unable to demonstrate that the amount expensed approximated the fair market value of airline coach tickets used.

As a result of including unallowable and unsupported costs in its indirect cost pool, EBC slightly overstated its indirect cost rates. However, no cost recovery is warranted because in accordance with EBC’s practice on NSF awards to claim direct costs up to the grant ceilings, EBC did not claim any indirect costs during the audit period. EBC included unallowable and unsupported costs in its indirect cost pool because it did not have adequate written policies and procedures to identify and segregate unallowable cost or to value bartered goods and services.

Recommendation

We recommend that the directors of NSF’s Division of Acquisition and Cost Support (DACS) and Division of Grants and Agreement (DGA) require EBC to develop and implement policies and procedures to separately identify unallowable costs and to value bartered goods and services.

Auditee’s Response

We have a policy for valuing bartered goods and services. The case cited was for a batch of airline tickets that we utilized a computed average value. The lobbying costs were inadvertently claimed. In the future corrective measures will be implemented.

Auditors’ Comment to Auditee’s Response

No further comment deemed necessary.

SECTION III
FINANCIAL SCHEDULES

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

INDEPENDENT AUDITORS' REPORT

We have audited the indirect cost proposals, the Educational Broadcasting Corporation has proposed as applicable to the National Science Foundation and other Federal awards for the years ended June 30, 2000 and 2001. These indirect cost proposals, as presented in the schedules of indirect/direct costs (Schedules B-1 to B-2) and the schedule of over/(under) recovered indirect costs (Schedule A), are the responsibility of the Educational Broadcasting Corporation's management. Our responsibility is to express an opinion on Schedules A, B-1 to B-2 based on our audit.

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, and the *National Science Foundation Audit Guide* (September 1996). Those 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The accompanying financial schedules were prepared for the purpose of complying with the requirements of the *National Science Foundation Audit Guide* as described in Note 1, 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.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the indirect cost proposals (Schedules B-1 and B-2) and the resultant over/(under) recovered indirect costs (Schedule A) for the years ended June 30, 2000 and 2001 on the basis of accounting described in Note 1.

National Science Foundation
Office of Inspector General
Arlington, Virginia

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2003 on our consideration of the Educational Broadcasting Corporation's internal control over financial reporting and on our tests of its compliance with laws and regulations. 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.

Schedule C contains indirect costs in the amount of \$75,000 that are reductions to the indirect costs proposed for the years ended June 30, 2000 and 2001. The National Science Foundation will make the final determination, as to whether such costs are allowable or unallowable. The ultimate outcome of this determination cannot presently be determined.

This report is intended solely for the information and use of the Educational Broadcasting Corporation and the National Science Foundation and is not intended to be and should not be used by anyone other than these specified parties.

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

March 3, 2003

EDUCATIONAL BROADCASTING CORPORATION
Schedule of Over/(Under) Recovered Indirect Costs on National Science Foundation Awards
For the years ended June 30, 2000 and 2001

NSF Award Number	Award Period	Indirect Cost Approved in Award		Indirect Cost Rates Proposed/Audited				Indirect Costs			Comment/ Notes
		Cost Method	Rate	Year Ended	Proposed Rate	Audited Rate	Schedule Reference	Claimed To NSF	Per Audit	Over/(Under) Recovered	
ESI-9705292	06/15/97-11/30/01	Maximum Provisional (MTDC) (B)	14.40%	06/30/00	██████	13.72%	B-1	\$ -0-	\$ -0-	\$ -0-	(C)
				06/30/01	██████	15.38%	B-2	-0-	4,729	(4,729)	
				Subtotal			\$ -0-	\$ 4,729	\$ (4,729)		
ESI-9909404	02/15/00-07/31/02	Predetermined Fixed Rate (MTDC) (B)	14.40%	06/30/00	██████	13.72%	B-1	\$ -0-	\$ 66,366	\$ (66,366)	
				06/30/01	██████	15.38%	B-2	-0-	183,987	(183,987)	
				Subtotal			\$ -0-	\$ 250,353	\$ (250,353)		
Total			\$ -0-	\$ 255,082	\$ (255,082)	(A)					

Comments/Notes:

MTDC = Modified Total Direct Costs. (Total direct program costs less equipment and participant support costs).

