

# 04-1-007

**Sea Studios Foundation**

810 Cannery Row  
Monterey, California 93940

National Science Foundation Award Numbers

ESI-9814957

ESI-0206411

Audit of Financial Schedules

and

Independent Auditors' Reports

For the Period February 1, 1999 to September 30, 2003

**CONRAD** AND  
**ASSOCIATES, L.L.P.**

CERTIFIED PUBLIC ACCOUNTANTS

MAR 29 2004

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**CONRAD AND ASSOCIATES, L.L.P.**

Certified Public Accountants

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**Sea Studios Foundation  
810 Cannery Row  
Monterey, California 93940**

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**EXECUTIVE SUMMARY**

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

**BACKGROUND**

Sea Studios Foundation (SSF) is a California nonprofit public benefit corporation whose mission is to educate the public through television and related media about the diversity of life. This includes the production and distribution of educational materials such as books, films, videos, and television programs. SSF, as a Federal awardee, is required to follow the cost principles specified in Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Nonprofit Organizations* and the Federal administrative requirements contained in OMB Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations*.

SSF is closely related to Sea Studios, Inc. (SSI), a producer of science and natural history film, video and exhibit installations around the world. In addition to being located in the same building, SSF contracts with SSI for production services and shared administrative services. SSF also reimburses SSI for salaries and related expenses for SSI employees assigned to SSF projects, occupancy costs, and leased equipment. To produce its films, SSF uses a combination of salaried employees, independent contractors, and consultants. Besides NSF, SSF receives funding from other outside sponsors including the Sierra Foundation, the Packard Foundation, the MacArthur Foundation, the National Geographic Society, and Vulcan, Inc. The following summarizes the amounts of the awards, the amounts claimed by the awardee, and a brief description of the activities associated with each award:

**NSF Award ESI-9814957** - The award was granted for the period from February 1, 1999 to January 31, 2002. NSF provided up to \$3,068,543 and SSF agreed to provide cost sharing in the amount of \$3,800,429 to support the project. Through January 31, 2002, SSF had claimed \$2,732,857 in NSF funded costs and \$4,069,320 in cost sharing. The purpose of the NSF award was to support the development of eight one-hour television programs that document current advances in genetics, developmental biology, and evolution. The series is a co-production of SSF and National Geographic Television.

**NSF Award ESI-0206411** - The award was granted for the period from June 15, 2002, to May 31, 2004. NSF provided up to \$1,242,660 and SSF agreed to provide cost sharing in the amount of \$124,267 to support the project. Through September 30, 2003, SSF had claimed \$181,972 in NSF funded costs and \$591,113 in cost sharing. The purpose of the award was to support the development of a five-hour television-based series that will follow the on-going research of biologists and other scientists as they investigate the links between Earth's geosphere, biosphere, hydrosphere and atmosphere.

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

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At the request of the NSF Office of the Inspector General (OIG), Conrad and Associates, L.L.P., conducted an audit of NSF awards granted to SSF. During the period of our audit there were two NSF awards: ESI-9814957 – *The Shape of Life* and ESI-0206411 – *The Living Machine*. Our audit objectives were to:

1. Determine whether the Schedules of Award Costs of SSF present fairly, in all material respects, the cost claimed on the Federal Cash Transaction Reports (FCTR) - Federal Share of Net Disbursements and that the costs claimed are in conformity with the terms and conditions of the NSF awards.
2. Identify matters concerning instances of noncompliance with laws, regulations, and the provisions of the award agreements pertaining to NSF awards and weaknesses in SSF's internal control over financial reporting that could have a direct and material effect on the Schedule of Award Costs.

To accomplish the objectives of the audit, we:

- Prepared a survey and internal control audit planning document that included the proposed audit program and sampling methodology for performing the audit survey, gaining an understanding of the grantee's policies and procedures and financial systems for administering its NSF awards, identifying risks in the grantee's operations for effectively administering its NSF awards, and testing the grantee's significant internal controls to determine whether those controls are operating effectively to mitigate the identified risk.
- Prepared a survey and internal control assessment report that included a summary of the results of the on-site audit survey and testing of significant internal controls.
- Prepared a substantive audit testing planning document that included the proposed audit program including sections on tests of compliance with applicable laws and regulations, and substantive testing procedures to determine whether costs charged to the NSF award(s) by the awardee are allowable, allocable, and reasonable in accordance with the applicable Federal cost principles and award terms and conditions.
- Prepared Notification of Findings (NOFs) based on the results of audit fieldwork. The NOFs included detailed information on each finding identified.

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards* (1994 Revision) issued by the Comptroller General of the United States of America.

**SUMMARY OF AUDIT RESULTS**

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Our audit found that SSF needs to improve its internal controls for ensuring that costs of goods and services charged to NSF awards are allowable and in accordance with the applicable cost principles. Specifically, SSF did not have written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of its NSF awards. For the two awards under audit, SSF claimed \$2.9 million of NSF-funded costs and \$4.66 million of cost sharing. Of these amounts, we questioned \$25,160 and \$50,829 of NSF-funded costs and cost sharing, respectively, including excessive rental costs.<sup>1</sup> Although questioned costs represent only 1 percent of SSF claimed costs, the lack of written procedures could affect SSF's future ability to record, process, summarize and report financial data, and effectively and efficiently administer grant funds in a manner consistent with NSF and other Federal laws and regulations.

These errors occurred primarily because SSF staff responsible for ensuring the cost of goods and services charged to NSF awards are allowable did not fully understand the applicable Federal administrative requirements and cost principles.

