

**Audit of Consortium of Universities for the
Advancement of Hydrologic Science, Inc.**

**National Science Foundation
Office of Inspector General**

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ACRONYMS

AGU	American Geophysical Union
CUAHSI	Consortium of Universities for the Advancement of Hydrologic Science, Inc.
DGA	NSF's Division of Grants and Agreements
DIAS	NSF's Division of Institution and Award Support
FY	Fiscal Year
OMB	U.S. Office of Management and Budget

INTRODUCTION

BACKGROUND

The Consortium of Universities for the Advancement of Hydrologic Science, Inc. (CUAHSI), located in Washington, D.C., fosters advancements in the hydrologic sciences, which includes the study of the properties, distribution, and effects of water on the earth's surface and in the atmosphere. CUAHSI was incorporated in Washington, D.C. in June 2001 as a non-profit organization after initially being part of the American Geophysical Union (AGU). Consortium members, which include more than one hundred universities as well as research institutions and other not-for-profit organizations both in the United States and abroad engaged in hydrologic science, are charged a fee (universities pay \$2,000 and affiliates \$500) to join. Excluding the membership fees, the three NSF awards shown below have been CUAHSI's sole source of funding.

Cumulative Award Amounts as of December 31, 2004

<u>NSF Award</u>	<u>Award Title</u>	<u>Award Period</u>	<u>Award Amount</u>
<u>EAR-0233842</u>	Infrastructure for the Advancement of Hydrologic Science (<i>Planning award</i>)	<u>6/2002 - 5/2005</u>	<u>\$608,441</u>
<u>EAR-0326064</u>	A Community-based Consortium for the Advancement of Hydrologic Science (<i>Core award</i>)	<u>8/2003 - 7/2005</u>	<u>\$2,246,310</u>
<u>EAR-0412975</u>	COLLABORATIVE RESEARCH: Development of Informatics Infrastructure for the Hydrologic Sciences (<i>HIS award</i>)	<u>4/2004 - 3/2005</u>	<u>\$64,000</u>

NSF awarded AGU funds to support CUAHSI's development on September 1, 2001. Nine months later, NSF transferred the grant to CUAHSI as award EAR-0233842 (referred to as the Planning award) primarily as support in establishing a research infrastructure for the study of hydrology.¹ AGU continued to maintain the books and records for CUAHSI until January 1, 2003.

NSF provided a second award in August 2003, EAR-0326064 (the Core award), to continue supporting CUAHSI's development of a hydrology infrastructure.² CUAHSI's third NSF

¹ The Planning award was focused on three main areas: a) establishing long term hydrologic observatories, b) developing a hydrologic information system to support the data, information, and analysis requirements of the community, and c) developing and operating state-of-the-art systems and providing support services for hydrologic research.

² The Core award funds three areas: a) development of a prototypical design of a single hydrologic observatory, b) initiation of a hydrologic synthesis facility, where hydrologists can meet to tackle central problems in the field, and c) fund a headquarters support staff. This is a five-year continuing grant scheduled to end in 2007 at a total budget of \$5,886,310.

award, EAR-0412975 (the HIS award), is to oversee the coordination of four universities working on an NSF project to develop informatics infrastructure for the hydrologic sciences.³

CUAHSI rents office space and obtains human resources, payroll, and computer services from AGU. During our audit, CUAHSI staff consisted of an executive director, a business manager, and a communications manager.

NSF's Division of Grants and Agreements (DGA) has been closely monitoring CUAHSI since the consortium took over accounting responsibilities from AGU in 2003. Citing concerns about its operations and accounting policies, DGA put CUAHSI on special payments beginning in August 2003.⁴ In a site visit three months later, DGA concluded that CUAHSI's accounting was still not adequate and noted several additional problems. This audit, evaluating the adequacy of CUAHSI's accounting for NSF award expenditures, was performed at the DGA's request.

³ This is a two-year continuing grant scheduled to end in 2006 with one additional increment of \$69,500.

⁴ With "special payments" CUAHSI submits SF-270s, *Requests for Advance or Reimbursement*, which requires a detailed breakdown of each cost being claimed and cannot utilize electronic reimbursement methods.

OBJECTIVES, SCOPE, AND METHODOLOGY

The audit objectives were to evaluate whether:

1. CUAHSI costs charged on NSF awards for the period July 1, 2002 through December 31, 2004 were allowable, allocable, and reasonable in accordance with Federal cost principles and NSF award terms and conditions; and,
2. CUAHSI's system of internal controls was adequate to properly manage, account for, and monitor its NSF award funds in accordance with Office of Management and Budget (OMB) and NSF award requirements.

To accomplish these objectives, we:

- reviewed the NSF award jackets,
- discussed issues with NSF personnel in DGA and the Directorate of Geosciences, Division of Earth Sciences,
- reviewed CUAHSI's implementation of administrative and financial policies to account for and safeguard NSF award funds,
- interviewed CUAHSI staff and tested processes in place to administer and monitor NSF award funds to determine compliance with Federal and NSF award requirements, and
- verified that expenditures in CUAHSI's accounting records and financial reports supported total award expenditures reported to NSF in its Federal Cash Transactions Report as of December 31, 2004.

During our audit, we reviewed over 90 percent of CUAHSI's grant expenditures on its three NSF grants. We conducted our audit in accordance with the Comptroller General's *Government Audit Standards* and included such tests of accounting records and other auditing procedures as we considered necessary to fully address the audit objectives.