(A) EBC has not claimed indirect costs to NSF as of June 30, 2001.

(B) The MTDC allows the first \$25,000 of each subaward.

(C) There were no direct costs incurred by EBC for the year ended June 30, 2000, therefore there would not be any indirect costs.

See accompanying notes to these financial schedules.

EDUCATIONAL BROADCASTING CORPORATION
 Indirect Cost Calculation
 For the year ended June 30, 2000

		(\$ In Thousands)		
	<u>Schedule Reference</u>	<u>Proposed Costs</u>	<u>Auditors' Adjustments and Eliminations</u>	<u>Allowable Costs</u>
Direct cost	B-1a	\$ [REDACTED]	[REDACTED]	[REDACTED]
Indirect cost pool:				
Executive and administrative services	B-1b	\$ [REDACTED]	[REDACTED] ([REDACTED])	\$ [REDACTED]
Technical support services	B-1c	[REDACTED]		[REDACTED]
Program staff administration	B-1d	[REDACTED]	_____	[REDACTED]
Total indirect costs		\$ [REDACTED]	[REDACTED] ([REDACTED])	\$ [REDACTED]

	(\$ In Thousands)	
<u>Computation of indirect cost rate:</u>	<u>Per EBC</u>	<u>Per Audit</u>
<u>Total indirect costs</u>	\$ [REDACTED]	\$ 18,916
<u>Total direct costs</u>	[REDACTED]	137,873
Computed indirect cost rate	[REDACTED]	<u>13.72%</u>

See accompanying notes to these financial schedules.

EDUCATIONAL BROADCASTING CORPORATION
 Schedule of Direct Costs
 For the year ended June 30, 2000

<u>Expenses</u>	(\$ In Thousands)		
	(A) Proposed Costs	Auditors' Adjustments And Eliminations	Allowable Costs
National program service	\$ [REDACTED]	[REDACTED]	\$ [REDACTED]
Broadcast station	[REDACTED]		[REDACTED]
Educational resources center	[REDACTED]		[REDACTED]
Management and administrative services	[REDACTED]	[REDACTED]	[REDACTED]
Total Expenses	<u>\$ [REDACTED]</u>	<u>[REDACTED]</u>	<u>\$ 137,873</u>

(A)



See accompanying notes to these financial schedules.

EDUCATIONAL BROADCASTING CORPORATION
 Schedule of Executive and Administrative Expenses
 For the year ended June 30, 2000

(\$ In Thousands)

<u>Expenses</u>	<u>(A) Proposed Costs</u>	<u>Auditors' Adjustments And Eliminations</u>	<u>Allowable Costs</u>
Salaries, wages and benefits	\$ [REDACTED]	[REDACTED]	\$ [REDACTED]
Professional services	[REDACTED]	[REDACTED]	[REDACTED]
Fees, dues, royalties and commissions	[REDACTED]		[REDACTED]
Production expenses	[REDACTED]		[REDACTED]
Database and research	[REDACTED]		[REDACTED]
Delivery and fulfillment	[REDACTED]		[REDACTED]
Communications	[REDACTED]		[REDACTED]
Travel and business expenses	[REDACTED]	[REDACTED]	[REDACTED]
Equipment, supplies and services	[REDACTED]		[REDACTED]
Building occupancy and related Depreciation	[REDACTED]		[REDACTED]
Other expenses	[REDACTED]	[REDACTED]	[REDACTED]
Total expenses	[REDACTED]	[REDACTED] (Schedule C)	<u>\$ 14,520</u>

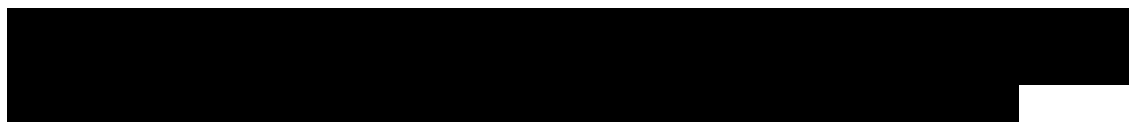
(A)

[REDACTED]