To address the identified weaknesses and deficiencies, we recommend that the Directors of NSF's Division of Acquisition and Cost Support (DACS) and Division of Grants and Agreements (DGA) require that Sea Studios Foundation develop comprehensive written policies and procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.

**EXIT CONFERENCE**

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An exit conference was held on February 20, 2002 via telephone with the SSF office in Monterey, California. Findings and recommendations, as well as other observations contained in this report, were discussed with those attending. SSF 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 SSF were:

<u>Name</u>	<u>Title</u>
	

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

<u>Name</u>	<u>Title</u>
	

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<sup>1</sup> The award amounts budgeted, claimed, and questioned are shown in Schedules A-1 and A-2.



**FINDINGS AND RECOMMENDATIONS**

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 Sea Studios Foundation (SSF) to the National Science Foundation (NSF) for the awards listed below and have issued our report thereon dated December 5, 2003.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
ESI-9814957	02/01/99 - 01/31/02	02/01/99 – 01/31/02
ESI-0206411	06/15/02 – 05/31/04	06/15/02 – 09/30/03

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. These standards 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 SSF management. As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatement, we performed tests of SSF'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 two instances of noncompliance that are required to be reported herein under *Government Auditing Standards*. 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 Sea Studios Foundation on the Federal Cash Transactions Reports for the period February 1, 1999 to September 30, 2003, in conformity with National Science Foundation award terms and conditions, and determined that this report does not affect our report dated December 5, 2003 on the financial schedules.

**Finding No. 1: Rent Expense – SSF Charged Excessive Rent Expense**

Promotional material describes SSF as "an offshoot of Sea Studios, Inc., an extremely successful producer of science and natural history film, video and exhibit installations around the world." Both entities share office space and the executive producer and one member of the board of directors for SSF are shareholders in SSI. Therefore, there is a "less-than-arms-length" relationship between the two organizations. OMB Circular A-122 states that "[r]ental costs under less-than-arms-length leases are allowable only up to the amount that would be allowed had title to the property vested in the organization."

To recover a portion of its lease costs, SSI billed SSF monthly for rent based on (1) the square footage occupied times (2) a rate per square foot (calculated by dividing the total monthly rent by the total square footage). In addition, a portion of the total square footage was subleased as retail space. The rental income from the retail space was approximately 92% of the total rent for the facility in its entirety. However, the rental income was not deducted from the total rent paid prior to calculating a per square foot rental charge allocated to SSF.

As a result, for both NSF awards under audit, SSI charged SSF rental expense that was in excess of the amount allowable, i.e., the net rental amount after deducting the rental income earned from leasing its retail space. We recalculated the rent expense based on the net rent paid by SSI after deducting the rental income. For award number ESI-0206411, *The Living Machine*, the recalculation identified claimed rental costs in excess of allowable rental costs of \$29,912. Of this amount, \$6,730 was charged to NSF and is reported as questioned costs in Schedule B-2, and the remaining \$23,182 was reported as cost sharing and is reflected as unallowable cost sharing in this audit report. For award number ESI-9814957, *The Shape of Life*, the recalculation resulted in the identification of \$30,881 of claimed rental costs in excess of allowable rental costs. Of this, \$12,352 was charged to NSF and is reported as questioned costs in Schedule B-1 and the remaining \$18,529 was reported as cost sharing and is reflected as unallowable cost sharing in this audit report.

SSF officials believe SSI, a for-profit entity, should be allowed to make a profit on the rental space. They stated that the rent charged to SSF was very reasonable based on rental rates for similar property.

#### **Recommendation No. 1:**

We recommend that NSF's Directors of DACS and DGA ensure that Sea Studios Foundation implement procedures to claim only rental expense for its share of the net rent paid by SSI after deducting the rental income from the retail space.

#### Awardee's Comments

SSF does not concur with this finding and recommendation. They indicated that SSF is managed separate from SSI. The two companies operate consistent with IRS direction regarding allocation of costs based on actual usage and charges not exceeding fair market value. The rent charged to SSF was below the average comparative fair market values. (See Appendix A for a complete copy of the response provided by the Awardee.)

#### Auditors' Response

While we do not disagree with SSF's response regarding following IRS guidelines and FMV, in accordance with OMB Circular A-122 SSF was limited to their share of the actual rental cost, which was the rent paid less the rental income received for the retail space.

#### **Finding No. 2: Travel Expense - Sea Studios Foundation Does Not Have a Policy of Using Only U.S. Air Carriers When Available.**

SSF employees are required to travel to international locations in the performance of the NSF awards, so SSF needs to have a travel policy that complies with NSF requirements. The NSF GC-1 states that "[a]ny air transportation to, from, between, or within a country other than the U.S. of persons or property, the expense of which will be assisted by NSF funding, must be performed by or under a code-sharing arrangement with a U.S.-flag air carrier if service provided by such a carrier is available...." In addition,

OMB Circular A-110, which promulgates standards for financial management systems for non-profit awardees, requires "accounting records...that are supported by source documentation."

Total foreign travel expenses incurred and billed to NSF for the two awards under audit was \$72,250. During our testing of these travel costs, we noted six trips totaling \$15,196 where non-U.S. air carriers were used. Travel documents provided during the audit did not explain why foreign-flag air carriers were used, and therefore, SSF was unable to demonstrate compliance with the NSF requirement. Of the amount tested, \$6,078 was charged to NSF and is reported as questioned costs in Schedule B-1, and the remaining \$9,118 was reported as cost sharing and is reflected as unallowable cost sharing in this audit report. SSF stated that it chose air carriers based on cost and flight timing because it was not aware of the requirement to use U.S. air carriers in instances where possible.