FINDINGS AND RECOMMENDATIONS

CUAHSI Needs to Improve Its Accounting of NSF Awards

CUAHSI did not have a financial management system that provided a complete accounting of its NSF awards. Specifically, CUAHSI could not identify funds authorized, spent, or remaining on an award-by-award basis and did not have a process to compare budgeted to actual costs. CUAHSI lacked a qualified accountant and also did not ensure that its personnel were knowledgeable of Federal government administrative requirements or cost principles. As a result, CUAHSI overspent on the Planning award, overcharged NSF for the Core award, caused NSF to delay funding a hydrologic project and had its payments restricted, both of which increased NSF's administrative burden. Furthermore, CUAHSI could not readily locate source documents and claimed questionable costs of \$69,978 on the Planning award and Core award.⁵

CUAHSI provided a written response to the draft report, in which it accepted \$32,360 of the questioned costs and agreed with all of our recommendations to improve internal controls over NSF funds. We summarized CUAHSI's response after each recommendation and provided additional comments regarding CUAHSI's response on the questioned costs. A copy of CUAHSI's response to the draft audit report is included in its entirety as Appendix 4 of this report.⁶

Inadequate Accounting System

CUAHSI's accounting system did not meet federal financial management system requirements. OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-profit Organizations* requires that an awardee's financial management system provide for "effective control over and accountability for all funds, property, and other assets". Specifically, OMB Circular A-110 requires:

- Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program,
- Accounting records that identify adequately the source and application of funds for federally-sponsored activities. In part, these records should show the total funds authorized to be spent, funds already spent or set aside, remaining funds left to be spent, and a complete list of expenses by award; and
- Comparison of actual expenses to budget amounts for each award.

While CUAHSI's general ledger did account for various types of expenses such as travel or salaries it did not keep track of funds authorized or remaining on an award-by-award basis. As

⁵ See Schedules A and B for claimed and questionable costs on the Planning and Core awards, respectively. The questionable costs on the Planning award have been adjusted from \$53,442 to reflect additional information provided by CUAHSI as part of its response to the draft audit report.

⁶ The attachments referenced in CUAHSI's response letter are included in our workpapers and available from the OIG.

such, at any moment in time, CUAHSI did not know the total costs incurred to date on an individual award or the available balance of unspent funds. Furthermore, CUAHSI did not have a process to readily compare actual expenses incurred to amounts budgeted in its award letters. For example, to meet our request for a schedule of budgeted to actual costs, CUAHSI had to manually enter amounts into a spreadsheet from its general ledgers for 2002, 2003 and 2004.

CUAHSI was aware of these weaknesses in its accounting system as it had been previously cited in its OMB Circular A-133 audit management letter. Specifically, the A-133 auditor reported, “the current accounting system does not adequately account for costs by project” and included a recommendation that CUAHSI purchase a system that accounts for expenditures by award or project.⁷ The auditor's letter also stated, “the accounting function is not currently performed by adequately trained staff.” Furthermore, DGA notified CUAHSI in July 2003 and December 2003 that its accounting policies and procedures were insufficient because it did not provide for compliance with OMB’s standards for financial management systems.

Lack of Qualified and Adequately Trained Personnel

In taking over its accounting from AGU at the beginning of 2003, CUAHSI did not employ qualified personnel to perform accounting functions or ensure its employees were knowledgeable of the federal grant requirements in OMB Circular A-110 or OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, which contains the rules awardees agree to follow regarding allowability, allocability, and reasonableness of costs. Specifically:

- CUAHSI management did not hire a qualified accountant to perform its accounting functions. Instead, when CUAHSI assumed accounting responsibilities from AGU in early 2003, it assigned accounting responsibilities to the business manager who did not have a formal accounting education and federal grant experience. The business manager was therefore ill prepared to keep accounting records, let alone ensure that CUAHSI complied with federal grant requirements and cost principles. Further, the accountant’s supervisor, the executive director, while well-versed in the programmatic responsibilities of the awards in his charge also did not completely understand the administrative requirements or cost principles.
- In July 2003, DGA notified CUAHSI that it needed policies and procedures for accounting and operations that complied with OMB Circular A-110 requirements. CUAHSI responded in writing to DGA in August 2003 but its response did not adequately address DGA’s concerns. Specifically, CUASHI provided its *Accounting and Operational Policies and Procedures*, which references the accounting software it used but CUASHI did not address how these policies and procedures met the financial management standards in OMB Circular A-110, including whether it would account for each award by separate project accounts. CUAHSI’s inadequate response is indicative of its overall lack of understanding of OMB administrative requirements.

⁷ The letter was dated June 30, 2004; however CUAHSI management stated that it didn’t receive it until December 2004.

NSF Awards Mismanaged and Administrative Burden Increased for NSF

Without an adequate grants accounting system or adequately trained personnel, CUAHSI could not effectively manage its NSF awards. Specifically, its inability to track award funds authorized, expended, and remaining resulted in CUAHSI over running the budgeted costs approved for the Planning award by \$6,050 (see Schedule A) and claiming \$6,647 more costs on the Core award than incurred per its general ledger (see Schedule B).⁸ Also, because CUAHSI did not have a process to routinely compare actual expenses to approved budgeted amounts, it had significant cost overruns on some budget categories. For example, on the Planning award, CUAHSI had an approved budget for subawards of \$163,185 but it incurred actual expenses of \$224,084. Although the overrun in this instance did not appear to affect completion of the award, continued cost overruns due to the inability to track fund balances could jeopardize success on future awards. As a small business almost exclusively funded by NSF awards, there is a heightened concern that CUAHSI may not fulfill its grant objectives if it exceeds total approved grant funds or significantly overruns budget categories.

