

Performance Audit of Incurred Costs – University of Oklahoma

REPORT PREPARED BY SIKICH CPA LLC





At a Glance

Performance Audit of Incurred Costs – University of Oklahoma
OIG 24-1-008 | March 6, 2024

AUDIT OBJECTIVE

The National Science Foundation Office of Inspector General engaged Sikich CPA LLC (Sikich) to conduct a performance audit of costs that the University of Oklahoma (OU) incurred on 237 NSF awards during the period of November 1, 2019, to October 31, 2022. The auditors tested more than \$1.6 million of the approximately \$42 million of costs claimed during the period. The audit objective was to determine if costs claimed by OU on NSF awards were allowable, allocable, reasonable, and in compliance with NSF award terms and conditions and federal financial assistance requirements. A description of the audit's objective, scope, and methodology is attached to the report as Appendix B.

AUDIT RESULTS

The report highlights concerns about OU's compliance with certain federal and NSF award requirements, NSF award terms and conditions, and OU policies. The auditors questioned \$1,251,186 of costs claimed by OU during the audit period. Specifically, the auditors questioned \$1,124,864 for an unallowable subaward, \$77,196 of inadequately supported expenses, \$28,809 of unallowable expenses, and \$20,317 of inappropriately applied indirect costs. The auditors also identified two compliance related findings for which there were no questioned costs: non-compliance with federal requirements for pass-through entities and non-compliance with OU policies. In addition to the six findings, the audit report includes one area for improvement for OU to consider related to insufficient controls over the application of indirect cost rates. Sikich is responsible for the attached report and the conclusions expressed in it. NSF OIG does not express any opinion on the conclusions presented in Sikich's audit report.

RECOMMENDATIONS

The auditors included six findings and one area for improvement in the report with associated recommendations for NSF to resolve the questioned costs OU disagreed with, to direct OU to provide documentation supporting that it repaid or otherwise credited the questioned costs it agreed to reimburse, and to ensure OU strengthens administrative and management controls.

AUDITEE RESPONSE

Although OU agreed with the majority of findings in the audit report, it only agreed to reimburse \$126,322 of the questioned costs. OU's response is attached, in its entirety, to the report as Appendix A.

CONTACT US

For congressional, media, and general inquiries, email OIGPublicAffairs@nsf.gov.



NATIONAL SCIENCE FOUNDATION
Office of Inspector General

MEMORANDUM

DATE: March 6, 2024

TO: Quadira Dantro
Director
Division of Institution and Award Support

Jamie French
Director
Division of Grants and Agreements

FROM: Theresa S. Hull [REDACTED]
Assistant Inspector General for Audits

SUBJECT: Final Report No. 24-1-008, *University of Oklahoma*

This memorandum transmits the Sikich CPA LLC (Sikich) report for the audit of costs charged by the University of Oklahoma (OU) to 237 NSF awards during the period of November 1, 2019, to October 31, 2022. The audit encompassed more than \$1.6 million of the approximately \$42 million of costs claimed during the period. The audit objective was to determine if costs claimed by OU on NSF awards were allowable, allocable, reasonable, and in compliance with NSF award terms and conditions and federal financial assistance requirements. A full description of the audit's objective, scope, and methodology is attached to the report as Appendix B.

Please coordinate with our office during the 6-month resolution period, as specified by OMB Circular A-50, to develop a mutually agreeable resolution of the audit findings. The findings should not be closed until NSF determines that all recommendations have been adequately addressed and the proposed corrective actions have been satisfactorily implemented.

OIG Oversight of the Audit

Sikich is responsible for the attached auditors' report and the conclusions expressed in this report. We do not express any opinion on the conclusions presented in Sikich's audit report. To fulfill our responsibilities, we:

- reviewed Sikich's approach and planning of the audit;

- evaluated the qualifications and independence of the auditors;
- monitored the progress of the audit at key points;
- coordinated periodic meetings with Sikich, as necessary, to discuss audit progress, findings, and recommendations;
- reviewed the audit report prepared by Sikich; and
- coordinated issuance of the audit report.

We thank your staff for the assistance that was extended to the auditors during this audit. If you have any questions regarding this report, please contact Billy McCain at 703-292-7100 or OIGPublicAffairs@nsf.gov.

Attachment

CC: Stephen Willard, Dan Reed, Victor McCrary, John Veysey, Ann Bushmiller, Karen Marrongelle, Teresa Grancorvitz, Christina Sarris, Janis Coughlin-Piester, Alex Wynnyk, Rochelle Ray, Charlotte Grant-Cobb

EXECUTIVE SUMMARY

The Sikich CPA LLC (formerly known as Cotton & Company Assurance and Advisory, LLC) audit team determined that the University of Oklahoma (OU) needs improved oversight of the allocation and documentation of expenses charged to NSF awards to ensure costs claimed are reasonable, allocable, and allowable in accordance with all federal and NSF regulations, NSF award terms and conditions, and OU policies and procedures. Specifically, the audit report includes six findings, one area for improvement, and a total of \$1,251,186 in questioned costs.

AUDIT OBJECTIVES

The National Science Foundation Office of Inspector General engaged Sikich CPA LLC (herein referred to as “we”), to conduct a performance audit of costs OU claimed during the period from November 1, 2019, to October 31, 2022. The audit objectives included evaluating OU’s award management environment to determine whether any further audit work was warranted and performing additional audit work, as determined appropriate. We have attached a full description of the audit’s objectives, scope, and methodology as [Appendix B](#).

AUDIT CRITERIA

The audit team assessed OU’s compliance with 2 Code of Federal Regulations (CFR) 200 (versions effective 12/26/20214 and 11/12/2020); NSF Proposal and Award Policies and Procedures Guides (PAPPGs) 14-1, 15-1, 16-1, 17-1, 19-1, 20-1, and 22-1; NSF award terms and conditions; and OU policies and procedures. The audit team included references to relevant criteria within each finding and defined key terms within the Glossary located in [Appendix E](#).

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States.

AUDIT FINDINGS

As summarized in [Appendix C](#), the auditors identified and questioned \$1,251,186 of direct and indirect costs OU inappropriately claimed during the audit period, including:

- \$1,124,864 for an unallowable fixed amount subaward
- \$77,196 of inadequately supported expenses
- \$28,809 of unallowable expenses
- \$20,317 of inappropriately applied indirect cost and fringe benefit rates

The audit report also includes two compliance-related findings for which the auditors did not question any costs:

- Non-compliance with federal requirements for pass-through entities
- Non-compliance with OU policies

In addition to the six findings, the audit report includes one area for improvement for OU to consider related to:

- Insufficient controls related to the application of indirect cost rates

RECOMMENDATIONS

The audit report includes 19 recommendations and 1 consideration for NSF’s Director of the Division of Institution and Award Support related to resolving the \$1,251,186 in questioned costs and ensuring OU strengthens its award management environment, as summarized in [Appendix D](#).

AUDITEE RESPONSE

Although OU agreed with the majority of the findings included in the audit report, it only agreed to reimburse \$126,322 of the questioned costs. OU’s response is attached, in its entirety, to the report as [Appendix A](#).

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Abbreviations

ACM\$	Award Cash Management \$ervice
CFR	Code of Federal Regulations
COE	Cost-of-Education
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
GL	General Ledger
GRA	Graduate Research Assistant
GRFP	Graduate Research Fellowship Program
GTA	Graduate Teaching Assistant
IBS	Institutional Base Salary
MTDC	Modified Total Direct Cost
NICRA	Negotiated Indirect Cost Rate Agreement
NSF	National Science Foundation
OIG	Office of Inspector General
PAPPG	Proposal and Award Policies and Procedures Guide
PI	Principal Investigator
POP	Period of Performance
OU	University of Oklahoma
SAT	Simplified Acquisition Threshold

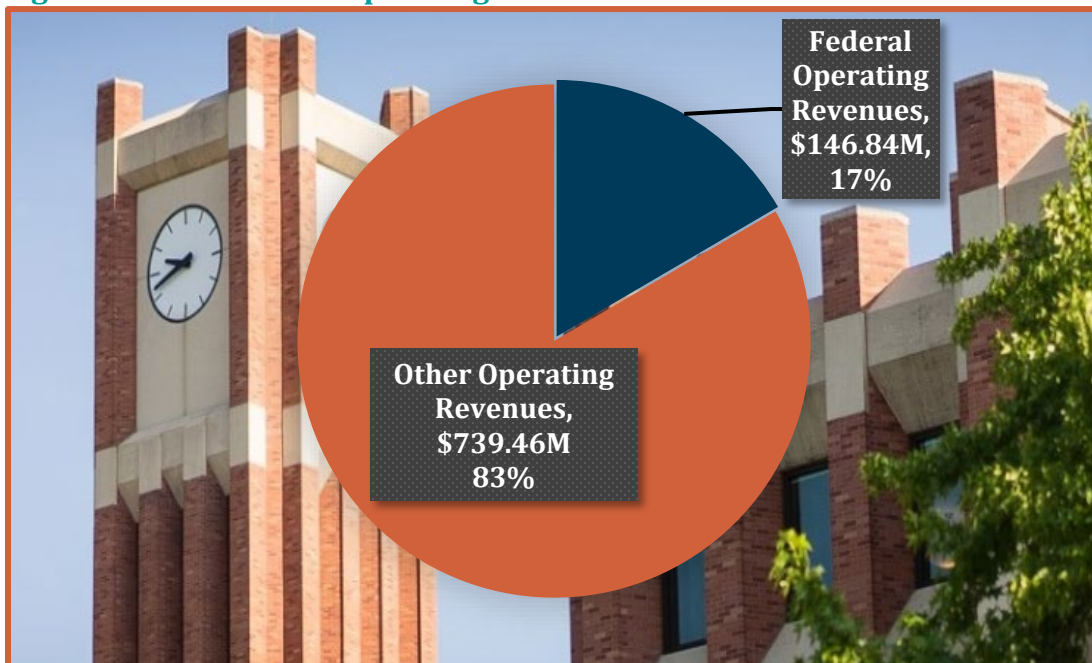
BACKGROUND

The National Science Foundation is an independent federal agency created “to promote the progress of science; to advance the national health, prosperity, and welfare; to secure the national defense; and for other purposes” (Pub. L. No. 81-507). NSF funds research and education in science and engineering by awarding grants and contracts to educational and research institutions throughout the United States.

Most federal agencies have an Office of Inspector General that provides independent oversight of the agency’s programs and operations. Part of NSF OIG’s mission is to conduct audits and investigations to prevent and detect fraud, waste, and abuse. In support of this mission, NSF OIG may conduct independent and objective audits, investigations, and other reviews to promote the economy, efficiency, and effectiveness of NSF programs and operations, as well as to safeguard their integrity. NSF OIG may also hire contractors to provide these audit services.

NSF OIG engaged Sikich CPA LLC (formerly known as Cotton & Company Assurance and Advisory, LLC and herein referred to as “we”), to conduct a performance audit of costs claimed by the University of Oklahoma (OU). OU is a public research university located in Norman, Oklahoma. In fiscal year (FY) 2022, OU reported approximately \$886.30 million in operating revenue, with \$146.84 million received from federal sources—including NSF—as illustrated in Figure 1.