**Recommendation No. 2:**

We recommend that NSF's Directors of DACS and DGA ensure that Sea Studios Foundation implement a travel policy that complies the Federal regulations and requires the use of U.S. air carriers when possible in accordance with the Grant General Conditions.

Awardee's Comments

SSF will take steps to ensure formal documentation of any instances where a foreign-flag air carrier must be used. (See Appendix A for a complete copy of the response provided by the Awardee.)

Auditors' Response

The Awardee's comments appear to be responsive to the finding. In accordance with our audit recommendation, SSF should implement a travel policy that complies with Federal regulations, and provide assurance to NSF that the policy has been implemented.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of SSF 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 February 1, 1999 to September 30, 2003, we obtained an understanding of SSF'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 SSF'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 material weaknesses.

**Finding No. 3: Consultants – Sea Studios Foundation Does Not Have Adequate Policies and Procedures to Identify Consultants.**

NSF normally expects awardees to use their own staff to carry out award activities. However, according to SSF, most film producers hire independent contractors and consultants for specific projects because they cannot afford to have permanent staff on their payroll when they do not have a production in progress.

For the two awards under audit, SSF utilized both independent contractors to carry out award activities and consultants who provided professional advice or services. Examples of staff hired as contractors and consultants included producers, editors, writers, camera, sound, and lighting specialists, and accountants. Total expense for independent contractors and consultants billed to NSF was approximately \$983,300 out of the total claimed costs of \$2.98 million.

SSF did not have written procedures for distinguishing between contractors and consultants, classifying all externally-hired personnel as independent contractors. It is important to distinguish between contractors and consultants because NSF grant conditions set specific limits on the daily rate of pay to consultants, which are not applicable to contractors who carry out award activity. NSF's GC-1 states "[p]ayments to individuals for consultant services under this grant shall 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).

All of the independent contractors and consultants with material amounts charged to the awards under audit were included in our audit sample and we tested approximately 22% of the total individual payments. During the audit SSF formulated a policy clarifying the parameters for utilizing independent

contractors, outside consultants and employees in the fulfillment of its mission. We applied these parameters of this policy in testing for excessive consultant payments and did not find any. Nevertheless, as noted above, NSF has a requirement that payments for consultant services not exceed a maximum daily rate. If not specifically distinguished otherwise, the potential exists for Sea Studios to pay consultants above the maximum daily rate allowed by NSF.

**Recommendation No. 3:**

We recommend that NSF's Directors of DACS and DGA ensure that Sea Studios Foundation finalize its policy regarding the identification of consultants versus independent contractors, submit it to NSF for review and approval, formally adopt it, and follow it to distinguish all contractors utilized as consultants or independent contractors.

Awardee's Comments

SFF concurs with the finding and recommendation. (See Appendix A for a complete copy of the response provided by the Awardee.)

Auditors' Response

The Awardee's comments appear to be responsive to the finding. In accordance with our audit recommendation, SFF should finalize its policy, submit it to NSF for its review and approval, and provide assurance to NSF that the policy has been implemented.

**Finding No. 4: Inadequate Procedures Related to the Allowability of Award Costs**

Our audit identified a significant weakness in SSF's process for administering its NSF awards. In particular, SSF did not have written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of its NSF awards. Written procedures would provide a greater degree of continuity and guidance during the review and approval of award costs or in the event of staff turnover.

As a result, we identified questioned costs and unallowable cost sharing totaling \$75,989 related to excessive rental charges and unjustified foreign flag carrier costs. In addition, SSF did not have a process, written or otherwise, that differentiated between independent contractors serving as personnel and consultants who provide professional advice or services. This distinction is important because NSF sets specific limits on the daily rate of pay to consultants, which are not applicable to independent contractors.

Due to the size of the organization and the level of informality, formal written procedures had not been developed because SSF personnel were relying on the availability of the appropriate OMB Circulars.

**Recommendation No. 4:**

We recommend that the Directors of DACS and DGA require that SSF develop written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of its NSF awards.

Awardee's Comments

SFF will implement formalized policies from NSF guidelines and OMB circulars as appropriate and cost-effective. (See Appendix A for a complete copy of the response provided by the Awardee.)

Auditors' Response

The Awardee's comments appear to be responsive to the finding. In accordance with our audit recommendation, SFF should develop written procedures, and provide assurance to NSF that the procedures have been implemented.

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 December 5, 2003 on the Schedules of Award Costs.

This report is intended solely for the information and use of Sea Studios Foundation'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.*

Conrad and Associates, L. L. P.  
Irvine, California  
December 5, 2003

**FINANCIAL SCHEDULES AND  
SUPPLEMENTAL INFORMATION**



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

**INDEPENDENT AUDITORS' REPORT ON FINANCIAL SCHEDULES**

We were engaged to audit the costs claimed by Sea Studios Foundation (SSF) 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 Sea Studios Foundation 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>
ESI 9814957	02/01/99 – 01/31/02	02/01/99 – 01/31/02
ESI 0206411	06/15/02 – 05/31/04	06/15/02 – 09/30/03

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 SSF 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 \$25,160 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 SSF and 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 February 1, 1999 to September 30, 2003 in conformity with the 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 December 5, 2003 on tests of SSF's compliance with certain provisions of laws, regulations and the NSF award agreement, and our consideration of SSF'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 SSF'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.*