EDUCATIONAL BROADCASTING CORPORATION
 Schedule of Technical Support Services Expenses
 For the year ended June 30, 2000

<u>Expenses</u>	(\$ In Thousands)		
	(A) <u>Proposed Costs</u>	<u>Auditors' Adjustments and Eliminations</u>	<u>Allowable Costs</u>
Salaries, wages and benefits	\$ [REDACTED]	[REDACTED]	\$ [REDACTED]
Professional services	[REDACTED]		[REDACTED]
Fees, dues, royalties and commissions	[REDACTED]		[REDACTED]
Production expenses	[REDACTED]		[REDACTED]
Multimedia production expenses	[REDACTED]		[REDACTED]
Database and research	[REDACTED]		[REDACTED]
Delivery and fulfillment	[REDACTED]		[REDACTED]
Communications	[REDACTED]		[REDACTED]
Travel and business expenses	[REDACTED]		[REDACTED]
Equipment, supplies and services	[REDACTED]		[REDACTED]
Building occupancy and related	[REDACTED]		[REDACTED]
Depreciation	[REDACTED]		[REDACTED]
Other expenses	[REDACTED]		[REDACTED]
Internal EBC manpower and facilities recoveries	[REDACTED]	[REDACTED]	[REDACTED]
Total expenses	[REDACTED]	[REDACTED]	\$ <u>3,364</u>

(A)



See accompanying notes to these financial schedules.

EDUCATIONAL BROADCASTING CORPORATION
 Schedule of Program Staff Administration Expenses
 For the year ended June 30, 2000

<u>Expenses</u>	(\$ In Thousands)		
	(A) <u>Proposed Costs</u>	<u>Auditors' Adjustments and Eliminations</u>	<u>Allowable Costs</u>
Salaries, wages and benefits	\$ [REDACTED]	[REDACTED]	\$ [REDACTED]
Fees, dues, royalties and commissions	[REDACTED]		[REDACTED]
Database and research	[REDACTED]		[REDACTED]
Delivery and fulfillment	[REDACTED]		[REDACTED]
Communications	[REDACTED]		[REDACTED]
Travel and business expenses	[REDACTED]		[REDACTED]
Equipment, supplies and services	[REDACTED]		[REDACTED]
Building occupancy and related	[REDACTED]	[REDACTED]	[REDACTED]
Total expenses	[REDACTED]	[REDACTED]	<u>\$ 1,032</u>

(A)

See accompanying notes to these financial schedules.

EDUCATIONAL BROADCASTING CORPORATION
 Indirect Cost Calculation
 For the year ended June 30, 2001

	Schedule Reference	(\$ In Thousands)		
		Proposed Costs	Auditors' Adjustments and Eliminations	Allowable Costs
Direct costs	B-2a	\$ [REDACTED]	[REDACTED]	\$ 148,445
Indirect cost pool:				
National program service	B-2b	[REDACTED]		[REDACTED]
Broadcast station	B-2c	[REDACTED]		[REDACTED]
Non-broadcast sales	B-2d	[REDACTED]		[REDACTED]
Fundraising	B-2e	[REDACTED]	[REDACTED]	[REDACTED]
Technical support services	B-2f	[REDACTED]		[REDACTED]
Management and administrative services	B-2g	[REDACTED]	[REDACTED]	[REDACTED]
Total indirect costs		\$ [REDACTED]	[REDACTED]	\$ 22,824

<u>Computation of indirect cost rate:</u>	(\$ In Thousands)	
	Per EBC	Per Audit
<u>Total indirect costs</u>	\$ [REDACTED]	\$ 22,824
Total direct costs	[REDACTED]	148,445
Computed indirect cost rate	[REDACTED]	<u>15.38%</u>

See accompanying notes to these financial schedules.