In addition, CUAHSI's insufficient financial management system resulted in NSF delaying the start of a project for seven months and incurring additional administrative work to oversee CUAHSI's grant activities. Specifically, the NSF Division of Earth Sciences delayed issuance of EAR-0336749, *Development of Informatics Infrastructure for the Hydrologic Sciences* to allow CUAHSI an opportunity to fix its accounting problems. CUAHSI eventually withdrew its proposal six months later, as DGA had not found sufficient improvement in CUAHSI's accounting system. The following month, NSF commenced the project by awarding the work to four universities (University of Texas, Drexel University, University of California-San Diego, and University of Illinois). CUAHSI received only a small NSF award (the HIS award) for project coordination.

Also, DGA placed CUAHSI on special payments in August 2003, as a result of its concerns that CUAHSI was submitting costs for reimbursement without adequate project ledgers or source documentation. With special payments, CUAHSI cannot utilize electronic reimbursement methods to receive its NSF award funds, but rather must submit a SF-270, *Request for Advance or Reimbursement*, which requires a detailed breakdown of each cost being claimed. Special payments also require that DGA review these submissions for adequacy and manually approve them for payment, thus incurring additional administrative costs. CUAHSI remains on special payments because it has yet to demonstrate that it has corrected its grants accounting system deficiencies.

Source Documentation not Readily Available to Support Costs

OMB Circular A-110 requires an awardee to have “*Accounting records including cost accounting records that are supported by source documentation.*” However, CUAHSI did not have a systematic process that readily identified source documents supporting award costs in the project ledgers. We tested 589 transactions totaling \$1.44 million (or 94 percent of claimed costs) and found that source documents were not annotated with project accounts or other

⁸ CUAHSI claimed \$6,647 of excess costs by claiming \$916,433 on Federal Cash Transactions Report as of December 31, 2004, but CUAHSI's general ledgers supported only \$909,786.

information identifying the corresponding NSF award where the costs were charged. Instead CUAHSI relied on the memory of the business manager to correctly recall which source documents supported specific award costs. Although CUAHSI eventually provided source documentation for all but three transactions, it required repeated written requests from our office, significant time to educate the business manager as to what were acceptable source documents, and up to six months for the awardee to provide the requested support.⁹

Because CUAHSI did not adequately track supporting documentation for its claimed costs,

- A \$575 charge for travel was claimed on both the Planning and Core awards (we questioned the amount claimed on the Core Award, see Schedule B);
- Two participant support transactions were claimed twice on the Core award, one for \$517 and the other for \$975 (see Schedule B); and
- CUAHSI did not provide documentation for three transactions totaling \$5,253 (see Schedule A).

CUAHSI Claimed Questionable Costs on Two NSF Awards

OMB Circular A-110 requires that awardees have *written* procedures for determining the reasonableness, allocability, and allowability of costs. The business manager, who did not have the requisite knowledge of federal cost principles in OMB Circular A-122, informally reviewed CUAHSI expenditures for allowability. CUAHSI's unfamiliarity with federal cost principles and the lack of any internal implementing guidance resulted in questioned costs and the other grant accounting weaknesses identified.

In addition to the overcharge on the Core grant and the questionable costs resulting from lack of source documents noted above, CUAHSI claimed costs of \$56,010 on the Planning award (Schedule A) and the Core Award (Schedule B) contrary to the cost principles listed in OMB Circular A-122. Specifically,

- OMB Circular A-122 states that housing and personal living expenses paid to directors are allowable only if the federal awarding agency approves it as a direct cost.¹⁰ Without NSF approval, CUAHSI claimed housing allowance and living expense costs of \$24,800¹¹ for its Executive Director to travel between its office in Washington, D.C. and his home in Boston, Massachusetts. DGA notified CUAHSI that these costs were not

⁹ We formally requested support for these transactions on three occasions. The first was in October 2005, when we provided our complete list of 589 transactions for testing and the last time was in March 2006. After initial fieldwork was completed in December 2005, CUAHSI could not locate source documents for over 50 transactions. Over a six month period, only through numerous meetings, including sitting down with the business manager and explaining what source documentation was needed to support the claimed costs, was CUAHSI able to find the documentation to support all but five of the tested transactions. Lastly, CUAHSI provided support for two of the five transactions in its response to the draft report.

¹⁰ Specifically the OMB circular states, "*Costs of housing (e.g., depreciation, maintenance, utilities, furnishings, rent, etc.), housing allowances and personal living expenses for/of the organization's officers are unallowable as fringe benefit or indirect costs regardless of whether the cost is reported as taxable income to the employees. These costs are allowable as direct costs...when approved by awarding agencies.*"

¹¹ Of this amount \$7,360 was claimed on the Planning award (\$2,400 was charged as salary and \$4,960 as fringe benefits (see Schedule A) and the remaining \$17,440 claimed as salary on the Core award (see Schedule B).

allowable in a letter dated June 23, 2003. Although CUAHSI stopped claiming additional housing and personal living expenses, the \$24,800 of questionable costs remains unresolved. CUAHSI attempted to address this problem by crediting a portion of the housing allowances claimed (\$6,240) back to NSF in November 2003. However, the credit was insufficient and it re-claimed the \$6,240 as salary in December 2003 on an NSF award, which is unallowable per OMB Circular A-122.