Conrad and Associates, L.L.P.  
December 5, 2003

**Sea Studios Foundation**  
National Science Foundation Award No. ESI – 9814957  
Schedule of Award Costs  
From February 1, 1999 to January 31, 2002  
Final

<u>Cost Category</u>	<u>Approved Budget</u>	(A) <u>Claimed Costs</u>	<u>Questioned Costs</u>	<u>Schedule Reference</u>
Direct costs:				
Salaries and wages	\$ [REDACTED]	\$ [REDACTED]	\$ -	
Fringe benefits	[REDACTED]	[REDACTED]	-	
Equipment	[REDACTED]	[REDACTED]	-	
Travel - Domestic	[REDACTED]	[REDACTED]	-	
Foreign	[REDACTED]	[REDACTED]	6,078	B-1a
Other direct costs:				
Materials and supplies	[REDACTED]	[REDACTED]	-	
Publication costs	[REDACTED]	[REDACTED]	-	
Consultant services	[REDACTED]	[REDACTED]	-	
Computer services	[REDACTED]	[REDACTED]	-	
Subcontracts	[REDACTED]	-	-	
Other	[REDACTED]	[REDACTED]	<u>12,352</u>	B-1b
Total direct costs	2,977,891	2,960,375	18,430	
Indirect costs	<u>90,652</u>	<u>72,522</u>	-	
Total costs	\$3,068,543	\$3,032,897	\$18,430	
Less costs not billed (B)	<u>-</u>	<u>300,040</u>	-	
Total costs billed	<u>\$3,068,543</u>	<u>\$2,732,857</u>	<u>\$18,430</u>	
Cost sharing	<u>\$3,800,429</u>	<u>\$4,069,320</u>	<u>\$ -</u>	

(A) The total claimed costs agree with the total expenditures reported by SSF on the Federal Cash Transactions Report - Federal Share of Net Disbursements as of the quarter ending June 30, 2003. Claimed costs reported above are taken directly from the awardee's books of accounts.

(B) Costs incurred in excess of the grant budget amount per year were not billed to NSF.

See accompanying notes to this financial schedule.

**Sea Studios Foundation**  
 National Science Foundation Award No. ESI – 9814957  
 Schedule of Questioned Costs  
 From February 1, 1999 to January 31, 2002

**Note B-1a Non-U.S. Air Carriers Utilized**

As indicated in Compliance Finding No. 2, NSF has a requirement that grantees use U.S. air carriers when service provided by such a carrier is available. During our testing of travel costs, we noted three sample items for airfare involving six trips where non-U.S. air carriers were used when U.S. air carriers were available with no justification indicated. The total amount charged to NSF for foreign airfare was approximately \$34,500. Our sample size of \$16,996 for NSF share of foreign travel revealed the \$6,078 of questioned costs as indicated below. However, because the sample was judgmentally selected it is not possible to project such costs to total costs.

The costs of the six trips where non-U.S. air carriers were used with no justification is as follows:

Airfare for trip to Australia, January, 2000	\$	
Airfare for trip to Australia, January, 2000		
Airfare for trip to Australia, January, 2000		
Airfare for trip to Australia, January, 2000		
Airfare for trip to Manado, March, 2000		
Airfare for trip to Glasgow, March, 2000		
Total		<u>\$15,196</u>
NSF share 40%		\$ 6,078
Cost Share 60%		9,118

**Note B-1b Rent Expense Not Adjusted For Rental Income**

SSI billed SSF monthly for rent based on the direct facilities lease between the two entities. The rent per the lease was based on an amount per square foot of direct usage by SSF. SSF's rent was calculated based on the total monthly rent divided by the total square footage. However, a portion of the total square footage was subleased by SSI as retail space. The rent charged to SSF was in excess of the cost per square footage after deducting the rental income from the retail space. See Compliance Finding No. 1.

We recalculated the rent expense for SSF based on the net rent paid by SSI after deducting the rental income. This recalculation results in claimed rental costs in excess of allowable rental costs of \$30,881. Of this amount, \$12,352 was charged to NSF and is reported as questioned costs. The remaining amount of \$18,529 was reported as cost sharing and is reflected as non-allowed cost sharing in this audit report. Following is our recalculation of the rent expense for the years that rent was charged to the award:

**Schedule B-1, (Continued)**

	<u>1999</u>	<u>2000</u>	<u>Total</u>
Total SSI rent paid	[REDACTED]	[REDACTED]	
Total rental income	[REDACTED]	[REDACTED]	
Net rent expense	<u>\$ 6,407</u>	<u>6,881</u>	
SSF square footage	1827.5	1827.5	
Combined SSF and SSI square footage	2226	2226	
Percentage of SSF to total	82.10%	82.10%	
Net rent expense	\$ 6,407	6,881	
Times SSF percentage	x 82.10%	x 82.10%	
Allowable rent expense for SSF	<u>\$ 5,260</u>	<u>5,649</u>	
Total rent charged	[REDACTED]	[REDACTED]	
Less indirect	[REDACTED]	-	
Total direct	<u>\$ 13,879</u>	<u>27,911</u>	
NSF share 40%	\$ 5,552	11,164	
Cost share 60%	8,327	16,747	
Total direct rent charged	\$ 13,879	27,911	41,790
Allowable rent expense	<u>5,260</u>	<u>5,649</u>	<u>10,909</u>
Excess	<u>\$ 8,619</u>	<u>22,262</u>	<u>30,881</u>
NSF Share 40%	\$ 3,447	8,905	12,352
Cost Share 60%	5,172	13,357	18,529