EDUCATIONAL BROADCASTING CORPORATION
 Schedule of Direct Costs
 For the year ended June 30, 2001

<u>Expenses</u>	(\$ In Thousands)		
	<u>(A) Proposed Costs</u>	<u>Auditors' Adjustments and Eliminations</u>	<u>Allowable Costs</u>
National program service	\$ [REDACTED]	[REDACTED]	\$ [REDACTED]
Broadcast station	[REDACTED]		[REDACTED]
Educational resource center	[REDACTED]		[REDACTED]
Non-broadcast sales	[REDACTED]		[REDACTED]
Fundraising	[REDACTED]		[REDACTED]
Technical support services	[REDACTED]	[REDACTED]	[REDACTED]
Total expenses	<u>\$ [REDACTED]</u>	<u>[REDACTED]</u>	<u>\$ 148,445</u>

(A) [REDACTED]

EDUCATIONAL BROADCASTING CORPORATION
 Schedule of National Program Service Expenses
 For the year ended June 30, 2001

<u>Expenses</u>	(\$ In Thousands)		
	<u>(A) Proposed Costs</u>	<u>Auditors' Adjustments and Eliminations</u>	<u>Allowable Costs</u>
Administration	\$ [REDACTED]	[REDACTED]	\$ [REDACTED]
Music services	[REDACTED]		[REDACTED]
Arts and culture	[REDACTED]		[REDACTED]
Science, nature and features	[REDACTED]		[REDACTED]
News and public affairs	[REDACTED]	_____	[REDACTED]
Total expenses	<u>\$ [REDACTED]</u>	<u>[REDACTED]</u>	<u>\$ 1,885</u>

(A) [REDACTED]

EDUCATIONAL BROADCASTING CORPORATION
 Schedule of Broadcast Station Expenses
 For the year ended June 30, 2001

<u>Expenses</u>	(\$ In Thousands)		
	<u>(A) Proposed Costs</u>	<u>Auditors' Adjustments and Eliminations</u>	<u>Allowable Costs</u>
Administration	\$ [REDACTED]	[REDACTED]	\$ [REDACTED]
Unallocated occupancy	[REDACTED]	[REDACTED]	[REDACTED]
Total expenses	\$ [REDACTED]	[REDACTED]	<u>\$ 2,947</u>

(A)



See accompanying notes to these financial schedules.

EDUCATIONAL BROADCASTING CORPORATION
 Schedule of Non-Broadcast Sales Expenses
 For the year ended December 31, 2001

	(\$ In Thousands)		
<u>Expenses</u>	(A) <u>Proposed Costs</u>	Auditors' <u>Adjustments and Eliminations</u>	<u>Allowable Costs</u>
Administration (rights and clearances)	\$ ██████	█ ██████	<u>\$ 324</u>

(A)



See accompanying notes to these financial schedules.

EDUCATIONAL BROADCASTING CORPORATION
 Schedule of Fundraising Expenses
 For the year ended June 30, 2001

<u>Expenses</u>	(\$ In Thousands)		
	<u>(A) Proposed Costs</u>	<u>Auditors' Adjustments and Eliminations</u>	<u>Allowable Costs</u>
Office of the Director:			
Director, membership and development	\$ [REDACTED]	[REDACTED]	\$ [REDACTED]
Governmental and external affairs	[REDACTED]	[REDACTED]	[REDACTED]
Total expenses	<u>\$ [REDACTED]</u>	[REDACTED] (Schedule C)	<u>\$ 746</u>

(A) [REDACTED]

EDUCATIONAL BROADCASTING CORPORATION
 Schedule of Technical Support Services Expenses
 For the year ended June 30, 2001

<u>Expenses</u>	(\$ In Thousands)		
	<u>(A) Proposed Costs</u>	<u>Auditors' Adjustments and Eliminations</u>	<u>Allowable Costs</u>
Administration	\$ [REDACTED]	[REDACTED]	\$ [REDACTED]
Technical services	[REDACTED]		[REDACTED]
Graphic design	[REDACTED]	[REDACTED]	[REDACTED]
Total expenses	<u>\$ [REDACTED]</u>	<u>\$ [REDACTED]</u>	<u>\$ 3,493</u>

(A)



See accompanying notes to these financial schedules.