- OMB Circular A-122 specifies that fringe benefits are allowable, provided such benefits are granted in accordance with established written organization policies. CUAHSI over-claimed fringe benefit costs of \$21,698¹² because AGU, who was responsible for processing CUAHSI's payroll, calculated the amount using its own estimated fringe rate, as opposed to one based on CUAHSI's financial information. Furthermore, estimated fringe benefit costs were not reconciled to actual cost at fiscal year end. AGU attempted to rectify the fringe benefit overcharges with a credit, however, the amount was insufficient and CUAHSI applied the entire credit to the Core award, instead of correctly allocating some of the credit to the Planning award.
- OMB Circular A-122 states that foreign travel must be approved by federal agencies. While NSF waives this requirement in its *General Grant Conditions*, it requires that awardees use U.S. flag air carriers. Costs incurred in using non-U.S. flag air carriers are only allowed in certain specific circumstances, such as if the use of U.S. flag air carriers would result in significant delays in flight times. Without providing any justification, CUAHSI reimbursed airfare for participants on a foreign flag carrier totaling \$3,084 on the Planning award and \$1,600 on the Core award. The CUAHSI Executive Director incurred an additional \$357 of travel costs without justifying the need to use a foreign flag carrier.
- OMB Circular A-122 states that for a cost to be allowable it must be reasonable, not included as a cost on another award, and adequately documented. On the Core award, CUAHSI claimed a \$4,000 credit card payment that was likely related to transactions already claimed on NSF awards. In addition, CUAHSI claimed participant support costs of \$363 and \$108 on the Core award for payments it made to two participants, even though the costs had already been reimbursed by another organization and the participants explicitly did not request reimbursement from CUAHSI for these costs.

Recommendations:

Recommendation 1: We recommend that the Directors for NSF's Division of Institution and Award Support (DIAS) and DGA ensure that CUAHSI have an accounting system that meets the financial management standards as outlined in OMB Circular A-110. Specifically the accounting system should be capable of:

¹² See Appendix 1 for the detailed computation of the questioned fringe costs.

- Providing accurate, current and complete disclosure of the financial results of each federally-sponsored project or program including a project ledger identifying detailed award expenses by individual award;
- Accounting for source and application of funds for federally-sponsored activities (the accounting system should be able to identify total funds authorized to be spent by award, funds already spent or set aside, and remaining funds left to be spent); and
- Facilitating comparisons of actual expenses to budget amounts for each award.

Auditee's Response

The auditee agreed with the recommendation. CUAHSI stated that it replaced the accounting system that was in place during FY's 2003 and 2004 with a new system in January 2005. They attached sample reports from the system as evidence of its adequacy.

Auditor's Comments

We did not assess the capabilities of the new accounting system for adequacy, but believe this was a necessary step to help CUAHSI address its accounting system deficiencies. We recommend that DIAS and DGA verify the new system meets the OMB Circular A-110 requirements.

Recommendation 2: We recommend that the Directors for DIAS and DGA require CUAHSI to hire an experienced accountant or obtain accounting services to ensure adequate accounting of its federal expenditures.

Auditee's Response

The auditee agreed with the recommendation. Specifically, CUAHSI hired an experienced CPA on a contract basis in 2005, a full-time Controller in February 2006, and a full-time Administrative Assistant in June 2006 to address this recommendation.

Auditor's Comments

CUAHSI's actions in hiring these individuals appear to adequately address the recommendation. We met with the part-time CPA and the new Controller during the course of the fieldwork and in coordinating the report and they were able to provide us with valuable assistance.

Recommendation 3: We recommend that the Directors for DIAS and DGA resolve the questionable costs:

- over-claimed costs of \$6,647 on the Core award;

- duplicate claimed charges of \$575 for travel and \$1,492 for participant support on the Core award and the unsupported costs of \$5,253¹³ on the Planning award; and
- questionable costs of \$56,010¹⁴ consisting of housing allowances, fringe benefits, airfare, and other unreasonable claimed costs.

Auditee's Response

The auditee agreed with the recommendations overall. However, CUAHSI provided additional explanations in an attempt to counter some of the questioned costs.

Specifically,

- Over-claimed costs of \$6,647 on the Core Award - CUAHSI claims that this amount includes the cost overrun of \$6,050 on the Planning award. Further, they state that they had “verbal authorization” to move the Planning award overrun to the Core award. Therefore, they request this matter be settled in their favor.
- Duplicate charges of \$575 and \$1,492 - CUAHSI provided a list of several points they believe support their request that these questioned costs be resolved in its favor. In summary, CUAHSI believes that because the “cash in” from NSF matched the “cash out” that duplicate payments were not possible. Of note, they make reference to a cash reconciliation our office completed that showed the Federal cash provided to CUAHSI agreed with the cash out as shown on CUAHSI’s bank statements. Lastly, they verified the invoices in question were only paid once.
- Unsupported costs of \$5,253 - CUAHSI attached supporting documentation from AGU for the amounts of \$1,539, \$3,094, and \$1,094 leaving two transactions, for \$850 and \$1,309, still unsupported.
- Concerning the questionable costs of \$56,010, CUAHSI noted the following
 - Questionable housing allowance of \$24,800 – CUAHSI believes this amount should be resolved in its favor. They mention prior discussions regarding this issue with several NSF employees at the time the new Executive Director was hired. In summary, CUAHSI believes that the housing allowance is permissible for temporary employees and that the Executive Director was a temporary employee during all of calendar year 2003. They attached some documentation as well in support of this argument. CUAHSI also believes the questioned amount of \$24,800 should be lowered by \$6,240 to take into account a credit it made.
 - Questioned fringe costs of \$21,698 – CUAHSI concurred with the basis of the questioned costs but believes the amount should be \$20,688.
 - Airfare of \$2,009 in excess of coach class – CUAHSI provided documentation showing the airfares in question were coach class and requested that these costs be resolved in its favor.
 - They concurred with the remaining questionable costs of \$3,084, \$1,600, \$357, \$363, \$108, and \$4,000.