**Sea Studios Foundation**  
National Science Foundation Award No. ESI – 0206411  
Schedule of Award Costs  
From June 15, 2002 to September 30, 2003  
Interim

<u>Cost Category</u>	<u>Approved Budget</u>	(A) <u>Claimed Costs</u>	<u>Questioned Costs</u>	<u>Schedule Reference</u>
Direct costs:				
Salaries and wages	\$ [REDACTED]	\$ [REDACTED]	\$ -	
Travel - Domestic	[REDACTED]	[REDACTED]	-	
Foreign	[REDACTED]	[REDACTED]	-	
Other direct costs:				
Materials and supplies	[REDACTED]	[REDACTED]	6,730	B-2a
Publication costs	[REDACTED]	[REDACTED]	-	
Consultant services	[REDACTED]	[REDACTED]	-	
Computer services	[REDACTED]	[REDACTED]	-	
Subcontracts	[REDACTED]	[REDACTED]	-	
Total direct costs	1,166,817	171,522	6,730	
Indirect costs	75,843	10,450	-	
Total	<u>\$1,242,660</u>	<u>\$181,972</u>	<u>\$6,730</u>	
Cost sharing	<u>\$ 124,267</u>	<u>\$591,113</u>	<u>\$ -</u>	

(A) The total claimed costs agree with the total expenditures reported by SSF on the Federal Cash Report - Federal Share of Net Disbursements as of the quarter ending September 30, 2003. Claimed costs reported above are taken directly from the awardee's books of accounts.

See accompanying notes to this financial schedule.

**Sea Studios Foundation**  
 National Science Foundation Award Number ESI - 0206411  
 Schedule of Questioned Costs  
 From June 15, 2002 to September 30, 2003

**Note B-2a**      **Rent Expense Not Adjusted For Rental Income**

SSI billed SSF monthly for rent based on the direct usage square feet and the SSF portion of the shared facilities. SSF's rent was calculated based on the total monthly rent divided by the total square footage. However, a portion of the total square footage was subleased by SSI as retail space. The rental income from the retail space was approximately 92% of the total rent paid by SSI. The rental income was not deducted from the total rent paid prior to allocating to SSF. See Compliance Finding No. 1.

We recalculated the rent expense for SSF based on the net rent paid by SSI after deducting the rental income. This recalculation results in claimed rental costs in excess of allowable rental costs of \$29,912. \$6,730 was charged to NSF and is reported as questioned costs. The remaining amount of \$23,182 was reported as cost sharing and is reflected as non-allowed cost sharing in this audit report. Following is our recalculation of the rent expense:

Month	Per Books			Per Audit			Amount in Excess of Audit	NSF %	Amount to NSF	Cost Shared
	Rent Allocated	% Allocated	Net Amount	Rent Allocated	% Allocated	Net Amount				
06/30/2002										
07/31/2002										
08/31/2002										
09/30/2002										
10/31/2002										
11/30/2002										
12/31/2002										
01/31/2003										
02/28/2003										
03/31/2003										
04/30/2003										
<b>Total</b>							<u>\$29,912.31</u>		<u>\$ 6,730.27</u>	<u>\$23,182.04</u>

**Sea Studios Foundation**  
 Summary Schedules of Awards Audited and Audit Results  
 From June 15, 2002 to September 30, 2003

**Summary of Awards Audited**

Award Number	Award Period	Audit Period
ESI-9814957	02/01/99 – 01/31/02	02/01/99 – 01/31/02
ESI-0206411	06/15/02 – 05/31/04	06/15/02 – 09/30/03

Award Number	Type of Award	Award Description
ESI-9814957	Grant	The Shape of Life
ESI-0206411	Grant	The Living Machine

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

NSF Award Number	Award Budget	Claimed Costs	Questioned Costs	Unsupported Costs
ESI-9814957	\$3,068,543	\$2,732,857	\$18,430	None
ESI-0206411	\$1,242,660	\$ 181,972	\$ 6,730	None
Total	\$4,311,203	\$2,914,829	\$25,160	None

**Summary of Questioned Cost by Explanation**

Condition	Questioned Cost Amount	Internal Control Weaknesses	Non-Compliance
Rent Expense Overallocated	\$19,082	No	Yes
Non-U.S. Air Carriers	\$ 6,078	No	Yes
Total Questioned Costs	\$25,160		

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

Condition	Non-Compliance or Internal Control?	Material, Reportable or Other?
Rent Expense Overallocated	Non-Compliance	Reportable
Non-U.S. Air Carriers	Non-Compliance	Reportable
Consultants Not Identified	Internal Control	Reportable
Inadequate Procedures Related to Allowability of Costs	Internal Control	Reportable



**Sea Studios Foundation**  
Notes to Financial Schedules  
From June 15, 2002 to September 30, 2003

**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 SSF. 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 purchased with NSF funds 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 that depreciation expense is reflected on assets purchased with other funds.

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.