EDUCATIONAL BROADCASTING CORPORATION
 Schedule of Management and Administrative Services Expenses
 For the year ended June 30, 2001

<u>Expenses</u>	(\$ In Thousands)		
	<u>(A) Proposed Costs</u>	<u>Auditors' Adjustments and Eliminations</u>	<u>Allowable Costs</u>
President's office	\$ [REDACTED]	[REDACTED]	\$ [REDACTED]
Chief Financial Officer's Office	[REDACTED]		[REDACTED]
Law department	[REDACTED]		[REDACTED]
Board of Trustees	[REDACTED]		[REDACTED]
Accounting operations	[REDACTED]		[REDACTED]
Grant and contract administration	[REDACTED]		[REDACTED]
Network technologies	[REDACTED]	[REDACTED]	[REDACTED]
Financial planning and revenue admin.	[REDACTED]		[REDACTED]
Project management	[REDACTED]		[REDACTED]
Research and information services	[REDACTED]	[REDACTED]	[REDACTED]
Corporate affairs	[REDACTED]		[REDACTED]
Reference resources	[REDACTED]		[REDACTED]
Other	[REDACTED]	—	[REDACTED]
Total Expenses	\$ [REDACTED]	[REDACTED] (Schedule C)	\$ 13,429

(A) [REDACTED]

EDUCATIONAL BROADCASTING CORPORATION
 Schedule of Auditors' Adjustments and Eliminations
 For the years ended June 30, 2000 and 2001

The amounts as proposed by EBC in their indirect cost proposals for the years ended June 30, 2000 and 2001 required various adjustments and eliminations to the indirect cost pools. These adjustments and/or eliminations are presented in Schedules B-1b and B-2e and B-2g. Presented below are the amount of the adjustment (in thousands of dollars) and the explanation of the adjustments and/or eliminations along with the relevant criteria.

Schedule Reference	(*) Amount	Category of Expense – Explanation of the Adjustment/Elimination	Reference to Criteria
B-1b	\$ 32	Professional Services – Political and legislative lobbying costs paid to an outside consulting firm.	(A)
B-1b	2	Travel and Business Expenses – Lack of valuation of bartered airline ticket costs.	(B)
B-2e	34	Government and External Affairs – Political and legislative lobbying costs paid to an outside consulting firm.	(A)
B-2e	1	Government and External Affairs – Lack of valuation of bartered airline ticket costs.	(B)
B-2g	5	Network Technologies – Lack of valuation of bartered airline ticket costs.	(B)
B-2g	1	Research and Information Services – Lack of valuation of bartered airline ticket costs.	(B)

(*) \$ In thousands.

- (A) OMB Circular A-122. Attachment B, Section 25 specifies that when an organization seeks reimbursement for indirect costs, total lobbying costs shall be separately identified in the indirect costs proposal, and thereafter treated as unallowable activity costs.
- (B) OMB Circular A-122, Attachment B, Section 55 specifies that travel expenses may be charged on an actual basis or other basis, provided the method used results in charges consistent with those normally allowed by the organization in its regular operations.

Auditee's Response:

EDUCATIONAL BROADCASTING CORPORATION
Notes to Financial Schedules
For the years ended June 30, 2000 and 2001

1. Summary of Significant Accounting Policies:

The accompanying financial schedules have been prepared in conformity with National Science Foundation (NSF) instructions. Schedules B-1 to B-2 have been prepared from the indirect cost proposals prepared by the Educational Broadcasting Corporation and Schedule A, has been prepared based upon the results of the audit of Schedules B-1 to B-2. The schedules do not present the complete financial position of the Educational Broadcasting Corporation. In accordance with NSF instructions, there are no schedules of financial position, statements of activities or statements of cash flows.

2. Income Taxes:

The Educational Broadcasting Corporation is a private nonprofit corporation. The Educational Broadcasting Corporation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. It is also exempt from State of New York income tax.

SECTION IV

SUPPLEMENTARY INFORMATION

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

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Our audit was conducted for the purpose of forming an opinion on the schedule of over/(under) recovered indirect costs (Schedule A) and schedules of indirect and direct costs (Schedules B-1 to B-2) (the basic financial schedules) of the Educational Broadcasting Corporation for the years ended June 30, 2000 and 2001, and was made for the purpose of forming an opinion on the basic financial schedules taken as a whole. The supplementary information presented in Schedules D-1 and D-2 is presented for purposes of supplementary analysis and is not a required part of the basic financial schedules. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial schedules and, accordingly, we express no opinion on it.