¹³ The amount of unsupported costs in the draft report was \$7,886, but was adjusted based on information provided by CUAHSI in its response letter.

¹⁴ The questionable amount in the draft report was \$58,019, but was adjusted based on information provided by CUAHSI in its response letter.

Auditor's Comments

Our responses to each of CUAHSI's comments for this recommendation are shown below:

- CUAHSI's response provided no evidence to support its claim that the over-claimed costs of \$6,647 on the Core Award includes the cost overrun of \$6,050 on the Planning award. Additionally, CUAHSI provided no evidence to support its assertion that it had "verbal authorization" to move the Planning award overrun to the Core award. We did speak with the NSF program manager and he remembers discussions about some vision papers being charged to the Core grant, but he didn't recall any discussions about transferring grant amounts between awards. Therefore, we reaffirm our recommendation as there was no formal transfer of funds from one grant to another or any documentation supporting that there was "verbal" approval to shift funds. At most the evidence CUAHSI provided shows that the program manager agreed that Core grant funds could be used for some of the vision papers, not to transfer funds from the Planning to the Core grant.
- With respect to the duplicate charges of \$575 and \$1,492, we disagree with CUAHSI's argument that because its cash account reconciles it could not have claimed costs more than once. Our audit of CUAHSI's general ledger clearly showed that CUAHSI claimed these two invoices twice.¹⁵ Therefore, we reiterate our recommendation that these costs be reimbursed to NSF.
- With respect to the unsupported costs of \$5,253, the support CUAHSI attached from AGU for the unsupported amounts of \$1,539 and \$1,094 was adequate and we removed them from the report.¹⁶ However, the invoice attached for the amount of \$3,094 was an AT&T bill to AGU and did not show any evidence that it was a CUAHSI expense and is therefore still considered unsupported. Lastly, the transactions for \$850 and \$1,309 are also still unsupported.
- Our remarks concerning CUAHSI's comments related to the questionable costs of \$56,010 are noted below:
 - Questionable housing allowance of \$24,800 –we disagree with CUAHSI's contention that this amount should be resolved in its favor. Even though CUAHSI discussed the subject of housing allowances with NSF personnel, CUAHSI never obtained formal approval from NSF for payment of these costs. Also, CUAHSI's argument that housing costs for temporary employees is allowable is not supported by OMB Circular A-122, which does not distinguish between permanent and temporary employees with respect to the allowability of housing costs for officers of a non-profit organization. Lastly, as we explained in the body of the

¹⁵ We did not say that CUAHSI *paid* the invoices twice just that they inadvertently claimed them twice, which is clearly shown in general ledgers we audited. Therefore the extra cash reimbursed for these invoices should be in CUAHSI's bank account

¹⁶ We removed the documentation supporting these costs from CUAHSI's response since we accepted them as adequate audit evidence.

report, we questioned the “credit” of \$6,240 because even though CUAHSI credited this amount in its fringe account in November 2003, they re-claimed the same costs as salary in the following month, which is not allowable according to OMB Circular A-122.

- Questioned fringe costs of \$21,698 – CUAHSI’s disagreement with \$1,010 of the questioned amount does not address the fact that the questioned fringe costs of \$21,698 was based on CUAHSI’s own general ledgers. In short, the difference occurred because CUAHSI inadvertently claimed the additional \$1,010 on its general ledger as part of fringe benefits costs and then charged the extra costs to NSF. AGU’s original invoice for the fringe benefits included the \$1,010, but while AGU submitted a corrected invoice later, CUAHSI did not reduce the amount in its general ledger. See Appendix 1 for more explanation. If CUAHSI has subsequently corrected its general ledgers for FY 2003 and 2004 this should be presented during audit resolution for DGA’s consideration.
- Airfare of \$2,009 in excess of coach class – The documentation CUAHSI provided supported its contention that these airfares were coach class. Therefore we revised the report to remove these amounts from the questioned costs.
- We recognize CUAHSI’s concurrence with the remaining questioned costs of \$3,084, \$1,600, \$357, \$363, \$108, and \$4,000.

Recommendation 4: We recommend that the Directors for DIAS and DGA keep CUAHSI on special payments until it implements a corrective action plan to address the recommendations of this audit.

Auditee’s Response

The auditee agreed with the recommendation.

Recommendation 5: We recommend that the Directors for DIAS and DGA require CUAHSI to have an accounting system that references specific source documentation with project accounts.

Auditee’s Response

The auditee agreed with the recommendation and attached sample reports to shown that it has addressed the recommendation.

Auditor’s Comments

We did not review the new accounting system, but the reports CUAHSI attached showed a clear place for referencing a source document that, if properly used, will improve CUAHSI’s internal controls over NSF awards.

Recommendation 6: We recommend that the Directors for DIAS and DGA require CUAHSI to establish an adequate filing system that ensures supporting documentation is readily available to support award expenditures.