Figure 1: OU’s FY 2022 Operating Revenues



Source: The chart data is supported by The University of Oklahoma – Norman Campus Independent Auditor’s Reports and Financial Statements. (<https://www.ou.edu/content/dam/financialservices/docs/FSS%20-2022%20Financial%20statement.pdf>) The photo of OU’s campus is publicly available on OU’s website. (<https://www.ou.edu/wtd>)

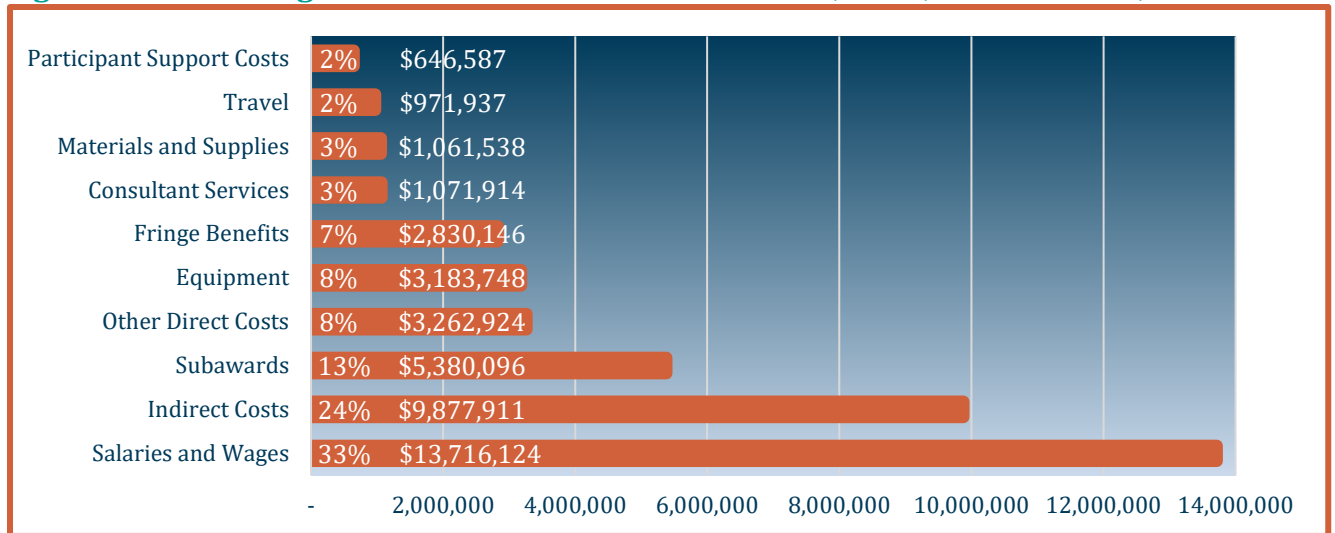
AUDIT SCOPE

This performance audit—conducted under Order No. 140D0422F0886—was designed to meet the objectives identified in the Objectives, Scope, and Methodology section of this report ([Appendix B](#)) and was conducted in accordance with *Generally Accepted Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States.

The objectives of this performance audit were to evaluate OU’s award management environment; determine if costs claimed on NSF awards were allowable, allocable, reasonable, and in compliance with relevant federal and NSF regulations; determine whether any further audit work was warranted; and perform any additional audit work, as determined appropriate. [Appendix B](#) provides detailed information regarding the audit scope and methodology used for this engagement.

As illustrated in Figure 2, OU provided general ledger (GL) data to support the \$42 million in expenses it claimed on 237 NSF awards during our audit [period of performance \(POP\)](#) of November 1, 2019, to October 31, 2022.

Figure 2: Costs Charged to NSF Awards from November 1, 2019, to October 31, 2022¹



Source: Auditor analysis of accounting data OU provided, illustrating the total costs (\$42,002,925) by expense type, using financial information to support costs claimed on NSF awards during the audit period. The Other Direct Costs category includes other direct costs and computer services.

We judgmentally selected 49 transactions totaling \$1,615,000² (see Table 1) and evaluated supporting documentation to determine whether the costs claimed on the NSF awards were [allocable](#), [allowable](#), and [reasonable](#), and whether they were in conformity with

¹ The total award-related expenses that OU reported in its GL exceeded the \$41,997,140 reported in NSF’s Award Cash Management Service (ACM\$); however, because the GL data materially reconciled to NSF’s ACM\$ records, we determined that the GL data was appropriate for the purposes of this engagement.

² The \$1,615,000 represents the total value of the 49 transactions selected for transaction-based testing and does not represent the dollar base of the total costs reviewed during the audit.

NSF award terms and conditions, organizational policies, and applicable federal financial assistance requirements.

Table 1: Summary of Selected Transactions

Budget Category	Transaction Count	Expense Amount ³
Subawards	3	\$1,008,976
Other Direct Costs	11	148,065
Consultant Services	5	138,079
Equipment	6	103,782
Indirect Costs	1	67,623
Salaries and Wages	7	66,965
Materials and Supplies	6	46,102
Participant Support Costs	4	12,991
Travel	3	11,686
Computer Services	2	6,021
Fringe Benefits	1	4,710
Total	<u>49</u>	<u>\$1,615,000</u>

Source: Auditor summary of selected transactions.

AUDIT RESULTS

We identified and questioned \$1,251,186 in costs OU charged to eight NSF awards. We also identified expenses OU charged to ten NSF awards that did not result in **questioned costs**, but did result in non-compliance with federal, NSF, and OU-specific policies and procedures. Finally, we identified one area in which OU should consider strengthening its controls to ensure it does not overcharge indirect costs to NSF awards in the future. See Table 2 for a summary of questioned costs by finding area, **Appendix C** for a summary of questioned costs by NSF award, and **Appendix D** for a summary of all recommendations.

Table 2: Summary of Questioned Costs by Finding Area

Finding Description	Questioned Costs
Unallowable Fixed Amount Subaward	\$1,124,864
Inadequately Supported Expenses	77,196
Unallowable Expenses	28,809
Inappropriately Applied Indirect Cost and Fringe Benefit Rates	20,317
Non-Compliance with Federal Requirements for Pass-Through Entities	-
Non-Compliance with OU Policies	-
Total	<u>\$1,251,186</u>

Source: Auditor summary of findings identified.

We made 19 recommendations and identified 1 consideration for NSF's Director of the Division of Institution and Award Support related to resolving the \$1,251,186 in questioned costs and ensuring OU strengthens its administrative and management

³ The expense amounts reported represent the total dollar value of the transactions selected for our sample; they do not include the total **fringe benefits** or **indirect costs** applied to the sampled transactions. However, we tested the fringe benefits and indirect costs for allowability.

procedures for monitoring federal funds. We communicated our audit results and the related findings and recommendations to OU and NSF OIG. We included OU’s response to this report, in its entirety, as [Appendix A](#).

FINDING 1: UNALLOWABLE FIXED AMOUNT SUBAWARD

OU, with NSF’s awareness, awarded a **fixed amount subaward** greater than its \$150,000 **Simplified Acquisition Threshold (SAT)**, which is not allowable per federal regulations,⁴ **NSF Proposal and Award Policies and Procedures Guides (PAPPG)**,⁵ and OU policy.⁶ As a result, OU charged one NSF award for \$1,124,864 in unallowable **subaward**⁷ expenses during the audit period, as illustrated in Table 3.

Table 3: Fixed Amount Subaward in Excess of the SAT

Expense Date	NSF Award No.	Unallowable Total	Subawardee	Notes
June 2022 – March 2023	[REDACTED]	\$1,124,864	[REDACTED]	a

Source: Auditor summary of identified exception.

- a) In April 2022, after discussions with NSF, OU awarded a \$1,470,000 fixed amount subaward to the [REDACTED] ([REDACTED]) to perform research necessary to achieve the objectives of NSF Award No. [REDACTED]. \$1,274,864 of the subaward was invoiced during the audit period. Although NSF was aware of OU’s intention to issue a fixed amount subaward, NSF’s approval did not explicitly state that it approved a fixed amount subaward nor did it specifically approve the issuance of a fixed amount subaward over OU’s SAT of \$150,000. As NSF did approve the issuance of the subaward, but did not specifically approve the issuance of a fixed amount subaward above OU’s SAT, the \$1,124,864 in costs invoiced in excess of OU’s \$150,000 SAT are unallowable.

Conclusion

OU did not have sufficient internal controls in place to ensure it appropriately received approval for—and established—fixed amount subawards. Specifically, OU’s internal controls did not ensure that it limited fixed amount subawards to its SAT or that it obtained appropriate NSF approval to issue fixed amount subawards above the SAT. We are

⁴ According to 2 Code of Federal Regulations (CFR) § 200.333 (Revised 11/12/2020), *Fixed amount subawards*, with prior written approval from the federal awarding agency, a pass-through entity may provide subawards based on fixed amounts up to the SAT.

⁵ According to NSF PAPPG 22-1, Part II, Chapter X, Section A, *Basic Considerations*, grantees should ensure all costs charged to NSF awards meet the requirements of the cost principles contained in 2 CFR § 200, Subpart E; grant terms and conditions; and any other specific requirements of both the award notice and the applicable program solicitation.

⁶ According to OU’s *Subrecipient Monitoring Guidelines*, Section F, fixed amount subcontracts are allowed up to \$150,000, with approval of the federal awarding agency.

⁷ The federal regulation references subawards; however, OU’s specific guidelines refer to subawards as subcontracts. “Subcontract” is used in lieu of subaward.

therefore questioning \$1,124,864 of unallowable expenses charged to one NSF award, as illustrated in Table 4.

Table 4: Finding 1 Summary: Unallowable Fixed Amount Subaward

NSF Award No.	Description	Fiscal Year(s)	Questioned Costs			OU Agreed to Reimburse
			Direct	Indirect	Total	
██████	June 2022 – March 2023 Fixed Amount Subaward	2022 – 2023	\$1,124,864	\$0	\$1,124,864	\$0
Total			<u>\$1,124,864</u>	<u>\$0</u>	<u>\$1,124,864</u>	<u>\$0</u>

Source: Auditor summary of identified exception.

Recommendations

We recommend that NSF’s Director of the Division of Institution and Award Support:

- 1.1. Resolve the \$1,124,864 in questioned subaward expenses for which OU has not agreed to reimburse NSF and direct OU to repay or otherwise remove the sustained questioned costs from its NSF award.
- 1.2. Direct OU to implement additional internal controls for the oversight of fixed amount subawards. Additional controls could include:
 - Requiring OU’s Sponsored Program Office to verify that NSF’s written subaward approval acknowledges the type of NSF-approved subaward prior to executing a fixed amount subaward agreement.
 - Requiring OU’s Sponsored Program Office to document its review of all fixed amount subawards for compliance with the simplified acquisition threshold.