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

March 3, 2003

National Science Foundation Award Number ESI-9705292
 Awarded To
 EDUCATIONAL BROADCASTING CORPORATION
 Schedule of Over (Under) Recovered Indirect Costs
 For the Period July 1, 1999 to June 30, 2001 (A)
 Interim
 (Unaudited)

<u>Cost Category</u>	<u>FYE</u> <u>06/30/00</u>	<u>FYE</u> <u>06/30/01</u>	<u>Total</u>
Personnel costs	\$	\$ [REDACTED]	\$ [REDACTED]
Equipment			
Participant support costs			
Subawards			
Other direct costs	_____	[REDACTED]	[REDACTED]
Total direct costs	[REDACTED]	30,745	<u>\$ 30,745</u>
Exclusions:			(B)
Equipment			
Participant support			
Subawards > than \$25,000	_____	_____	
Modified total direct cost base	[REDACTED]	30,745	
Final audited indirect cost rate	_____	<u>15.38%</u>	
Calculated allowable indirect costs	[REDACTED]	4,729	
Claimed indirect costs (C)	[REDACTED]	<u>-0-</u>	<u>\$ -0-</u>
			(B)
Over/(under) recovered indirect costs	<u>\$ -0-</u>	<u>\$ (4,729)</u>	

(A) The award period is June 15, 1997 to November 30, 2001.

(B) The total direct costs plus indirect costs totals \$30,745 for the period June 15, 1997 to June 30, 2001, which agrees with the cumulative net disbursements reported on the FCTR as of the quarter ended June 30, 2001.

(C) As of June 30, 2001 no indirect costs have been claimed by EBC.

See accompanying independent auditors' report.

National Science Foundation Award Number ESI-9909404
 Awarded To
 EDUCATIONAL BROADCASTING CORPORATION
 Schedule of Over (Under) Recovered Indirect Costs
 For the Period February 15, 2000 to June 30, 2001 (A)
 Interim
 (Unaudited)

<u>Cost Category</u>	<u>FYE</u> <u>06/30/00</u>	<u>FYE</u> <u>06/30/01</u>	<u>Total</u>
Personnel costs	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Equipment	[REDACTED]	[REDACTED]	[REDACTED]
Participant support costs	[REDACTED]	[REDACTED]	[REDACTED]
Subawards	[REDACTED]	[REDACTED]	[REDACTED]
Other direct costs	[REDACTED]	[REDACTED]	[REDACTED]
Total direct costs	481,814	1,183,805	<u>\$ 1,665,619</u>
Exclusions:			(B)
Equipment			
Participant support	1,901	12,471	
Subawards > than \$25,000	_____	_____	
Modified total direct cost base	483,715	1,196,276	
Final audited indirect cost rate	<u>13.72%</u>	<u>15.38%</u>	
Calculated allowable indirect costs	66,366	183,987	
Claimed indirect costs (C)	<u>-0-</u>	<u>-0-</u>	<u>\$ -0-</u>
			(B)
Over/(under) recovered indirect costs	<u>\$ (66,366)</u>	<u>\$ (183,987)</u>	

(A) The award period is February 15, 2000 to July 31, 2002.

(B) The total direct costs plus indirect costs totals \$1,665,619 for the period February 15, 2000 to June 30, 2001, agrees with the cumulative net disbursements reported on the FCTR as of the quarter ended June 30, 2001.

(C) As of June 30, 2001 no indirect costs have been claimed by EBC.

See accompanying independent auditors' report.

SECTION V

AUDITEE'S RESPONSE

EDUCATIONAL BROADCASTING CORPORATION

**DETAILED PERSONAL IDENTIFYING INFORMATION ON
SCHEDULE C**

November 20, 2003

[REDACTED]
MD Oppenheim & Company, P.C.
485 U.S. Highway One, Building C
P.O. Box 4100
Iselin, New Jersey 08830

Dear [REDACTED]:

I am writing in response to your October 22 draft audit report for the Educational Broadcasting Corporation. You have identified the following issues which I have addressed below.