Auditee's Response

The auditee agreed with the recommendation and claims that its new system adequately addresses this recommendation.

Auditor's Comments

We did not verify CUAHSI's claim, but it appears that CUAHSI is being responsive to our recommendation.

Recommendation 7: We recommend that the Directors for DIAS and DGA require CUAHSI to establish a documented process for identifying and excluding unallowable costs from NSF awards.

Auditee's Response

The auditee agreed with the recommendation and explained that its personnel have now been trained in applicable Federal rules and regulations and added that they properly exclude unallowable costs.

Auditor's Comments

CUAHSI's response discusses a process for excluding unallowable costs but does not address whether it is documented as required by OMB Circular A-110. Therefore, we reaffirm our recommendation that CUAHSI develop *written* procedures for ensuring only allowable costs are charged to NSF awards.

Recommendation 8: We recommend that the Directors for DIAS and DGA require CUAHSI personnel be trained in federal cost principles and administrative requirements.

Auditee's Response

The auditee agreed with the recommendation and claims that its personnel have now been trained.

Auditor's Comments

If accurate, CUAHSI's actions sufficiently address the recommendation. Although, it is important that CUAHSI ensure its current personnel stay up to date with the training and any new employees receive this training as a matter of course.

Schedule A

National Science Foundation Office of Inspector General
CUAHSI (Consortium of Universities for the Advancement of Hydrologic Sciences, Inc)
Review of Cost Claimed Under NSF Award EAR-0233842 (aka the Planning Award) for the period June 1, 2002 - December 31, 2004

Budget Category	Award Budget	Results of Audit					Unsupported Amount (Note 1)	Audit Recommended Amount	Notes
		Incurred Costs	Amount Tested	%	Amount Questioned				
Salaries & Wages	\$170,419	\$159,222	\$159,222	100%	\$2,400		\$156,822	2	
Fringe Benefits	66,522	72,230	72,230	100%	38,062		34,168	3	
Travel	42,000	25,995	24,255	93%	0	1,309	24,686		
Participant Support	73,000**	89,022	73,703	83%	3,084		85,937	4	
Materials & Supplies		0			0		0		
Printing & Publications	2,915	65	0	0.	0		65		
Consultant Services	56,000	8,461	7,610	90%	0		8,461		
Computer Services	3,300	550	250	45%	0		550		
Subawards	163,185**	224,084	224,084	100%	0		224,084		
Other	31,100	34,861	29,657	85%	0	3,944	30,917		
Totals	\$608,441	\$614,490	\$591,011	96%	\$43,547	\$5,253	\$565,690		

Award Overrun	<u>\$(6,050)</u> Award Overrun - difference between general ledger and FCTR
Amount Claimed per FCTR	<u><u>\$608,440</u></u>
	Total Questioned Costs <u><u>\$48,800</u></u>

** In a letter dated 1/28/2003 NSF allowed \$42,600 to be redirected from participant support costs to subawards. The amounts shown have been revised to take the \$42,600 shift into account.

Explanatory Notes (see Appendix 2 for a detailed list of questionable transactions)

- 1) The unsupported amounts are the result of no, or inadequate, documentation provided. See Appendix 3.
- 2) The questioned amount of \$2,400 is for housing allowances and personal living expenses paid to the CUAHSI executive director
- 3) The questioned fringe costs consists of two parts:
 - a) \$4,960 of this amount is for three payments to Executive Director housing allowances and personal living expenses
 - b) The remaining amount of \$33,102 is for excess fringe charged to NSF due to an erroneous calculation of the fringe costs during June 2002 through November 2003 (see Appendix 1 for more information);
- 4) The questioned amount consists of two airfares using a foreign flag carrier without justification, one for \$1,128 and the other for \$1,957 (see Appendix 2 for a detailed list of questioned transactions).

Schedule B

National Science Foundation Office of Inspector General
CUAHSI (Consortium of Universities for the Advancement of Hydrologic Sciences, Inc)
Review of Cost Claimed Under NSF Award EAR-0326064 (aka the Core Award) for the period (June 1, 2002 - December 31, 2004)

Results of Audit								
Budget Category	Award Budget	Incurred Costs	Amount Tested	% Tested	Amount Questioned	Unsupported Amount	Audit Recommended Amount	Notes
Salaries & Wages	\$538,921	\$350,015	\$350,015	100%	\$17,440	\$0	\$332,575	1
Fringe Benefits	212,869	90,606	90,606	100%	(11,404)		102,011	2
Travel	112,600	53,118	28,261	53%	932	0	52,185	3
Participant Support	289,000	149,512	133,727	89%	3,563	0	145,949	4
Materials & Supplies	24,000	0			0		0	
Printing & Publications	110,000	16,007	14,578	91%	0		16,007	
Consultant Services	40,000	13,114	11,826	90%	0		13,114	
Computer Services	8,300	1,200	400	33%	0		1,200	
Subawards	675,967	137,573	137,573	100%	0		137,573	
Other	234,653	98,641	75,542	77%	4,000	0	94,641	5
Totals	\$2,246,310	\$909,786	\$842,530	93%	\$14,531	\$0	\$895,255	
Costs Claimed not Supported by Records		<u>\$6,647</u>			<u>\$ 6,647</u>			6
Amount Claimed per FCTR		<u><u>\$916,433</u></u>						
					Total Questioned Costs		<u><u>\$21,178</u></u>	

** The claimed costs audited do not include salary or fringe costs incurred (but not paid) for September through December 2004.