University of Oklahoma Response: OU disagreed with this finding and the \$1,124,864 of questioned costs, stating that NSF was involved in and aware OU planned to issue a fixed amount subaward to the ██████. Specifically, OU noted that NSF approved OU’s request to use ██████ as a subawardee and was aware of ██████ unwillingness to accept a cost-reimbursable subaward. OU further noted that, without ██████ OU would not have been able to complete its research, as ██████ was the only institution within the United States and Canada that was able to provide the necessary support.

Auditor’s Additional Comments: Our position regarding this finding has not changed. As federal, NSF, and OU policy state that fixed amount subawards cannot be issued above the SAT and as OU did not receive approval to issue a fixed amount subaward above the SAT, all costs invoiced on the subaward above the SAT are unallowable. Accordingly, our position regarding this finding has not changed. However, we did clarify language in the finding above to emphasize the allowable portion of the subaward and that the subaward was necessary to achieve the objectives of the award.

FINDING 2: INADEQUATELY SUPPORTED EXPENSES

OU did not provide adequate documentation to support the allocability, **allowability**, and reasonableness of \$77,196 in expenses charged to five NSF awards during the audit period, as required for the costs to be allowable, per federal regulations⁸ and NSF PAPPGs.⁹

Inadequately Supported Internal Service Provider Expenses

OU did not provide adequate documentation to support that \$74,373 in internal service provider expenses were supported by biennially approved service rates that only resulted in OU recovering the aggregate costs of the services, as required for the costs to be allowable per federal regulations¹⁰ and as illustrated in Table 5.

Table 5: Inadequately Supported Internal Service Provider Expenses

Expense Date	NSF Award No.	Expenses	Inadequate Documentation to Support:	Notes
October 2019 – February 2020	████████	\$3,588	Biennial review of internal cleanroom service rates	a
September 2020	████████	7,600	Biennial review of internal electron lab service rates	b
April 2022 – August 2022	████████	62,000	Biennial review of internal radar service rates	c
August 2022	████████	1,185	Biennial review of internal motor pool service fees	d

Source: Auditor summary of identified exceptions.

- a)** Between October 2019 and February 2020, OU charged NSF Award No. ██████████ for \$3,588 in expenses incurred for internal cleanroom services charged at rates that were not supported by a biennially negotiated rate agreement.
- b)** In September 2020, OU charged NSF Award No. ██████████ for \$7,600 in expenses incurred for internal electron lab services charged at rates that were not supported by a biennially negotiated rate agreement.
- c)** Between April 2022 and August 2022, OU charged NSF Award No. ██████████ for \$62,000 in expenses incurred for internal radar services charged at rates that were not supported by a biennially negotiated rate agreement.

⁸ According to 2 CFR § 200.403 (12/26/2014), *Factors affecting allowability of costs*, (a), for a cost to be allowable, it must be allocable and reasonable for the performance of the federal award. Further, section (g) states that, in order for a cost to be allowable, it must be adequately documented.

⁹ According to NSF PAPPG 16-1, Part I, Chapter V, Section A, and NSF PAPPGs 17-1, 19-1, and 20-1, Part II, Chapter X, Section A, *Basic Considerations*, grantees should ensure that all costs charged to NSF awards meet the requirements of the cost principles contained in 2 CFR § 200, Subpart E; grant terms and conditions; and any other specific requirements of both the award notice and the applicable program solicitation.

¹⁰ According to 2 CFR 200, Section § 200.468 (12/26/2014), (b), *Specialized service facilities*: “The costs of such services, when material, must be charged directly to applicable awards based on actual usage of the services on the basis of a schedule of rates or established methodology that: ... (2) is designed to recover only the aggregate costs of the services. Rates must be adjusted at least biennially, and must take into consideration over/under applied costs of the previous period(s).”

- d) In August 2022, OU charged NSF Award No. [REDACTED] for \$1,185 in expenses incurred for internal motor pool services charged at a rate that was not supported by a rate agreement.

Inadequately Supported Computer Service Expenses

OU did not provide adequate documentation to support \$2,823 in computer service expenses charged to one NSF award were allocable, reasonable, or allowable, as illustrated in Table 6.

Table 6: Inadequately Supported Computer Service Expenses

Expense Date	NSF Award No.	Inadequately Supported Expenses	Inadequate Documentation to Support:	Notes
November 2021	[REDACTED]	\$2,823	Service Agreement, Scope, POP, or Rate	a

Source: Auditor summary of identified exception.

- a) In November 2021, OU charged NSF Award No. [REDACTED] for \$2,823 in website development service expenses. OU did not provide a service agreement or other documentation to support the scope of services provided, the POP for the services, or the service provider's rates to support how the service provider calculated the amounts charged and/or how OU verified that the rates were reasonable.

Conclusion

OU did not have sufficient policies, procedures, or internal controls in place to ensure it created and maintained adequate documentation to support the allowability of all costs charged to NSF awards. Specifically, OU's policies, procedures, and internal controls did not ensure that it reviewed internal service provider rates biennially and that it appropriately executed service agreements with computer service providers prior to paying for services. We are therefore questioning \$77,196 of inadequately supported expenses charged to five NSF awards. OU agreed to reimburse NSF for the \$77,196 in questioned costs, as illustrated in Table 7.

Table 7: Finding 2 Summary: Inadequately Supported Expenses

NSF Award No.	Description	Fiscal Year(s)	Questioned Costs			
			Direct	Indirect	Total	OU Agreed to Reimburse
[REDACTED]	October 2019 – February 2020 Internal Cleanroom Services	2020	\$2,315	\$1,273	\$3,588	\$3,588
[REDACTED]	September 2020 Internal Electron Lab Services	2021	5,000	2,600	7,600	7,600

NSF Award No.	Description	Fiscal Year(s)	Questioned Costs			
			Direct	Indirect	Total	OU Agreed to Reimburse
██████	April 2022 – August 2022 Internal Radar Services	2022 – 2023	40,000	22,000	62,000	62,000
██████	August 2022 Internal Motor Pool Services	2023	765	420	1,185	1,185
██████	November 2021 Computer Services	2022	1,821	1,002	2,823	2,823
Total			<u>\$49,901</u>	<u>\$27,295</u>	<u>\$77,196</u>	<u>\$77,196</u>

Source: Auditor summary of identified exceptions.

Recommendations

We recommend that NSF’s Director of the Division of Institution and Award Support:

- 2.1. Direct OU to provide documentation supporting that it has repaid or otherwise credited the \$77,196 in questioned internal service provider and computer service expenses for which it has agreed to reimburse NSF.
- 2.2. Direct OU to strengthen its policies and procedures related to creating and retaining documentation, including introducing additional internal controls to ensure that it appropriately creates and maintains all documentation necessary to support the allowability of expenses charged to sponsored programs. Updated controls could include:
 - Requiring OU to implement additional policies or procedures to ensure it performs—and documents performance of—biennial reviews of its internal service provider rates in accordance with federal regulations.
 - Requiring OU to establish formal agreements with external service providers that identify the period of performance, scope of work, and compensation rates to support that expenses paid are reasonable, allocable, and allowable.

University of Oklahoma Response: OU agreed with this finding and stated that it will reimburse NSF for the \$77,196 in questioned costs. OU noted that it intends to implement new policies and procedures, including biennial reviews of rates developed for internal service providers. Additionally, OU noted it has implemented external service provider procurement procedures that align with university policy.

Auditor’s Additional Comments: Our position regarding this finding has not changed.

FINDING 3: UNALLOWABLE EXPENSES

OU charged two NSF awards a total of \$28,809 in Graduate Research Fellowship Program (GRFP) expenses and participant gift cards that are unallowable under federal regulations¹¹ and NSF PAPPGs.¹²

Unallowable GRFP Expenses

OU charged one NSF award for \$28,609 in **cost-of-education (COE)** allowances that were unallowable as relevant GRFP Program Solicitations cited a COE allowance limit per student,¹³ as illustrated in Table 8.

Table 8: Unallowable GRFP Expenses

Expense Date	NSF Award No.	Unallowable Amount	Description of Unallowable Costs:	Notes
June 2017 – September 2021	██████████	\$28,609	COE Allowance	a

Source: Auditor summary of identified exception.

- a) Between June 2017 and September 2021, OU charged NSF Award No. ██████████ for \$220,609 in COE allowances for 16 students participating in OU’s GRFP. However, because OU was only allowed a COE of \$12,000 for each of the 16 students, or \$192,000, \$28,609 of the amount charged for COE allowances was unallowable.

Unallowable Participant Gift Cards

OU charged one NSF award for \$200 in participant gift cards that did not benefit the award, as illustrated in Table 9.

Table 9: Unallowable Participant Gift Cards

Expense Date	NSF Award No.	Unallowable Amount	Description of Unallowable Costs	Notes
December 2021	██████████	\$200	Gift Cards	a

Source: Auditor summary of identified exception.

- a) In December 2021, OU charged NSF Award No. ██████████ for \$200 in participant gift cards that were not utilized to benefit the award as the gift cards were returned to the vendor.

¹¹ According to 2 CFR § 200.403 (12/26/2014) and 2 CFR § 200.403 (Revised 11/12/2020), *Factors affecting allowability of costs*, (a), for a cost to be allowable, it must be allocable and reasonable for the performance of the federal award. Further, section (g) states that, in order for a cost to be allowable, it must be adequately documented.

¹² According to NSF PAPPGs 19-1 and 20-1, Part II, Chapter X, Section A, *Basic Considerations*, grantees should ensure all costs charged to NSF awards meet the requirements of the cost principles contained in 2 CFR § 200, Subpart E; grant terms and conditions; and any other specific requirements of both the award notice and the applicable program solicitation.

¹³ According to the applicable GRFP Program Solicitations (15-597, 16-588, 18-573, 19-590, 20-587, and 21-602), the institutional COE allowance is \$12,000 per tenure year per Fellow.

Conclusion

OU did not have sufficient policies and procedures or internal controls in place to ensure it only charged allowable costs to NSF awards. Specifically, OU’s controls did not limit its COE allowances to the allowable threshold established by the GRFP program solicitation and did not ensure that any expenses associated with returned gift cards were removed from the NSF award. We are therefore questioning \$28,809 charged to two NSF awards. OU agreed to reimburse NSF for the \$28,809 in questioned costs, as illustrated in Table 10.

Table 10: Finding 3 Summary: Unallowable Expenses

NSF Award No.	Description	Fiscal Year(s)	Questioned Costs			OU Agreed to Reimburse
			Direct	Indirect	Total	
██████	June 2017 – September 2021 GRFP Expenses	2017 – 2022	\$28,609	\$0	\$28,609	\$28,609
██████	December 2021 Participant Gift Cards	2022	200	-	200	200
Total			<u>\$28,809</u>	<u>\$0</u>	<u>\$28,809</u>	<u>\$28,809</u>

Source: Auditor summary of identified exceptions.