- 1) Accounting System Does Not Track Costs by Federal Award** - We acknowledge that our general ledger system accounts for costs by project and not by federal award. However, we would like to point out that our independent auditor has always expressed in writing that in their opinion EBC "has complied in all material respects with the requirements of OMB A-133" and has never found a material weakness. We recommend that in the future we will perform "offline" tracking that will segregate charges for Federal awards and the cost sharing in separate cost centers.
- 2) Bartered Goods & Services** - We do have a policy for valuing bartered goods and services. Typically, we provide on air promotion for the particular goods or services and we utilize standard rates to determine the overall value of these goods or services. In the case cited, we received a batch of airline tickets for which we established an aggregate value. However, we did not establish a specific value for each ticket, but used an average cost. In the future we will establish a separate value for such items.
- 3) Lobbying Costs** - We inadvertently claimed lobbying costs in the indirect cost pool. In all future indirect cost calculations these costs will be extracted and not included.

4) Fundraising Costs - We had no intention of including nor did we include marketing costs as an indirect cost in our calculation of indirect costs. There may have been a misunderstanding regarding our intentions here.

We hope we have adequately responded to these findings and look forward to your response. Please let us know if we can provide any additional information or clarification.

Sincerely,

A solid black rectangular redaction box covering the signature area.

EDUCATIONAL BROADCASTING CORPORATION
 Details of Adjustments to Indirect Costs – Political and Legislative Lobbying Costs
 For the year ended June 30, 2000

<u>Vendor/Payee</u>	<u>Date Paid</u>	<u>Check Number</u>	<u>G/L Account Number</u>	<u>Account Description</u>	<u>Transaction Description</u>	<u>Adjustment Amount</u>	<u>Ref.</u>
████████████████████	████	████	████	████████████████████	████████████████████	<u>\$ 32,000</u>	(A)

Delineation of Adjustments by EBC Indirect Cost Proposal Line Item:

(A) Executive and Administrative Expenses: Professional Services

EDUCATIONAL BROADCASTING CORPORATION
 Details of Adjustments to Indirect Costs – Lack of Valuation of Bartered Airline Ticket Costs
 For the year ended June 30, 2000

<u>Vendor/Payee</u>	<u>Date Paid</u>	<u>Check Number</u>	<u>G/L Account Number</u>	<u>Account Description</u>	<u>Transaction Description</u>	<u>Adjustment Amount</u>	<u>Ref.</u>
████████████████████	██████	██████████████	██████	████████████████████	████████████████████	<u>\$ 2,099</u>	(A)

Delineation of Adjustments by EBC Indirect Cost Proposal Line Item:

(A) Executive and Administrative Expenses: Travel and Business Expenses

EDUCATIONAL BROADCASTING CORPORATION
 Details of Adjustments to Indirect Costs – Lack of Valuation of Bartered Airline Ticket Costs
 For the year ended June 30, 2001

<u>Vendor/Payee</u>	<u>Date Paid</u>	<u>Check Number</u>	<u>G/L Account Number</u>	<u>Account Description</u>	<u>Transaction Description</u>	<u>Adjustment Amount</u>	<u>Ref.</u>
██████████	██	██████████	████	██████████	██████████	<u>\$ 7,303</u>	(A)

Delineation of Adjustments by EBC Indirect Cost Proposal Line Item:

(A) Fundraising Expenses: Governmental and External Affairs	\$ ██████
Management & Administrative Services:	
Network Technologies	██████
Research & Information Services	██████
 Total adjustments	 <u>\$ 7,303</u>

EDUCATIONAL BROADCASTING CORPORATION
 Details of Adjustments to Indirect Costs – Political and Legislative Lobbying Costs
 For the year ended June 30, 2001

<u>Vendor/Payee</u>	<u>Check Date</u>	<u>Check Number</u>	<u>G/L Account Number</u>	<u>Account Description</u>	<u>Transaction Description</u>	<u>Adjustment Amount</u>	<u>Ref.</u>
██████████	██	██████████	██	████████████████████	████████████████████	\$ ██████████	(A)
██████████	██	██████████	██	████████████████████	████████████████████	██████████	(A)
						<u>\$ 33,800</u>	

Delineation of Adjustments by EBC Indirect Cost Proposal Line Item:

(A) Fundraising Expenses: Governmental and External Affairs