Explanatory Notes (see Appendix 2 for a detailed list of questionable transactions)

- 1) The questioned amount of \$17,440 is for housing allowances paid to the CUAHSI executive director, which, even though \$6,240 was moved to salary is still unallowable per OMB Circular A-122, section 19, which states that housing allowances even if an addition to salary, is unallowable.
- 2) See Appendices 1 and 2 for detailed information on the questionable fringe costs of (\$11,404).
- 3) The questioned amount consists of two items: \$575 for a trip charged also to the Planning award, and \$357 for use of a foreign flag carrier without justification
- 4) The questioned amount consists of five items: a) a \$363 hotel charge paid by CUAHSI even though participant didn't request it as it was already paid by Univ., b) \$1,600 for use of a foreign flag carrier without justification, c) charges of \$517 and \$975 claimed twice and d) Per diem of \$108 paid to a participant who was local and didn't request it.
- 5) The \$4,000 was an advance payment to a credit card and was not related to any specific transactions. See appendix 2 for more information.
- 6) Award Overcharge – the Federal Cash Transaction Report shows costs claimed of \$916,433 but CUAHSI's records only supported \$909,786.

Schedule C

National Science Foundation Office of Inspector General
 CUAHSI (Consortium of Universities for the Advancement of Hydrologic Sciences, Inc)
 Review of Cost Claimed Under NSF Award EAR-0412975 (aka the HIS Award) for the period (June 1, 2002 - December 31, 2004)

Results of Audit

Budget Category	Award Budget	Incurred Costs	Amount Tested	%	Amount Questioned	Unsupported Amounts	Audit Recommended Amounts	Notes
Salaries & Wages	-	-			-		-	
Fringe Benefits	-	-			-		-	
Travel	\$ 5,000	\$ 558	\$ 464	83%	-		\$ 558	
Participant Support	50,000	6,423	6,052	94%	-		\$ 6,423	
Materials & Supplies	-	-			-		-	
Printing & Publications	-	-			-		-	
Consultant Services	-	-			-		-	
Computer Services	-	-			-		-	
Subawards	-	-			-		-	
Other	9,000	-			-		-	
Totals	\$64,000	\$6,981	\$6,516	93%	-		\$ 6,981	

**Total
 Questioned
 Costs** \$ 0

Appendix 1

Questioned Fringe Benefit Costs

Planning Award Fringe Costs				
2002	Actual Fringe	Claimed Fringe	Questioned Amount	Comments
June	\$3,033	\$4,887	(\$1,854)	
July	\$2,080	\$3,583	(\$1,503)	
August	\$1,168	\$4,520	(\$3,352)	
September	\$3,344	\$4,727	(\$1,383)	
October	\$1,677	\$4,898	(\$3,222)	
November	\$2,466	\$4,175	(\$1,709)	
December	\$3,653	\$3,766	(\$113)	
2002 Totals	\$17,420	\$30,557	(\$13,137)	Note 1
2003				
January	\$3,660	\$8,517	(\$4,857)	
February	\$3,610	\$9,422	(\$5,811)	
March	\$5,108	\$8,452	(\$3,344)	
April	\$4,370	\$10,323	(\$5,953)	
Subtotals	\$16,748	\$36,714	(\$19,966)	Note 2
Planning Award Totals	\$34,168	\$67,270	(\$33,102)	Note 3
Core Award Fringe Costs				
2003	Actual Fringe	Claimed Fringe	Questioned Amount	
May	\$13,925	\$8,415	\$5,510	
June	\$2,827	\$7,804	(\$4,976)	
July	\$3,135	\$4,334	(\$1,198)	
August	\$3,687	\$6,083	(\$2,396)	
September	\$5,502	\$8,506	(\$3,003)	
October	\$4,393	\$8,474	(\$4,081)	
November	\$5,831	\$11,915	(\$6,083)	Note 4
Core Award Totals	\$39,301	\$55,531	(\$16,229)	
AGU Fringe Credit for Excess 2003 fringe			\$27,633	Note 5
Over credit to Core Award			\$11,405	Note 6
Questioned Fringe Costs			(\$21,698)	Note 7

Notes

- 1) The questioned 2002 fringe costs represent the difference between the actual fringe costs and the amount claimed. The claimed amount was too high because AGU, who does CUAHST's payroll used its own rate and did not reconcile it to CUAHST's actual costs at year end.
- 2) Questioned excess fringe costs on Planning Award of \$19,966 for 2003. This represents the \$11,404 wrongly credited to the Core award (see Note 6) plus excess fringe of \$8,562 that AGU overlooked in its computation.
- 3) The total questioned amount related to the Planning award includes 2002 and 2003.

- 4) The claimed amount of \$11,915 is from the general ledger, the actual AGU invoice shows \$10,904. So, \$1,010 of the excess amount of \$6,084 is due to an error by CUAHSI.
- 5) AGU was notified of excess fringe costs for 2003. In response they computed a credit of \$27,633 to correct the overcharge and credited this amount to CUAHSI who passed it on to NSF. However, CUAHSI incorrectly applied the entire \$27,633 to the Core award, which over credited the Core award by \$11,404. If the \$11,404 was applied to the Planning award, it would still be too low by \$8,562 (see note 2 above).
- 6) CUAHSI incorrectly applied the entire credit of \$27,633 to the Core award. In order to correct for this, we recommend an increase of \$11,404, which is the difference between the fringe credit of \$27,633 and the actual (\$16,230) of excess fringe claimed. This amount should have credited to the Planning award.
- 7) The total fringe costs questioned are all on the Planning award and consists of \$13,137 of 2002 excess fringe) and \$8,562 of 2003 excess fringe (see notes 2 and 5).

