



NSF OIG CORNER

How Audits Can Help

By Ken Lish

Although audits may not be on anyone's list of favorite things, they can help award recipients strengthen their internal control environments and ensure proper stewardship of federal funds. We regularly conduct audits to determine whether costs claimed were allowable (does the Uniform Guidance say it's okay?), allocable (did you charge it to the right project?), and reasonable (would a prudent person incur the cost?). In this article, we'll discuss nine frequent audit findings and how you can avoid the same mistakes.

Frequent Finding 1: No Formal Approval for Subawards

We often find that award recipients make subawards to other organizations without NSF's formal written approval. It is not enough to reference a new subaward in a project report or send an email to a program officer. NSF requires award recipients to obtain written authorization from the grants officer (which is not the same as a program officer) before making a subaward to another organization.

During the proposal phase, the approved NSF award budget must include all planned subawards. After NSF makes the award, award recipients must submit a formal request via NSF's electronic systems for any new subawards. Such requests need to include:

- a clear description of the work to be performed by each subrecipient;
- a separate budget and budget justification for each subaward; and
- a mentoring plan if funding is for a postdoctoral researcher and the original proposal did not include a mentoring plan.

If NSF approves the request, the grants officer will amend the award to include the new subawards. Only NSF grants officers can make commitments, obligations, or awards and authorize the expenditure of funds on behalf of NSF.

Frequent Finding 2: Incorrect Indirect Cost Rate

It's easy to make a mistake with indirect cost rates. For institutions of higher education, the Uniform Guidance requires recipients to use the indirect cost rates in effect when the award is made for the life of the award. Mistakes can happen when a new negotiated indirect cost rate agreement (NICRA) becomes effective after a proposal is submitted but before the effective date of the award. In this case, award recipients must change the indirect cost rate and use the new NICRA. Detailed institutional policies and procedures for indirect costs can help avoid this type of audit finding.

Frequent Finding 3: Expenses Not Properly Allocated or Documented

When we review costs during an audit, we check to see whether a charge was "properly allocated," i.e. whether it was charged to the right project in the right proportion. For example, according to the Uniform Guidance:

- You can't charge a good or service to an unrelated award to make up for a funding deficiency on another award or project.
- Costs must clearly benefit the actual project during the award period, not just future related projects, or the research area in general. For instance, we will likely question lab supplies purchased a week before the award ends because these supplies are more likely to benefit future projects.
- If a good or service benefits two or more projects, you must allocate the cost to each project proportionally, and you must document a prudent reason for the allocation. It is also important to keep records explaining how you determined the ratio.

Frequent Finding 4: Unjustified Upgraded Airfare

Award recipients often overcharge NSF for costs associated with upgraded airfare tickets. This can happen when recipients do not subtract the difference between the cost of an equivalent economy-class ticket and an upgrade to first or business class. In other instances, an upgrade may be allowable, but the recipient does not provide a justification to support that the upgrade meets one of the exceptions listed in the Uniform Guidance. To help avoid this finding, recipients could require travelers to document the difference between an equivalent economy-class ticket and the upgrade so the recipient can remove the unallowable portion or provide a justification documenting how the upgrade meets one of the exceptions in the Uniform Guidance. One institution we audited programmed its travel system to automatically create an exception form that requires the traveler to justify any non-standard airfare.

Frequent Finding 5: Travel Benefitting Multiple Projects

Recipients often charge an NSF award for costs incurred for employees to attend, or present papers at, conferences that benefit multiple awards, but allocate 100 percent of the travel costs to a single award. We suggest recipients establish policies and procedures that define how costs should be allocated and how that allocation methodology should be documented. Award recipients could also provide training to staff on allocating costs in accordance with the established policy. One institution we audited provides instructions to travelers and administrators for allocating travel expenses by percentage or by amount across multiple funding sources.

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Frequent Finding 6: Combined Business and Personal Travel

Recipients often charge an NSF award for costs incurred for employees to attend, or present papers at, conferences that benefit multiple awards, but allocate 100 percent of the travel costs to a single award. We suggest recipients establish policies and procedures that define how costs should be allocated and how that allocation methodology should be documented. Combining personal travel with a business trip can result in an audit finding when recipients do not maintain documentation showing that the personal portion of the trip did not increase the overall cost. For example, if a traveler stays the weekend after a conference, the recipient would need documentation to show that the airfare would have been the same whether the traveler departed on Friday or Sunday. To help avoid this finding, recipients could require documentation to support that personal travel combined with business travel does not increase the total cost of the trip. One institution we audited requires travelers to add a description to the travel voucher describing the business purpose each day or note “personal” for any time the travel was not business-related.

Frequent Finding 7: Participant Support Costs Used for Non-Participant Expenses

We often identify instances where award recipients use participant support funding for expenses that don’t fall within the 2 CFR 200.1 definition of participant support costs. For example, participant support funding cannot be used to pay for a university employee’s participation in sponsored project events or to pay conference speaker fees. To help avoid this finding, we

suggest recipients provide training to principal investigators and sponsored program staff members, as well as update their policies to identify allowable uses of participant support funding. Further, recipient policies should explain that any planned participant expenses that may not meet the 2 CFR 200.1 definition of participant support costs should be justified in the budget detail (pre-award) or otherwise officially approved by the NSF Grants Officer (post-award) before incurring the expense.

Frequent Finding 8: Rebudgeting Participant Support Costs Without NSF Approval

Another finding is related to the use of participant support funding to cover cost overruns in non-participant budget categories. NSF’s Research Terms and Conditions requires NSF’s prior approval to transfer funds budgeted for participant support costs to other expense categories. To help avoid this finding, recipients could ensure that their internal policies address when and how to request approval to re-budget participant support funding, as well as how to document that approval consistent with NSF policies.

Frequent Finding 9: Applying Indirect Cost Rates to Participant Support Costs

As defined in the Uniform Guidance, participant support costs are excluded from the Modified Total Direct Cost (MTDC) calculation. We often find that award recipients do not appropriately segregate participant support costs within accounts excluded from the MTDC base. To help avoid this finding, recipients could require the principal investigator or other staff to annually review all expenses charged to awards that include funding for participant support costs and verify that all participant support costs were recorded in a unique account that is excluded from the MTDC base.

To learn more about our frequent findings, read our report, **Promising Practices for NSF Award Management**. Also, check out our audits of NSF award recipients and the associated resolution decisions:

- **Audit Reports:** <https://oig.nsf.gov/reports-publications/reports>
- **Resolution Decisions:** www.nsf.gov/bfa/responses.jsp

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