Recommendations

We recommend that NSF’s Director of the Division of Institution and Award Support:

- 3.1 Direct OU to provide documentation supporting that it has repaid or otherwise credited the \$28,809 in Graduate Research Fellowship Program and participant gift card expenses for which it has agreed to reimburse NSF.
- 3.2 Direct OU to implement additional procedures and internal controls to ensure the cost-of-education allowance does not exceed the limit identified in the Graduate Research Fellowship Program solicitation for each student on an annual basis.
- 3.3 Direct OU to strengthen its procedures for reviewing participant gift cards to ensure that it removes the unallowable expenses in their entirety when OU determines that costs do not benefit an award.

University of Oklahoma Response: OU agreed with this finding and stated that it will reimburse NSF for the \$28,809 in questioned costs, stating that it has implemented both a reconciliation process for GRFP expenses and an additional senior staff member review prior to approving journal entries to be posted to the financial system.

Auditor’s Additional Comments: Our position regarding this finding has not changed.

FINDING 4: INAPPROPRIATELY APPLIED INDIRECT COST AND FRINGE BENEFIT RATES

OU and two of its subawardees did not apply indirect cost and fringe benefit rates consistent with their **Negotiated Indirect Cost Rate** Agreements (NICRAs) when charging direct expenses to four NSF awards.¹⁴

Indirect Cost Rates Inappropriately Applied by OU

OU did not consistently apply its indirect cost rate to the **Modified Total Direct Cost (MTDC)** base established in its NICRAs, in accordance with federal regulations. As a result, OU charged \$20,317 in unallowable indirect costs to one NSF award and did not appropriately apply indirect cost rates to one NSF award, as illustrated in Table 11.¹⁵

Table 11: Indirect Cost Rates Inappropriately Applied by OU

NSF Award Number	Direct Expense Type	NSF Award Date	Transaction Date	Rate Applied (%)	Appropriate Rate (%)	Inappropriately Charged Indirect Costs	Notes
██████████	Materials and Supplies	5/14/2018	4/17/2021	0.00	55.00 ¹⁶	\$0	a
	Repair and Maintenance		1/25/2022				b
██████████	Subaward	8/5/2019	3/15/2022	55.00	55.00 ¹⁷	20,317	c

Source: Auditor summary of identified exceptions.

- a) In April 2021, OU charged NSF Award No. ██████████ for \$2,652 in materials and supplies expenses that OU inappropriately posted to an account that was excluded from OU's MTDC base.
- b) In January 2022, OU charged NSF Award No. ██████████ for \$15,164 in repair and maintenance expenses that OU inappropriately posted to an account that was excluded from OU's MTDC base.
- c) In March 2022, OU charged NSF Award No. ██████████ for \$20,317 in unallowable indirect costs as a result of inappropriately executing a technical agreement rather

¹⁴ According to 2 CFR § 200.68 (December 26, 2014) and 2 CFR § 200.1 (Revised November 12, 2020), *Modified Total Direct Costs*, all direct salaries and wages, applicable fringe benefits, materials and supplies, services, and travel are included in the MTDC; however, **equipment** and capital expenditures are excluded.

¹⁵ According to OU's NICRA dated May 20, 2017, MTDCs consist of all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward (regardless of the POP of the subawards under the award). MTDCs shall exclude equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs, and the portion of each subaward in excess of \$25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs.

¹⁶ OU's NICRA dated May 20, 2017, established a predetermined indirect cost rate of 55.00 percent for on-campus research from July 1, 2016, to June 30, 2019.

¹⁷ OU's NICRA dated April 2, 2019, established a provisional indirect cost rate of 55.00 percent for on-campus research from July 1, 2019, until amended. OU's NICRA dated October 22, 2020, established a final indirect cost rate of 55.00 percent for on-campus research from July 1, 2019, to June 30, 2020.

than a subaward agreement. This resulted in subaward costs being inappropriately charged to a consultant services account included within OU's MTDC base.¹⁸

Indirect Cost Rates Inappropriately Applied by Subawardees

Two of OU's subawardees did not consistently apply the indirect cost rates established in their NICRAs, as illustrated in Table 12.

Table 12: Indirect Cost Rates Inappropriately Applied by Subawardees

NSF Award Number	Expense Type	Subawardee Transaction Date(s)	Rate Applied (%)	Appropriate Rate (%)	Notes
██████████	Subaward	8/31/2021	38.00	37.50 ¹⁹	a
		9/1/2021 – 11/30/2021	37.50	38.00 ²⁰	
██████████	Subaward	12/08/2021	63.00	62.981	b

Source: Auditor summary of identified exceptions.

- a) Between August 2021 and November 2021, OU charged NSF Award No. ██████████ for \$85,870 in subaward expenses that included indirect costs charged using incorrect indirect cost rates. Specifically, the subawardee's NICRA dated March 25, 2019, established a 37.50 percent rate for organized research expenses from September 1, 2020, through August 31, 2021, and a 38.00 percent rate for on-campus research expenses from September 1, 2021, to August 31, 2022. However, the subawardee applied its 38.00 percent indirect cost rate to the August 2021 expenses—before the rate became effective—and applied its 37.50 percent indirect cost rate to September through November 2021 expenses—after the rate was no longer effective.²¹
- b) In March 2022, OU charged NSF Award No. ██████████ for \$61,940 in subaward expenses that included indirect costs charged using an incorrect indirect cost rate. As the subawardee did not have a federally negotiated indirect cost rate, it provided OU with a letter²² supporting that its indirect cost rate was 62.981 percent. However, when requesting the subaward, the subawardee rounded the 62.981

¹⁸ We calculated this amount as follows: First \$25,000 of subaward * 55.00 percent (indirect cost rate application) = \$13,750 in correct indirect costs on subaward expenses. \$34,067 of indirect costs charged on the award - \$13,750 in correct indirect costs on subaward expenses = \$20,317 in indirect costs on subaward expenses incorrectly charged as **consultant services**.

¹⁹ The subawardee's NICRA dated March 25, 2019, established a predetermined indirect cost rate of 37.50 percent for on-campus research from September 1, 2020, to August 31, 2021.

²⁰ The subawardee's NICRA dated March 25, 2019, established a predetermined indirect cost rate of 38.00 percent for on-campus research from September 1, 2021, to August 31, 2022.

²¹ For the August 31, 2021 transactions, OU incurred \$534 of indirect costs on \$1,404 in direct costs as a result of applying the 38.00 percent indirect cost rate instead of 37.50 percent. Separately, for the September 1, 2021 to November 30, 2021 transactions, OU incurred \$20,218 of indirect costs on \$53,915 in direct costs as a result of applying the 37.50 percent indirect cost rate instead of 38.00 percent. As such, OU did not incur an overage of indirect costs and these exceptions did not result in questioned costs.

²² According to the memorandum from the subawardee, dated July 12, 2019, the letter served as verification that the FY 2019 indirect rate for non-subawardee partners was 62.981 percent. Additionally, the letter communicated the subawardee's intent to apply a 63.00 percent rate during the project's POP.

percent rate supported by the letter to 63.00 percent. Although OU awarded the subaward with a 63.00 percent indirect cost rate, because the 63.00 percent rate was not supported as required by federal regulations, indirect costs were not appropriately charged. As the amount overcharged was not material,²³ we are not questioning any costs associated with this exception.

Fringe Benefit Rate Inappropriately Applied

OU did not consistently apply the fringe benefit rate established in its NICRAs,²⁴ as illustrated in Table 13.

Table 13: Fringe Benefit Rate Inappropriately Applied

NSF Award Number	Expense Type	Transaction Date	Rate Applied (%)	Appropriate Rate (%)	Notes
██████████	Salaries and Wages	8/31/2021	7.80	12.80	a

Source: Auditor summary of identified exception.

- a) In August 2021, OU charged NSF Award No. ██████████ for \$1,391 in fringe benefit expenses for a Graduate Teaching Assistant (GTA) that OU calculated using the incorrect fringe benefit rate. Specifically, because OU applied the 7.8 percent fringe benefit rate effective when OU posted the employee’s salary to its accounting system rather than applying the 12.8 percent fringe benefit rate effective when the salary was earned, OU did not appropriately apply its fringe benefit rate.

Conclusion

OU and its subawardees did not have sufficient policies, procedures, or internal controls in place to ensure that they applied the appropriate negotiated rates to the correct direct cost base. Specifically, OU did not ensure that it charged expenses to the appropriate GL account for inclusion in the MTDC base, did not monitor the indirect costs that subawardees negotiated and applied, and did not verify fringe benefits were appropriately applied to salary expenses earned in one FY but posted in a different FY. We are therefore questioning \$20,317 charged to one NSF award and are noting five compliance exceptions in which OU and its subawardees applied the incorrect rate. OU agreed to reimburse NSF for the \$20,317 in questioned costs, as illustrated in Table 14.

²³ The subawardee invoiced \$23,940 (63 percent of \$38,000 of direct costs) in indirect costs instead of \$23,933 (62.981 percent of \$38,000 of direct costs), or a \$7 difference.

²⁴ According to OU’s NICRA dated May 26, 2020, the Graduate Research/Teaching Assistant’s fringe benefit rate from July 1, 2019, to June 30, 2020, was 12.80 percent. According to OU’s NICRA dated August 17, 2021, the Graduate Research/Teaching Assistant’s fringe benefit rate from July 1, 2021, to June 30, 2022, was 7.80 percent.

Table 14: Finding 4 Summary: Inappropriately Applied Indirect Cost and Fringe Benefit Rates

NSF Award No.	Description	Fiscal Year	Questioned Costs			OU Agreed to Reimburse
			Direct	Indirect	Total	
██████	April 2021 Materials and Supplies Excluded from MTDC	2021	\$0	\$0	\$0	\$0
██████	January 2022 Repair and Maintenance Excluded from MTDC	2022	-	-	-	-
██████	March 2022 Subaward Included in MTDC	2022	-	20,317	20,317	20,317
██████	January 2022 Subawardee Indirect Costs	2022	-	-	-	-
██████	March 2022 Subawardee Indirect Costs	2022	-	-	-	-
██████	August 2021 Fringe Benefits	2022	-	-	-	-
Total			<u>\$0</u>	<u>\$20,317</u>	<u>\$20,317</u>	<u>\$20,317</u>

Source: Auditor summary of identified exceptions.

Recommendations

We recommend that NSF’s Director of the Division of Institution and Award Support:

- 4.1 Direct OU to provide documentation supporting that it has repaid or otherwise credited the \$20,317 in questioned indirect costs for which it has agreed to reimburse NSF.
- 4.2 Direct OU to strengthen its monitoring procedures to ensure it appropriately applies its indirect cost rates and fringe benefit rates to all direct costs that should be included in its modified total direct cost base per its negotiated indirect cost rate agreements.
- 4.3 Direct OU to strengthen its procedures for monitoring costs to ensure that it accurately classifies all costs for accounts that are included within its modified total direct cost base per its negotiated indirect cost rate agreements.
- 4.4 Direct OU to strengthen its monitoring procedures to ensure that subawardees apply the correct indirect cost rates.

4.5 Direct OU to strengthen its monitoring procedures to ensure that fringe benefit rates are appropriately applied to payroll posted in a different period than it was earned.