**Sea Studios Foundation**  
Notes to Financial Schedules  
From June 15, 2002 to September 30, 2003

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

The following represents the cost share requirements and actual cost share as of September 30, 2003:

	<u>Cost Share Required</u>	<u>Actual Cost Share Claimed</u>	<u>Unallowable Cost Share</u>	<u>Actual Allowable Cost Share</u>	<u>Actual Cost Share Over/(Under) Required</u>
<b>Award No. ESI-9814957</b>					
Year 1	\$1,006,431	\$1,230,296	\$ 5,172	\$1,225,124	\$ 218,693
Year 2	1,690,214	1,803,712	22,475	1,781,237	91,023
Year 3	<u>1,103,784</u>	<u>1,035,312</u>	<u>-</u>	<u>1,035,312</u>	<u>(68,472)</u>
Total	<u>\$3,800,429</u>	<u>\$4,069,320</u>	<u>\$27,647</u>	<u>\$4,041,673</u>	<u>\$ 241,244</u>

**Award No. ESI-0206411**

Year 1	\$ 124,267	\$ 591,113	\$23,182	\$ 567,931	\$ 443,664
Year 2	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 124,267</u>	<u>\$ 591,113</u>	<u>\$23,182</u>	<u>\$ 567,931</u>	<u>\$ 443,664</u>

**Note 3: Indirect Cost Rates**

Award Number	Indirect Cost Rate	Base
ESI-9814957	3.2% - 4.2%	NSF Share of Actual Direct Costs
ESI-0206411	6.5%	NSF Share of Actual Direct Costs

**APPENDIX A – AWARDEE’S COMMENTS TO REPORT**

# Sea Studios Foundation

810 Cannery Row  
Monterey, CA 93940  
Tel 831-649-5152 Fax 831-649-1380

March 4, 2004

[REDACTED]  
Conrad and Associates, L.L.P.  
2301 Dupont Drive, Suite 200  
Irvine, CA 92612

Re: NSF Draft Audit Report, your letter dated February 20, 2004

Dear [REDACTED]:

We have reviewed your draft report and provide this letter with our responses, as you've requested.

On page one, under Background, please add Vulcan, Inc. as one of the outside sponsors that we have received funding from.

Regarding the specific findings (beginning on page 4):

## Finding No. 1: Rent Expense

Sea Studios Foundation (SSF) is separate from Sea Studios, Inc. (SSI) and managed accordingly. The Board of Directors of SSF is independent of the senior operating management team. [REDACTED] is one of five Board members, [REDACTED] is not a Board member. [REDACTED] receives no compensation from SSI.

In establishing SSF, the Board of Directors was very careful to follow IRS guidelines and ensure proper "arms-length" transactions and processes. Additionally, although they are independent entities, the companies operate consistent with IRS direction for Nonprofits acting as a subsidiary or parent to a for-profit entity.

The IRS direction for resource sharing among two such parties is clear:

- 1) Costs shall be allocated based on the actual usage
- 2) Charges shall not exceed Fair Market Value

SSI and SSF have structured their space sharing arrangement to reflect actual space utilized and a below FMV rate. SSF has also benefited from the ability to raise or lower its occupancy without any notice or penalty. We are attaching our detailed discussion of this item, including the analysis of fair market rates, to this letter. (This was also provided to you previously.)

#### Finding No. 2: Travel Expense

We have attempted to comply with the requirements to utilize U.S.-flagged air carriers. All of our personnel involved in arranging travel are aware of this grant condition. The extensive international nature of our production work adds scheduling complexity. In the past we did not keep the level of formal documentation, that we now realize we should have maintained, of decisions to use other carriers. We will take steps to ensure formal documentation of any instances where a foreign-flag air carrier must be used.

#### Finding No. 3: Consultants,

We feel that you have captured the many conversations that were had on this subject well. In addition, we ask that NSF provide us with their definitions of "independent contractors" and "consultants" so that we may ensure our formalized policy complies with NSF definitions as well.

#### Finding No. 4: Inadequate Procedures

As a very small organization, we do not have the staffing or financial resources to implement formal policies and procedures in the same manner that a large organization does. We do feel that our staff has worked hard to adhere to both the spirit and letter of the grant conditions. Please note our comments related to excessive rental charges under Finding No. 1. We will implement formalized policies from NSF guidelines and OMB circulars as appropriate and cost-effective.

The following are SSF Comments related to the "Notes to Financial Schedules" section of the report.

#### Note 1: Summary of Significant Accounting Policies B. Equipment

SSF capitalized fixed assets purchased for use in the Shape of Life project, and depreciated those assets over the useful life of the project, January 1999 through March 2001. Depreciation schedules were provided to the auditors during the course of the audit. Depreciation was based on monthly calculations, entered as one journal entry at year-end. We can provide duplicate copies of this material if needed.

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

The Award No. ESI-9814957 table has some misleading information in it, when taken out of context. In Year 2 and Year 3, the actual cost-sharing requirement was less due to underspending in the publicity category, and does not include the authorized "look-back" calculation of actual costs.

We are attaching worksheets that show these adjustments to this document. These worksheets were also provided during the audit.

Conclusion

Sea Studios Foundation is grateful to the National Science Foundation for its support. We work hard to ensure that our projects are managed professionally and thoroughly. We also take pride in our ability to help our partners exceed their expectations in furthering their goals through our work. We hope that when evaluating the items identified as part of the audit process, our organization size and market niche will become factors in the overall appraisal of our success.

Please do not hesitate to contact us if you have any questions or require additional information.

Sincerely

A solid black rectangular redaction box covering the signature area.

Cc: Sea Studios Foundation Board of Directors

**Rental of Office Space to Seas Studios Foundation (SSF)**

Sea Studios Foundation (SSF) is separate from Sea Studios, Inc. (SSI) and managed accordingly. In establishing SSF, the Board of Directors was very careful to follow IRS guidelines and ensure proper "arms-length" transactions and processes. Additionally, although they are independent entities, the companies operate consistent with IRS direction for Nonprofits acting as a subsidiary or parent to a for-profit entity.

The IRS direction for resource sharing among two such parties is clear:

- 3) Costs shall be allocated based on the actual usage
- 4) Charges shall not exceed Fair Market Value

SSI and SSF have structured their space sharing arrangement to reflect actual space utilized and a below FMV rate. SSF has also benefited from the ability to raise or lower its occupancy without any notice or penalty.

More details about the facility arrangements are provided below.

[REDACTED]

[REDACTED]

[REDACTED]

It is the position of Seas Studios, Inc., a for-profit entity, that it is entitled to seek profit from the utilization of the assets of the S-corporation, including the master lease on the facility. Rental income received from the retail store had been negotiated based on the fair market values for retail space in the area. Sea Studios, Inc. has had this sublease agreement since July 1, 1992, and has always considered this a profit generating activity.

This activity is not associated with Sea Studios Foundation in any way and the Foundation is not entitled to any of the profits from rental to the retail store.

Certain shareholders of Sea Studios, Inc. do have related party interest in Sea Studios Foundation.

[REDACTED], a shareholder of Sea Studios, Inc. is an officer of the Board. [REDACTED]

██████████ does not receive any compensation from the SSF. ██████████, a shareholder of Sea Studios, Inc. has been contracted through Seas Studios, Inc., to receive compensation

██████████. All other board members of Sea Studios Foundation are not shareholders of Sea Studios, Inc. and have no related party interests in Sea Studios, Inc.

The Foundation Board of Directors has been aware of these related party interests, and has always taken steps in directing management and staff of the Foundation to ensure that the management and administrative contracts, occupancy and other related transactions with Sea Studios, Inc. are reasonable, consistent with legal guidelines, and that amounts paid are comparable to fair market values, rates and norms for the video production industry.

In developing the rental charge to SSF, the comparative fair market values of office space in the area were solicited and reviewed. ██████████

As a result of the comparative review of rents in this area, it was determined that the per square footage rate of ██████████ and subsequent cost of living increases to the current rate of ██████████ was well below the average comparative fair market rent values, and therefore an extremely reasonable amount to pay for rent. (Also consistent with IRS guidelines for determining reasonableness.)

In determining the estimate of space utilized by Sea Studios Foundation and Sea Studios, Inc., a detailed analysis of the each work area used by staff has been made to determine the direct usage of space by each entity.

Sea Studios, Inc. has only two employees currently, ██████████, and ██████████, ██████████, who utilize approximately 8% of the direct work spaces. It has been determined that Sea Studios Foundation currently uses approximately 92% of the direct work spaces. The common areas shared by both entities (kitchen, bathroom, receptions, etc) have been allocated to each entity based on these direct usage percentages.

As a result of this analysis, the portion of the cost of shared space allocated to SSF is ██████████ and to Sea Studios, Inc. ██████████.

It is the position of the Foundation that this allocation is a reasonable and fair rent of the space occupied by the Foundation, and a competitive arrangement that could not be improved in the local marketplace.



**SHAPE OF LIFE**  
**Year Two ( January 1, 2000 to July 31, 2000)**  
**SUMMARY OF EXPENSES AND COST SHARING**

<b>Total Expenses per P&amp;L January 1, 31, 2000 to July 31, 2000</b>		<b>\$3,091,263.92</b>
Less General and Administrative Expenses - Indirect	(\$49,421.74)	
Less Shape of Life Overhead Expenses - Indirect	(\$61,341.09)	
<b>Total Indirect Expenses</b>		<b>(\$110,762.83)</b>
Less NSF Ineligible Expenses - disallowed		(\$195,777.78)
<b>Net Direct Expenses for grant period 1/1/2000 to 7/31/2000</b>		<b><u>\$2,784,723.31</u></b>
<b>NSF share of actual direct costs</b>		<b>\$1,190,634.89</b>
<b>NSF Indirect Costs allowable for reimbursement</b>	<b>3.30%</b>	<b>\$39,290.95</b>
<b>Maximum NSF allowable indirect costs per grant - year 2</b>		<b>\$36,261.00</b>
<b>Maximum NSF share of direct costs per grant</b>		<b>\$195,913.00</b>
<b>Total Award amount Year 2</b>		<b>\$1,622,722.00</b>
Balance of Direct costs funded by cost sharing		<b>\$1,688,810.31</b>
Balance of Indirect costs funded by cost sharing		<b>\$74,501.83</b>
Add back In Kind Donations allowable for cost sharing calc.		<b>\$40,400.65</b>
<b>Total Cost Sharing - Year 2</b>		<b><u>\$1,803,712.79</u></b>
<b>Required Cost sharing per grant agreement</b>		<b><u>\$1,690,214.00</u></b>
<b>Cost sharing in excess of grant requirements</b>		<b><u>\$113,498.79</u></b>