University of Oklahoma Response: OU agreed with this finding and to reimburse NSF for the \$20,317 in questioned costs. OU stated it has strengthened its review process for GL account code usage, improved training of subrecipient analysts responsible for identifying subawards and applying subawardee indirect costs, and improved procedures to ensure the timeliness of prior-period fringe adjustments.

Auditor’s Additional Comments: Our position regarding this finding has not changed.

FINDING 5: NON-COMPLIANCE WITH FEDERAL REQUIREMENTS FOR PASS-THROUGH ENTITIES

OU did not comply with all federal requirements for pass-through entities, as required by federal regulations²⁵ and as illustrated in Table 15.

Table 15: Lack of Subawardee Monitoring Documents

NSF Award No.	Subaward Effective Date	Exception Description	Notes
██████████	December 2020	Subawardee Monitoring Documents Not Prepared	a
██████████	August 2020	Subawardee Monitoring Documents Not Prepared	b

Source: Auditor summary of identified exceptions.

- a) In March 2022, OU charged NSF Award No. ██████████ for \$61,940 in subaward expenses. OU initially established a technical agreement and as a result incorrectly charged this expense as a consultant service rather than a subaward. Consequently, it did not prepare a subaward risk assessment, assess material audit findings, determine the appropriate level of subawardee monitoring, or verify the subawardee’s indirect cost rate per its NICRA.
- b) Between June 2022 and August 2022, OU charged NSF Award No. ██████████ for \$1,086,122 in subaward expenses. Prior to the execution of the subaward agreement, the subawardee refused to respond to requests for any documentation to allow OU to perform its risk assessment. As a result, OU did not prepare a subaward risk assessment, assess material audit findings, determine the appropriate level of subawardee monitoring, or verify the subawardee’s indirect cost rate on its NICRA.

²⁵ According to 2 CFR §200.331 (12/26/2014) and 2 CFR § 200.332 (Revised 11/12/2020), *Requirements for pass-through entities*, all pass-through entities must: “... (b) Evaluate each subrecipient’s risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring... (c) Consider imposing specific subaward conditions upon a subrecipient if appropriate as described in §200.207 Specific conditions. (d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.”

Conclusion

OU did not have sufficient policies and procedures or internal controls in place to ensure it complied with all federal requirements established for pass-through entities when issuing or monitoring subawards. Because these instances of non-compliance did not directly result in OU charging unallowable costs to NSF awards, we are not questioning any costs related to these exceptions. However, we are noting compliance exceptions for the two instances in which OU did not comply with all applicable federal requirements for pass-through entities, as illustrated in Table 16.

Table 16: Finding 5 Summary: Non-Compliance with the Federal Requirements for Pass-Through Entities

NSF Award No.	Description	Fiscal Year(s)
██████	Non-Compliance with Federal Requirements for Pass-Through Entities	2022
██████	Non-Compliance with Federal Requirements for Pass-Through Entities	2022 – 2023

Source: Auditor summary of identified exceptions.

Recommendations

We recommend that NSF’s Director of the Division of Institution and Award Support:

- 5.1 Direct OU to ensure that it has performed risk assessments for all active NSF subawards and verify that it appropriately monitors each subaward based on the results of the risk assessment.
- 5.2 Direct OU to establish and implement policies and procedures to assess all service providers as either a consultant or a subawardee prior to entering into any agreement.

University of Oklahoma Response: OU agreed with this finding, stating that it has improved its policies, procedures, and training program for the subrecipient analyst position.

Auditor’s Additional Comments: Our position regarding this finding has not changed.

FINDING 6: NON-COMPLIANCE WITH OU POLICIES

OU did not always comply with—or document its compliance with—its procurement, **salary, travel**, cost transfer, and equipment policies and procedures when incurring costs charged to six NSF awards.

Non-Compliance with OU Procurement Policies

OU did not always comply with its procurement policies for independent contractors,²⁶ non-competitive solicitations,²⁷ and contracting services,²⁸ as illustrated in Table 17.

Table 17: Non-Compliance with OU Procurement Policies

NSF Award No.	Policy Compliance Exception	Fiscal Year	Notes
██████	Lack of Documented Independent Contractor Form	2020	a
	Lack of Documented Sole-Source Justification Form		
██████	Lack of Documented Services Contract	2021	b
	Lack of Documented Sole-Source Justification Form		
██████	Lack of Documented Services Contract	2022	c

Source: Auditor summary of identified exceptions.

- a) In October 2019, OU charged NSF Award No. ██████ for \$7,000 in consultant services that an independent contractor provided between December 2018 and January 2019 without OU having an independent contractor form or sole-source justification form in place prior to the start of services, as required per OU policy. Because OU identified the consultant services in the award budget, we are not questioning any costs; however, we are noting a compliance exception.
- b) In December 2020, OU charged NSF Award No. ██████ for \$57,750 in consultant services that a contractor provided between September 2020 and October 2020 without OU having a sole-source justification form or an approved contract in place for the services, as required per OU policy. Because OU identified the consultant services in the award budget, we are not questioning any costs; however, we are noting a compliance exception.
- c) In November 2021, OU charged NSF Award No. ██████ for \$2,823 in website development services that a contractor provided between May 2021 and October 2021 without OU having an approved contract in place for the services, as required per OU policy. Because there was no documented services contract or other documentation to support the services were reasonable, allocable, and allowable, we questioned these costs in **Finding 2. Inadequately Supported Computer Service Expenses.**

²⁶ According to OU's *Independent Contractor Department Guidelines*, the Independent Contractor Form (ICF) must be approved before engaging the services of any individual as an independent contractor. Additionally, Human Resources must review and approve both sections of the ICF before services are provided.

²⁷ According to OU's *Non-Competitive Procurement Policy*, the department shall complete the sole-source justification form and include all appropriate or necessary documentation supporting the sole-source request. The cost must also be fair and reasonable.

²⁸ According to OU's *Procurement Policies and Procedures*, the Board of Regents requires all contracts for purchasing goods and services and other specific contracts to be processed through University Procurement unless the contract is specifically exempt from processing through University Procurement because of its peculiar nature or value.

Non-Compliance with OU Cost Transfer Policy

We identified one instance where OU did not comply with its cost transfer policy, which requires cost transfers made greater than 90 days after the original transaction to obtain Principal Investigator (PI) approval,²⁹ as illustrated in Table 18.

Table 18: Non-Compliance with OU Cost Transfer Policy

NSF Award No.	Policy Compliance Exception	Fiscal Year	Notes
██████████	Missing PI Approval for Cost Transfer Over 90 Days	2021	a

Source: Auditor summary of identified exception.

- a) In February 2021, OU processed a cost transfer to move \$3,048 in Graduate Research Assistant (GRA) salary expenses to NSF Award No. ██████████. However, OU originally posted the expenses in September 2020, and it did not obtain the PI's approval to process the cost transfer, which occurred later than 90 days after the original transaction date.

Non-Compliance with OU Institutional Base Salary Policy

OU did not always comply with its **Institutional Base Salary (IBS)** policy, which requires the establishment of an IBS in an appointment letter or other similar document,³⁰ as illustrated in Table 19.

Table 19: Non-Compliance with OU IBS Policy

NSF Award No.	Policy Compliance Exception	Fiscal Year	Notes
██████████	Lack of Documented of IBS for a GRA	2021	a

Source: Auditor summary of identified exception.

- a) In February 2021, OU charged NSF Award No. ██████████ for \$3,048 in GRA salary expenses. However, OU did not support the salary payment with an IBS or other IBS-related documentation. Because the salary aligned to the salary reported in the system record and the award budget, we are not questioning any costs; however, we are noting a compliance exception.

Non-Compliance with OU Travel Policy

OU did not always comply with its travel policy, which requires the traveler to document comparable airfare quotes,³¹ as illustrated in Table 20.

²⁹ According to OU's *Sponsored Program Salary Cost Transfer Policy*, cost transfers occurring more than 90 days after the original transaction date must have Principal Investigator (PI) approval.

³⁰ According to OU's *IBS for Sponsored Projects Policy*, OU establishes the IBS in an appointment letter or other similar documentation, regardless of the source of funds.

³¹ According to OU's *Quick Reference Guide: Airfare*, if the traveler does not book airfare through the OU-contracted travel agency, the traveler must attach a comparable airfare quote from the contracted travel agency to the comparable airfare quote expense line to document that they received a lower rate outside of the system.

Table 20: Non-Compliance with OU Travel Policy

NSF Award No.	Policy Compliance Exception	Fiscal Year	Notes
██████████	Price Comparison of Flights Not Performed	2022	a

Source: Auditor summary of identified exception.

- a) In October 2021, OU charged NSF Award No. ██████████ for \$547 in participant airfare expenses. The traveler did not return to their place of origin and chose to include personal travel as part of their trip. Although the PI was aware of the combined business and personal travel, OU did not document a cost comparison of the flights booked outside of OU’s contracted travel agency. Because the flight cost appeared reasonable, we are not questioning any costs.

Non-Compliance with OU Property Control Policy

OU did not comply with its policy for capital asset tagging and inventorying, which requires OU to tag and record capital assets in its inventory, as illustrated in Table 21.³²

Table 21: Non-Compliance with OU Property Control Policy

NSF Award No.	Policy Compliance Exception	Fiscal Year	Notes
██████████	Incomplete Tagging of Capital Asset	2023	a

Source: Auditor summary of identified exception.

- a) In August 2022, OU charged NSF Award No. ██████████ for \$14,691 in equipment costs. Although OU acquired the equipment in August 2022, it did not tag the equipment until February 2023, when we identified the equipment as part of the audit.

Conclusion

OU did not have sufficient controls in place to ensure that it consistently complied with its procurement, cost transfer, IBS, travel, and property control policies. Specifically, OU did not have controls to ensure it obtained and/or completed all procurement, sole-source, and contract documentation prior to the date(s) services were rendered; obtained PI approval for cost transfers of transactions more than 90 days old; maintained documentation to support the IBS rate for GRAs; verified that travelers completed flight comparisons for airfare booked outside the travel system; and tagged and inventoried capitalized equipment within its inventory system. Because these instances of non-compliance did not directly result in OU charging unallowable costs to NSF awards, we are not questioning any costs related to these exceptions; however, we are noting compliance exceptions for the seven instances in which OU did not comply with its procurement, cost transfer, salary, travel, and equipment policies and procedures, as illustrated in Table 22.

³² According to OU’s Regent’s Policy Manual, *Property Control and Capitalization of Certain Purchases*, the University must record in its inventory system and tag all capital assets controlled by the University through purchase, gifts, or otherwise.

Table 22: Finding 6 Summary: Non-Compliance with OU Policies

NSF Award No.	Compliance Exception Identified	Fiscal Year
	Non-Compliance with OU Procurement Policies	2020
	Non-Compliance with OU Procurement Policies	2021
	Non-Compliance with OU Procurement Policies	2022
	Non-Compliance with OU Cost Transfer Policy	2021
	Non-Compliance with OU IBS Policy	2021
	Non-Compliance with OU Travel Policy	2022
	Non-Compliance with OU Equipment Inventory Policy	2023

Source: Auditor summary of identified exceptions.

Recommendations:

We recommend that NSF’s Director of the Division of Institution and Award Support:

- 6.1. Direct OU to strengthen its procedures for confirming that it has completed all procurement documentation prior to the execution of services. This includes verification of independent contractor forms, sole-source justifications, and contract agreements.
- 6.2. Direct OU to implement procedures or internal controls to ensure that it obtains approval from the principal investigator for all cost transfers initiated more than 90 days after the original transaction date before processing the transfer.
- 6.3. Direct OU to strengthen its procedures to ensure it documents the institutional base salary of an employee to support the graduate research assistant’s salary prior to the employee start date.
- 6.4. Direct OU to implement additional procedures to ensure that participants who book airfare outside of OU’s contracted travel agency complete and document all cost comparisons prior to airfare purchase.
- 6.5. Direct OU to implement procedures that address how to ensure personnel properly tag and inventory all moveable equipment purchases at the time of receipt.

University of Oklahoma Response: OU agreed with this finding, stating that it will continue to strengthen its policies and procedures for each area of non-compliance. Additionally, OU noted that it has obtained additional staffing to clear the backlog of untagged equipment.

Auditor’s Additional Comments: Our position regarding this finding has not changed.

AREA FOR IMPROVEMENT: INSUFFICIENT CONTROLS RELATED TO THE APPLICATION OF INDIRECT COST RATES

OU does not have a formally documented policy or procedure in place to ensure it consistently charges indirect costs using a rate no greater than the NICRA rate(s) in effect

as of the NSF award date. Specifically, OU does not have a formal process for documenting its decision to apply a proposed indirect cost rate when the proposed rate is different than the NICRA rate(s) effective at the time of the award.

As a result, OU did not document that it verified its use of the proposed indirect cost rates would not cause OU to overcharge NSF for indirect costs, as illustrated in Table 23.

Table 23: Proposed Indirect Cost Rates Applied

NSF Award Number	Award Date	Transaction Date	Rate Applied (%) ³³	Appropriate Rate (%) ³⁴
██████	7/6/2015	6/9/2020	52.00	55.00
██████	8/11/2015	3/31/2020	52.00	55.00
		7/17/2020		
██████	8/13/2015	10/21/2019	52.00	55.00
		5/12/2022		
██████	4/11/2016	10/28/2019	52.00	55.00
██████	5/23/2016	6/7/2021	52.00	55.00
██████	6/8/2016	9/23/2020	52.00	55.00
██████	8/30/2016	8/31/2021	52.00	55.00

Source: Auditor summary of identified exceptions.

Conclusion

Because these instances of OU charging indirect costs using proposed rates did not directly result in OU charging unallowable costs to NSF awards, we are not noting a finding. However, we are noting an **area for improvement**, as OU’s lack of a formal process and/or procedure for applying proposed indirect cost rates could cause it to charge unallowable costs to NSF awards if OU’s indirect cost rates were to decrease in the future.

Consideration

We suggest that NSF’s Director of the Division of Institution and Award Support consider:

- Directing OU to develop formal policies and/or procedures regarding how to verify—and document verification of—its election to use proposed indirect cost rates. This should address how OU will ensure the decision to use proposed indirect cost rates will not result in NSF being overcharged for indirect costs when negotiated rates decrease between the date an NSF award is proposed and the date it is awarded.

³³ OU’s NICRAs dated February 11, 2015, and January 25, 2016, established a provisional indirect cost rate of 52.00 percent for on-campus research from July 1, 2015, to June 30, 2017.

³⁴ OU’s NICRA dated April 1, 2016, established a predetermined indirect cost rate of 52.00 percent for on-campus research from July 1, 2015, to June 30, 2016. Additionally, the same NICRA established a predetermined indirect cost rate of 55.00 percent for on-campus research from July 1, 2016, to June 30, 2019. The same rates were provisional from July 1, 2019, until amended.

Sikich CPA LLC

(formerly known as Cotton & Company Assurance and Advisory, LLC)

February 23, 2024

APPENDIX A: OU'S RESPONSE



The UNIVERSITY of OKLAHOMA.
Administration and Finance

January 10, 2024

To Cotton & Company Assurance and Advisory, LLC
333 John Carlyle Street, Suite 500
Alexandria, Virginia 22314

Attention: Andrew Holzer, CPA, CFE, CISA

Dr. Mr. Holzer,

This letter is the University's formal response to the findings and recommendations outlined in the audit report. The University of Oklahoma (OU) appreciates the opportunity to work with the National Science Foundation Office of Inspector General and Cotton & Company to review our sponsored program administration. The University takes the management and oversight of NSF funding very seriously, and we will continue to improve our policies and procedures to ensure proper stewardship of all extramural funding.

The University agrees with findings 2-6. OU has reimbursed NSF for \$20,517 through ACM\$ and provided supporting documentation. The University will refund an additional \$64,823 through ACM\$ and \$40,982 by check for questioned costs related to the findings. Corrective actions for each item are outlined in the next section.

Sincerely,


Tamara Franklin

Tamara Franklin, CPA

Assistant Vice President, Research Financial Services



University of Oklahoma NSF Audit Report Response

The University of Oklahoma has policies and procedures in place to ensure that expenditures on federal awards are allowable, allocable, reasonable, and necessary. Due to the impacts of significant staff turnover, multiple system implementations and COVID, these policies were not always followed. OU is committed to ensuring that the policies and procedures that were identified during the audit as needing strengthening will be addressed and necessary training will be provided.

Finding 1: Unallowable Fixed Amount Subaward

NSF Award No.	Unallowable Total	OU Response
██████████	\$1,124,864	OU disagrees with this finding. On April 25, 2022, OU's Director of the ██████████ ██████████ emailed NSF Grants Management outlining the planned utilization of ██████████ for this award, including noting that this was a fixed price subaward. NSF approved the University to utilize ██████████ as ██████████ the only institution in the United States or Canada able to provide the expertise for the completion of time-sensitive research and would not accept a cost reimbursement subaward. NSF was intricately involved and even spoke directly with ██████████. The research could not have been completed without the ██████████ and NSF provided additional funding specifically for the work completed by them.

Finding 2: Inadequately Supported Expenses

NSF Award No.	Unallowable Total	OU Response
██████████	\$3,588	OU agrees with this finding and will reimburse NSF for this expense. New policies and procedures are being implemented to include the required review of rates biennially.
██████████	7,600	OU agrees with this finding and will reimburse NSF for this expense. New policies and procedures are being

NSF Award No.	Unallowable Total	OU Response
		implemented to include the required review of rates biennially.
██████	62,000	OU agrees with this finding and will reimburse NSF for this expense. New policies and procedures are being implemented to include the required review of rates biennially.
██████	1,185	OU agrees with this finding and will reimburse NSF for this expense. New policies and procedures are being implemented to include the required review of rates biennially.
██████	2,823	OU agrees with this finding and will reimburse NSF for this expense. Procurement has implemented procedures to ensure alignment with university policy.

Finding 3: Unallowable Expenses

NSF Award No.	Unallowable Total	OU Response
██████	\$28,609	OU agrees with this finding and will reimburse NSF for this expense. OU has implemented additional controls to include a reconciliation that is reviewed by a senior staff member as well as all journal entries must be reviewed by a senior staff member prior to posting in the financial system.
██████	200	OU refunded \$200 through ACM\$ on 5/22/2023. OU has implemented additional controls to include the review of journal entries by a senior staff member prior to posting in the financial system.

Finding 4: Inappropriately Applied Indirect Cost and Fringe Benefit Rates

NSF Award No.	Unallowable Total	OU Response
██████	\$0	OU agrees with this finding and has strengthened the review process at several levels to ensure accurate account code usage.
██████	-	OU agrees with this finding and has strengthened the review process at several levels to ensure accurate account code usage.
██████	20,317	OU agrees with this finding and has strengthened the policies and procedures as well as training of our subrecipient analyst to ensure accurate identification of subawards. The funds were returned through ACM\$ on 3/18/2023.
██████	-	OU agrees with this finding and has strengthened the policies and procedures as well as training of our subrecipient analyst to ensure accurate application of indirect costs by subawardees.
██████	-	OU agrees with this finding and has strengthened the policies and procedures as well as training of our subrecipient analyst to ensure accurate application of indirect costs by subawardees.
██████	-	OU agrees with this finding and has strengthened policies and procedures to ensure that prior period fringe adjustments are completed in a timely manner.

Finding 5: Non-Compliance with Federal Requirements for Pass-Through Entities

NSF Award No.	Compliance Exception Identified	OU Response
██████	Non-compliance with Federal Requirements for Pass-Through Entities	OU agrees with the finding and has improved policies and procedures as well as the training program for the subrecipient analyst position.

NSF Award No.	Compliance Exception Identified	OU Response
██████	Non-compliance with Federal Requirements for Pass-Through Entities	OU agrees with the finding and has improved policies and procedures as well as the training program for the subrecipient analyst position.

Finding 6: Non-Compliance with OU Policies

NSF Award No.	Policy Compliance Exception	OU Response
██████	Non-Compliance with OU Procurement Policies	OU agrees with this finding and continues to strengthen its policies and procedures.
██████	Non-Compliance with OU Procurement Policies	OU agrees with this finding and continues to strengthen its policies and procedures.
██████	Non-Compliance with OU Procurement Policies	OU agrees with this finding and continues to strengthen its policies and procedures.
██████	Non-Compliance with OU Cost Transfer Policy	OU agrees with this finding and has updated the policy to reflect the process in the new financial system.
██████	Non-Compliance with OU IBS Policy	OU agrees with this finding and is working to update policies and procedures in this area.
██████	Non-Compliance with OU Travel Policy	OU agrees with this finding and the travel policy will be updated to identify non-employee travel exceptions.
██████	Non-Compliance with OU Equipment Inventory Policy	OU agrees with this finding and has added additional staffing to ensure that the backlog that occurred due to COVID has been eliminated.

APPENDIX B: OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The NSF OIG Office of Audits engaged Sikich CPA LLC (formerly known as Cotton & Company Assurance and Advisory, LLC, and herein referred to as “we”) to conduct an audit of the costs the University of Oklahoma (OU) claimed on 237 NSF awards during the audit period of performance (POP) of November 1, 2019, through October 31, 2022. The objectives of the audit were to evaluate OU’s award management environment; to determine if costs claimed are allowable, allocable, reasonable, and in compliance with NSF award terms and conditions and applicable federal financial assistance requirements; and to determine whether any circumstances existed that would justify further audit work beyond the original sample of 40 to 50 transactions.

SCOPE

The audit population included approximately \$41.9 million in expenses OU claimed on 237 NSF awards during our audit POP of November 1, 2019, through October 31, 2022.