**SHAPE OF LIFE  
Calendar Year 2000**

**SUMMARY OF EXPENSES AND COST SHARING**

<b>Total Expenses per P&amp;L</b>		<b>\$4,982,278.45</b>
Less General and Administrative Expenses - Indirect	(\$67,516.76)	
Less Shape of Life Overhead Expenses - Indirect	(\$91,785.42)	
<b>Total Indirect Expenses</b>		<b>(\$159,302.18)</b>
Less NSF Ineligible Expenses - disallowed		(\$418,016.61)
<b>Net Direct Expenses for Calendar Year</b>		<b><u>\$4,404,959.66</u></b>
<b>NSF share of actual direct costs</b>		<b>\$1,853,025.72</b>
<b>Indirect Costs Percentage allowable for reimbursement</b>	<b>3.20%</b>	<b>\$59,296.82</b>
<b>Maximum NSF allowable indirect costs per grant - year 2</b>		\$36,261.00
<b>Maximum NSF allowable indirect costs per grant - year 3</b>		\$12,130.00
<b>Maximum NSF share of direct costs per grant - year 2</b>		\$1,095,913.00
<b>Maximum NSF share of direct costs per grant net of Publicity &amp; Promotions</b>		458,367.00
<b>Total Award Calendar year 2000</b>		<u>\$1,592,673.00</u>
<b>Total amount billed - Calendar Year 2000</b>		\$1,592,673.00
<b>Indirect costs not billed to NSF</b>		\$15,403.75
<b>Balance of Direct costs funded by cost sharing</b>		<b>\$2,850,679.66</b>
<b>Balance of Indirect costs funded by cost sharing</b>		<b>\$123,041.18</b>
<b>Add back In Kind Donations allowable for cost sharing calc.</b>		<b>\$69,436.93</b>
<b>Total Cost Sharing - Year 3</b>		<b><u>\$3,043,157.77</u></b>
<b>Required Cost sharing per grant agreement</b>		<b><u>\$2,193,998.00</u></b>
<b>Cost sharing in excess of grant requirements</b>		<b><u>\$849,159.77</u></b>
<b>Less matching cost sharing for Publicity &amp; promotion</b>		<u>(600,000.00)</u>
<b>Net Required Cost sharing per grant agreement</b>		<u>(600,000.00)</u>
<b>Excess Cost sharing</b>		<b><u>1,449,159.77</u></b>

**SHAPE OF LIFE**

**Year Three ( Sept 1, 2000 to December 31, 2000)**

**90 day Look back from award date 11/28/00**

**SUMMARY OF EXPENSES AND COST SHARING**

<b>Total Expenses per P&amp;L September 1, 2000 to December 31, 2000</b>		<b>\$1,509,978.35</b>
Less General and Administrative Expenses - Indirect	(\$14,944.75)	
Less Shape of Life Overhead Expenses - Indirect	(\$24,693.17)	
<b>Total Indirect Expenses</b>		<b>(\$39,637.92)</b>
Less NSF Ineligible Expenses - disallowed		(\$197,998.99)
<b>Net Direct Expenses for grant period September 1 2000 to December 31, 2000</b>		<b><u>\$1,272,341.44</u></b>
<b>NSF share of actual direct costs</b>		<b>\$512,617.13</b>
<b>Indirect Costs Percentage allowable for reimbursement</b>	<b>3.20%</b>	<b>\$16,403.75</b>
<b>Maximum NSF allowable indirect costs per grant - year 3</b>		<b>\$529,020.88</b>
<b>Maximum NSF share of direct costs per grant net of Publicity &amp; Promotions</b>		<b>458,367.00</b>
<b>Total Award amount Year 3</b>		<b>\$476,497.00</b>
<b>Total amount billed for year 3</b>		<b>\$458,367.00</b>
<b>Indirect costs not billed to NSF</b>		<b>\$16,403.75</b>
Balance of Direct costs funded by cost sharing		<b>\$813,974.44</b>
Balance of Indirect costs funded by cost sharing		<b>\$39,637.92</b>
Add back In Kind Donations allowable for cost sharing calc.		<b>\$23,145.71</b>
<b>Total Cost Sharing - Year 3</b>		<b><u>\$876,758.07</u></b>
<b>Required Cost sharing per grant agreement</b>		<b><u>\$503,784.00</u></b>
<b>Cost sharing in excess of grant requirements</b>		<b><u>\$372,974.07</u></b>

**SHAPE OF LIFE**  
**Research and Evaluation**

**SUMMARY OF EXPENSES AND COST SHARING**

<b>Total Expenses per P&amp;L (January 2001 to Sept 30, 2002)</b>			<b>\$99,845.00</b>
Less General and Administrative Expenses - Indirect			
Less Shape of Life Overhead Expenses - Indirect			
<b>Total Indirect Expenses</b>			<b>\$0.00</b>
Less NSF Ineligible Expenses - disallowed			\$0.00
<b>Net Direct Expenses for grant period January 1, 2001 to Sept 30, 2002</b>			<b><u>\$99,845.00</u></b>
<b>Indirect Costs Percentage allowable for reimbursement</b>			N/A
<b>Maximum NSF allowable indirect costs per grant - year three</b>			<b>\$0.00</b>
<b>Indirect costs not billed to NSF for lookback period.</b>			<b>\$0.00</b>
Actual Indirect costs incurred			\$0.00
<b>Excess indirect costs funded by cost sharing sources</b>			<b><u>\$0.00</u></b>
<b>Allowable Direct Expenses</b>	60%		<b>\$99,845.00</b>
Total grant funded by NSF	0.6	\$59,907.00	
NSF Direct expenses reimbursed			<b><u>\$59,907.00</u></b>
<b>Balance of Direct costs funded by cost sharing</b>			<b>\$39,938.00</b>
Add Excess Indirect costs funded by cost sharing			\$0.00
Add back In Kind donations (from Disallowed expenses) allowable for cost sharing			
<b>Total Cost Sharing</b>			<b>\$39,938.00</b>
<b>Required Cost sharing per grant agreement</b>			<b><u>39,938.00</u></b>
<b>Excess Cost sharing</b>			<b><u>0.00</u></b>

HOW TO CONTACT  
THE OFFICE OF INSPECTOR GENERAL

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