METHODOLOGY

After obtaining NSF OIG’s approval for our audit plan, we performed each of the approved audit steps. Generally, these steps included:

- Assessing the reliability of the general ledger (GL) data OU provided by comparing the costs charged to NSF awards per OU’s accounting records to the reported net expenditures reflected in the Award Cash Management Service (ACM\$) drawdown requests.
 - Our work required us to rely on computer-processed data obtained from OU and NSF OIG. NSF OIG provided award data OU reported through ACM\$ during our audit period.
 - We assessed the reliability of the GL data OU provided by: (1) comparing the costs charged to NSF awards per OU’s accounting records to the reported net expenditures reflected in the ACM\$ drawdown requests OU submitted to NSF during the audit POP; and (2) reviewing the parameters that OU used to extract transaction data from its accounting systems. We found OU’s computer-processed data to be sufficiently reliable for the purposes of the audit. We did not identify any exceptions with the parameters OU used to extract the accounting data.
 - We found NSF’s computer-processed data to be sufficiently reliable for the purposes of this audit. We did not review or test whether the data contained in NSF’s databases or the controls over NSF’s databases were accurate or reliable; however, the independent auditor’s report on NSF’s financial statements for fiscal year (FY) 2021 found no reportable instances in which NSF’s financial

management systems did not substantially comply with applicable requirements.

- OU provided detailed transaction-level data to support \$42,002,925 in incurred costs charged to NSF awards during the audit period, which was greater than the \$41,997,140 OU claimed in ACM\$ for the 237 awards. This data resulted in a total audit universe of \$42,002,925 in expenses claimed on 237 NSF awards.
- Obtaining and reviewing all available accounting and administrative policies and procedures, external audit reports, desk review reports, and other relevant information OU and NSF OIG provided, as well as any other relevant information that was available online.
- Summarizing our understanding of federal, NSF, and OU-specific policies and procedures surrounding costs budgeted for or charged to NSF awards and identifying the controls in place to ensure that costs charged to sponsored projects were reasonable, allocable, and allowable.
 - In planning and performing this audit, we considered OU's internal controls within the audit's scope solely to understand the directives or policies and procedures OU has in place to ensure that charges against NSF awards complied with relevant federal regulations, NSF award terms, and OU policies.
- Providing OU with a list of 49 transactions that we selected based on the results of our data analytics and requesting that OU provide documentation to support each transaction.
- Reviewing the supporting documentation OU provided and requesting additional documentation as necessary to ensure we obtained sufficient, appropriate evidence to assess the allowability of each sampled transaction under relevant federal,³⁵ NSF,³⁶ and OU policies.³⁷
- Holding virtual interviews and walkthroughs with OU in April 2023 to discuss payroll (including fringe benefits and effort reporting), travel, participant support costs, procurement, equipment (including an inventory check), other direct costs (e.g., patent, relocation, recruiting, interest, advertising/public relations, entertainment, fundraising, lobbying, selling/marketing, and training costs), subawards, ACM\$ processing, indirect costs, and other general policies (e.g., pre-

³⁵ We assessed OU's compliance with 2 Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

³⁶ We assessed OU's compliance with NSF Proposal and Award Policies and Procedures Guides (PAPPGs) 14-1, 15-1, 16-1, 17-1, 19-1, 20-1, and 22-1 and with NSF award-specific terms and conditions, as appropriate.

³⁷ We assessed OU's compliance with its own internal policies and procedures surrounding costs budgeted for or charged to NSF awards.

and post-award costs, program income, whistle-blower information, research misconduct, and conflict of interest policies).

- Summarizing the results of our fieldwork and confirming that we did not identify any extraordinary circumstances that justified the need for a second audit phase.³⁸

At the conclusion of our fieldwork, we provided a summary of our results to NSF OIG personnel for review. We also provided the summary to OU personnel to ensure OU was aware of each of our findings and that it did not have additional documentation to support the questioned costs.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

³⁸ Based on the areas of elevated risk of noncompliance identified during the initial phase, we determined that there was no need for any expanded audit phase.

APPENDIX C: SUMMARY OF QUESTIONED COSTS

Appendix C, Table 1: Schedule of Questioned Costs by Finding

Finding	Description	Questioned Costs		Total
		<i>Unsupported</i>	<i>Unallowable</i>	
1	Unallowable Fixed Amount Subaward	\$0	\$1,124,864	\$1,124,864
2	Inadequately Supported Expenses	-	77,196	77,196
3	Unallowable Expenses	-	28,809	28,809
4	Inappropriately Applied Indirect Cost and Fringe Benefit Rates	-	20,317	20,317
5	Non-Compliance with Federal Requirements for Pass-Through Entities	-	-	-
6	Non-Compliance with OU Policies	-	-	-
Total		<u>\$0</u>	<u>\$1,251,186</u>	<u>\$1,251,186</u>

Source: Auditor summary of questioned costs by finding.

Appendix C, Table 2: Summary of Questioned Costs by NSF Award Number

NSF Award No.	No. of Transaction Exceptions	Questioned Direct Costs	Questioned Indirect Costs	Questioned Total	OU Agreed to Reimburse
██████████	1	\$2,315	\$1,273	\$3,588	\$3,588
██████████	1	5,000	2,600	7,600	7,600
██████████	2	28,609	-	28,609	28,609
██████████	1	-	-	-	-
██████████	1	-	-	-	-
██████████	2	-	-	-	-
██████████	1	765	420	1,185	1,185
██████████	5	1,821	21,319	23,140	23,140
██████████	1	40,000	22,000	62,000	62,000
██████████	1	-	-	-	-
██████████	2	1,124,864	-	1,124,864	-
██████████	1	-	-	-	-
██████████	1	-	-	-	-
██████████	2	-	-	-	-
██████████	1	200	-	200	200
Total	<u>23</u>	<u>\$1,203,574</u>	<u>\$47,612</u>	<u>\$1,251,186</u>	<u>\$126,322</u>

Source: Auditor summary of questioned costs by NSF award number.

Appendix C, Table 3: Summary of Questioned Costs by NSF Award Number and Expense Description

Finding No.	NSF Award No.	Description	Fiscal Year(s)	Direct	Indirect	Total	OU Agreed to Reimburse
1) Unallowable Fixed Amount Subaward	██████	June 2022 – March 2023 Fixed Amount Subaward	2022 – 2023	\$1,124,864	\$0	\$1,124,864	\$0
2) Inadequately Supported Expenses	██████	October 2019 – February 2020 Internal Cleanroom Services	2020	2,315	1,273	3,588	3,588
	██████	September 2020 Internal Electron Lab Services	2021	5,000	2,600	7,600	7,600
	██████	April 2022 – August 2022 Internal Radar Services	2022 – 2023	40,000	22,000	62,000	62,000
	██████	August 2022 Internal Motor Pool Services	2023	765	420	1,185	1,185
	██████	November 2021 Computer Services	2022	1,821	1,002	2,823	2,823
3) Unallowable Expenses	██████	June 2017 – September 2021 GRFP Expenses	2017 – 2022	28,609	-	28,609	28,609
	██████	December 2021 Participant Gift Cards	2022	200	-	200	200
4) Inappropriately Applied Indirect Cost	██████	April 2021 Materials and Supplies Excluded from MTDC	2021	-	-	-	-

Finding No.	NSF Award No.	Description	Fiscal Year(s)	Direct	Indirect	Total	OU Agreed to Reimburse
and Fringe Benefit Rates	██████	January 2022 Repair and Maintenance Excluded from MTDC	2022	-	-	-	-
	██████	March 2022 Subaward Included in MTDC	2022	-	20,317	20,317	20,317
	██████	January 2022 Subawardee Indirect Costs	2022	-	-	-	-
	██████	March 2022 Subawardee Indirect Costs	2022	-	-	-	-
	██████	August 2021 Fringe Benefits	2022	-	-	-	-
5) Non-Compliance with Federal Requirements for Pass-Through Entities	██████	Non-Compliance with the Federal Requirements for Pass-Through Entities	2022	-	-	-	-
	██████	Non-Compliance with the Federal Requirements for Pass-Through Entities	2022 – 2023	-	-	-	-
6) Non-Compliance with OU Policies	██████	Non-Compliance with OU Procurement Policies	2020	-	-	-	-

Finding No.	NSF Award No.	Description	Fiscal Year(s)	Direct	Indirect	Total	OU Agreed to Reimburse
	██████	Non-Compliance with OU Procurement Policies	2021	-	-	-	-
	██████	Non-Compliance with OU Procurement Policies	2022	-	-	-	-
	██████	Non-Compliance with OU Cost Transfer Policy	2021	-	-	-	-
	██████	Non-Compliance with OU IBS Policy	2021	-	-	-	-
	██████	Non-Compliance with OU Travel Policy	2022	-	-	-	-
	██████	Non-Compliance with OU Equipment Inventory Policy	2023	-	-	-	-
Total				<u>\$1,203,574</u>	<u>\$47,612</u>	<u>\$1,251,186</u>	<u>\$126,322</u>

Source: Auditor summary of identified exceptions.

APPENDIX D: SUMMARY OF RECOMMENDATIONS AND CONSIDERATIONS

We recommend that NSF's Director of the Division of Institution and Award Support:

- 1.1. Resolve the \$1,124,864 in questioned subaward expenses for which OU has not agreed to reimburse NSF and direct OU to repay or otherwise remove the sustained questioned costs from its NSF award.
- 1.2. Direct OU to implement additional internal controls for the oversight of fixed amount subawards. Additional controls could include:
 - Requiring OU's Sponsored Program Office to verify that NSF's written subaward approval acknowledges the type of NSF-approved subaward prior to executing a fixed amount subaward agreement.
 - Requiring OU's Sponsored Program Office to document its review of all fixed amount subawards for compliance with the simplified acquisition threshold.
- 2.1. Direct OU to provide documentation supporting that it has repaid or otherwise credited the \$77,196 in questioned internal service provider and computer service expenses for which it has agreed to reimburse NSF.
- 2.2. Direct OU to strengthen its policies and procedures related to creating and retaining documentation, including introducing additional internal controls to ensure that it appropriately creates and maintains all documentation necessary to support the allowability of expenses charged to sponsored programs. Updated controls could include:
 - Requiring OU to implement additional policies or procedures to ensure it performs—and documents performance of—biennial reviews of its internal service provider rates in accordance with federal regulations.
 - Requiring OU to establish formal agreements with external service providers that identify the period of performance, scope of work, and compensation rates to support that expenses paid are reasonable, allocable, and allowable.
- 3.1. Direct OU to provide documentation supporting that it has repaid or otherwise credited the \$28,809 in Graduate Research Fellowship Program and participant gift card expenses for which it has agreed to reimburse NSF.
- 3.2. Direct OU to implement additional procedures and internal controls to ensure the cost-of-education allowance does not exceed the limit identified in the Graduate Research Fellowship Program solicitation for each student on an annual basis.
- 3.3. Direct OU to strengthen its procedures for reviewing participant gift cards to ensure that it removes the unallowable expenses in their entirety when OU determines that costs do not benefit an award.

- 4.1 Direct OU to provide documentation supporting that it has repaid or otherwise credited the \$20,317 in questioned indirect costs for which it has agreed to reimburse NSF.
- 4.2 Direct OU to strengthen its monitoring procedures to ensure it appropriately applies its indirect cost rates and fringe benefit rates to all direct costs that should be included in its modified total direct cost base per its negotiated indirect cost rate agreements.
- 4.3 Direct OU to strengthen its procedures for monitoring costs to ensure that it accurately classifies all costs for accounts that are included within its modified total direct cost base per its negotiated indirect cost rate agreements.
- 4.4 Direct OU to strengthen its monitoring procedures to ensure that subawardees apply the correct indirect cost rates.
- 4.5 Direct OU to strengthen its monitoring procedures to ensure that fringe benefit rates are appropriately applied to payroll posted in a different period than it was earned.
- 5.1 Direct OU to ensure that it has performed risk assessments for all active NSF subawards and verify that it appropriately monitors each subaward based on the results of the risk assessment.
- 5.2 Direct OU to establish and implement policies and procedures to assess all service providers as either a consultant or a subawardee prior to entering into any agreement.
- 6.1. Direct OU to strengthen its procedures for confirming that it has completed all procurement documentation prior to the execution of services. This includes verification of independent contractor forms, sole-source justifications, and contract agreements.
- 6.2. Direct OU to implement procedures or internal controls to ensure that it obtains approval from the principal investigator for all cost transfers initiated more than 90 days after the original transaction date before processing the transfer.
- 6.3. Direct OU to strengthen its procedures to ensure it documents the institutional base salary of an employee to support the graduate research assistant's salary prior to the employee start date.
- 6.4. Direct OU to implement additional procedures to ensure that participants who book airfare outside of OU's contracted travel agency complete and document all cost comparisons prior to airfare purchase.

- 6.5. Direct OU to implement procedures that address how to ensure personnel properly tag and inventory all moveable equipment purchases at the time of receipt.

Additionally, we suggest that NSF's Director of the Division of Institution and Award Support consider:

- Directing OU to develop formal policies and/or procedures regarding how to verify—and document verification of—its election to use proposed indirect cost rates. This should address how OU will ensure the decision to use proposed indirect cost rates will not result in NSF being overcharged for indirect costs when negotiated rates decrease between the date an NSF award is proposed and the date it is awarded.

APPENDIX E: GLOSSARY

Allocable cost. A cost is allocable to a particular federal award or other cost objective if the goods or services involved are chargeable or assignable to that federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:

- (a) Is incurred specifically for the federal award.
- (b) Benefits both the federal award and other work of the non-federal entity and can be distributed in proportions that may be approximated using reasonable methods.
- (c) Is necessary to the overall operation of the non-federal entity and is assignable in part to the federal award in accordance with the principles in this subpart. (2 CFR § 200.405).

[**Return to the term's initial use.**](#)

Factors affecting allowability of costs. The tests of allowability of costs under these principles are: costs must meet the following general criteria in order to be allowable under Federal awards: (a) Be necessary and reasonable (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award (c) Be consistent with policies and procedures (d) Be accorded consistent treatment (e) Be determined in accordance with generally accepted accounting principles (GAAP) (f) Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program (g) Be adequately documented. (2 CFR § 200.403).

[**Return to the term's initial use.**](#)

Allowable cost. Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under federal awards:

- (a) Be necessary and reasonable for the performance of the federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the federal award as to types or amount of cost items.
- (c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-federal entity. (2 CFR § 200.403).

[**Return to the term's initial use.**](#)

Area for Improvement. For the purposes of this report, an area for improvement represents a condition that does not constitute the grantee's non-compliance but warrants the attention of the grantee and NSF management.

[**Return to the term's initial use.**](#)

Consultant Services (Professional Service costs). This refers to costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the non-federal entity, which are allowable, subject to paragraphs (b) and (c) when reasonable in relation to the

services rendered and when not contingent upon recovery of the costs from the federal government. (2 CFR § 200.459) and (Revised 2 CFR § 200.459).

[Return to the term's initial use.](#)

Cost of Education. The Graduate Research Fellowship Program (GRFP) provides a fixed cost-of-education (COE) allowance to the GRFP Institution for Fellows on Tenure. The COE Allowance is without regard to the actual amount of tuition and fees involved. (Frequently Asked Questions: Graduate Research Fellowship Program - GRFP Fellowship Terms and Conditions for NSF GRFP Fellows).

[Return to the term's initial use.](#)

Equipment. Tangible personal property—including information technology (IT) systems—having a useful life of more than 1 year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-federal entity for financial statement purposes, or \$5,000. (2 CFR § 200.33).

[Return to the term's initial use.](#)

Fixed Amount Subaward. A type of grant or cooperative agreement under which the Federal awarding agency or pass-through entity provides a specific level of support without regard to actual costs incurred under the Federal award. This type of Federal award reduces some of the administrative burden and record-keeping requirements for both the non-Federal entity and Federal awarding agency or pass-through entity. Accountability is based primarily on performance and results. See §§ 200.102(c), 200.201(b), and 200.333. (Revised 2 CFR § 200.1).

[Return to the term's initial use.](#)

Fringe Benefits. Allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave (vacation, family-related, sick, or military), employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable provided that the benefits are reasonable and are required by law, non-federal entity-employee agreement, or an establishment policy of the non-federal entity. (2 CFR § 200.431) and (Revised 2 CFR § 200.431).

[Return to the term's initial use.](#)

Indirect (F&A) Costs. This refers to those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs. Indirect (F&A) cost pools must be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived. (2 CFR § 200.56).

[Return to the term's initial use.](#)

Institutional Base Salary (IBS). This refers to the annual compensation paid by an IHE for an individual's appointment, whether that individual's time is spent on research, instruction, administration, or other activities. IBS excludes any income that an individual earns outside of duties performed for the IHE. (2 CFR 200.430(h)(2)).

[Return to the term's initial use.](#)

Modified Total Direct Cost (MTDC). All direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward (regardless of the period of performance (POP) of the subawards under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of \$25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs. (2 CFR § 200.68 and Revised 2 CFR § 200.1).

[Return to the term's initial use.](#)

Negotiated Indirect Cost Rate. Generally charged to federal awards through the development and application of an indirect cost rate. In order to recover indirect costs related to federal awards, most organizations must negotiate an indirect cost rate with the federal agency that provides the preponderance of funding, or Health and Human Services (HHS) in the case of colleges and universities. (NSF Office of Budget, Finance, and Award Management).

[Return to the term's initial use.](#)

Period of Performance (POP). The time during which the non-federal entity may incur new obligations to carry out the work authorized under the federal award. The federal awarding agency or pass-through entity must include start and end dates of the POP in the federal award. (2 CFR § 200.77).

[Return to the term's initial use.](#)

Proposal & Award Policies & Procedures Guide (PAPPG). Comprises documents relating to NSF's proposal and award process for the assistance programs of NSF. The PAPPG, in conjunction with the applicable standard award conditions incorporated by reference in award, serve as the NSF's implementation of 2 CFR § 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. If the PAPPG and the award conditions are silent on a specific area covered by 2 CFR § 200, the requirements specified in 2 CFR § 200 must be followed. (NSF PAPPG 20-1).

[Return to the term's initial use.](#)

Questioned Cost. A cost that is questioned by the auditors because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; a finding that, at the time of the audit, such cost is not supported by adequate document; or a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable. (2 CFR 200.1).

[Return to the term's initial use.](#)

Reasonable Cost. A reasonable cost is a cost that, in its nature and amount, does not exceed that which would have been incurred by a prudent person under the circumstances prevailing at the time the decision to incur the cost was made. (2 CFR § 200.404).

[Return to the term's initial use.](#)

Salaries and Wages. Compensation for personal services includes all remuneration, paid currently, or accrued, for services of employees rendered during the POP under the federal award, including but not necessarily limited to wages and salaries. (2 CFR § 200.430).

[Return to the term's initial use.](#)

Simplified Acquisition Threshold (SAT). The dollar amount below which a non-Federal entity may purchase property or services using small purchase methods (§ 200.320). Non-Federal entities adopt small purchase procedures in order to expedite the purchase of items at or below the simplified acquisition threshold. The simplified acquisition threshold for procurement activities administered under Federal awards is set by the FAR at 48 CFR part 2, subpart 2.1. The non-Federal entity is responsible for determining an appropriate simplified acquisition threshold based on internal controls, an evaluation of risk, and its documented procurement procedures. However, in no circumstances can this threshold exceed the dollar value established in the FAR (48 CFR part 2, subpart 2.1) for the simplified acquisition threshold. Recipients should determine if local government laws on purchasing apply. The federal SAT at the time of the audit was \$250,000. (Revised 2 CFR § 200.1 and 48 CFR part 2, subpart 2.1).

[Return to the term's initial use.](#)

Subawards. An award provided by a pass-through entity to a subrecipient for the subrecipient to carry out part of a federal award received by the pass-through entity. It does not include payments to a contractor or payments to an individual that is a beneficiary of a federal program. A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract. (2 CFR § 200.92) and (Revised 2 CFR § 200.1).

[Return to the term's initial use.](#)

Travel costs. Expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the non-federal entity. Such costs may be charged on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip and not to selected days of the trip, and results in charges consistent with those normally allowed in like circumstances in the non-federal entity's non-federally funded activities and in accordance with non-federal entity's written travel reimbursement policies. Notwithstanding the provisions of § 200.444 *General costs of government*, travel costs of officials covered by that section are allowable with the prior written approval of the federal awarding agency or pass-through entity when they are specifically related to the federal award. (2 CFR § 200.474).

Return to the term's initial use.

Unsupported Cost. §5(f)(2) a cost that is questioned by the Office because the Office found that, at the time of the audit, such cost is not supported by adequate documentation.

Unsupported Cost is a subset of and included in Questioned Costs.

Return to the term's initial use.

National Defense Authorization Act

General Notification

Pursuant to Pub. L. No. 117-263 § 5274, business entities and non-governmental organizations specifically identified in this report have 30 days from the date of report publication to review this report and submit a written response to NSF OIG that clarifies or provides additional context for each instance within the report in which the business entity or non-governmental organizations is specifically identified. Responses that conform to the requirements set forth in the statute will be attached to the final, published report.

If you find your business entity or non-governmental organization was specifically identified in this report and wish to submit comments under the above-referenced statute, please send your response within 30 days of the publication date of this report to OIGPL117-263@nsf.gov, no later than April 10, 2024. We request that comments be in .pdf format, be free from any proprietary or otherwise sensitive information, and not exceed two pages. Please note, a response that does not satisfy the purpose set forth by the statute will not be attached to the final report.

About Us

NSF OIG was established in 1989, in compliance with the *Inspector General Act of 1978* (5 USC 401-24). Our mission is to provide independent oversight of NSF to improve the effectiveness, efficiency, and economy of its programs and operations and to prevent and detect fraud, waste, and abuse.

Contact Us

Address:

National Science Foundation Office of Inspector General
2415 Eisenhower Avenue
Alexandria, VA 22314

Phone: 703-292-7100

Website: oig.nsf.gov

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