Appendix 2

List of Questioned Transactions - Sorted by Type of Cost and by Award

I. Questioned Salary Costs

Award	Date	Trans Description	Claimed Amount	Allowable Amount	Questioned Amount	Comments
Plan	4/15/03		5,683	5,083	600	Includes \$600 of per diem for Exec. Director
Plan	4/30/03		5,683	5,083	600	Includes \$600 of per diem for Exec. Director
Plan	4/28/03	April Payroll	25,843	24,643	1,200	Amount includes \$1200 for Exec. Director's per diem. \$24,642.74 verified to invoice.
Salary Subtotal - Plan					\$ 2,400	
Core	5/15/03		5,683	5,083	600	Includes \$600 of per diem for Exec. Director
Core	5/31/03		5,295	4,655	640	Includes \$640 of per diem for Exec. Director
Core	5/30/03	May Payroll	21,684	20,444	1,240	Amount includes \$1240 for Exec. Director's per diem. \$20,444.38 verified to invoice.
Core	6/31/2003	June Payroll	19,481	18,241	1,240	Amount includes \$1240 for Exec. Director's per diem. \$18,241.70 verified to invoice.
Core	9/15/03		7,065	5,585	1,480	Includes \$1,480 per diem for Exec. Director
Core	9/30/03		5,487	4,887	600	Includes \$600 per diem for Exec. Director
Core	9/30/03	American Geophysical Union-Sept Salary (9/15 & 9/30)	22,342	20,262	2,080	Amount includes \$2080 for Exec. Director's per diem. \$20,261.58 verified to invoice.
Core	10/15/03		4,850	3,370	1,480	Includes \$1,480 per diem for Exec. Director
Core	10/31/03		6,182	5,582	600	Includes \$600 per diem for Exec. Director
Core	10/31/03	American Geophysical Union- October Payroll	21,310	20,070	1,240	Amount includes \$1240 for Exec. Director's per diem. \$20,070.70 verified to invoice.
Core	12/15/03		14,003	7,763	6,240	Includes \$6,240 "salary" added to Exec. Director in offset for per diem credit above.
Salary Subtotal - Core					\$ 17,440	
Overall Salary Total					\$ 19,840	

II. Questioned Fringe Benefit Costs

Award	Date	Trans Description	Claimed Amount	Allowable Amount	Questioned Amount	Comments
Plan	6/30/02	Trs June fringe % salaries	4,887	3,033	1,854	
Plan	7/31/02	Trsf July Payroll fringe	3,583	2,080	1,503	
Plan	8/31/02	August Payroll fringe	4,520	1,168	3,352	
Plan	9/30/02	Sept Payroll fringe	4,727	3,344	1,383	

Plan	10/31/02	Oct Payroll fringe	4,898	1,677	3,222	
Plan	11/30/02	Nov Payroll fringe	4,175	2,466	1,709	
Plan	12/31/02	Dec Payroll fringe	3,766	3,653	113	
Plan	4/28/03	April Fringe	10,323	4,370	5,953	
Plan		March Housing Allowance	1,240	0	1,240	Unallowable per diem costs
Plan		AGU-March 2003 Fringe	8,452	5,108	3,344	
Plan		Jan-Feb Fringe	21,659	7,270	14,389	Claimed amount consisted \$8,517.14 (Jan), \$9,421.58 (Feb) and also Includes Per Diem charges of \$3,720 (\$3,000 for Jan 2003 and \$720 for Feb 2003)
Fringe Subtotal - Plan					\$ 38,062	
Core	5/30/03	May Fringe	8,415	13,925	(5,510)	
Core	7/30/03	July Fringe	4,334	3,135	1,198	
Core	8/31/03	American Geophysical Union-August Fringe Benefits	6,083	3,687	2,396	
Core	9/30/03	American Geophysical Union-September Fringe Benefits	8,506	5,502	3,003	
Core	10/31/03	American Geophysical Union- October Fringe	8,474	4,393	4,081	
Core	11/30/03	Nov Fringe	11,915	5,831	6,083	Claimed amount per invoice dated 12/15/03 = \$10,904.19
Core	12/1/04	AGU credit to CUAHSI	(27,633)	(27,633)	(27,633)	This amount is incorrect as it was computed with the wrong amounts for December and November 2003. It appears it should be \$35,183.77
Core	6/31/2003	June Fringe	7,804	2,827	4,976	
Fringe Subtotal - Core					(\$11,405)	
Overall Fringe Total					\$ 26,658	

III. Questioned Travel Costs

	Date	Trans Description	Amount Claimed	Allowable Amount	Questioned Amount	Comments
Core	6/16/03	Delta/Orbitz(airfare for V. Faulkner, Santa Barbara, CA)	\$ 575	\$ -	\$ 575	(4) Already billed to the planning award
Core	2/29/04	Fleet Business Services - R.Hooper - Airfare; HEPEX meeting; Reading, England	\$ 357	\$ -	\$ 357	(6) Use of a foreign flag air carrier (Lufthansa); Documented by a receipt, but not a Award Expense Documentation Form; no certification to allow use of foreign carrier
Travel Total - Core					\$ 932	

Questioned Participant Support Costs (PSC)

Award	Date	Transaction Description	Amount Claimed	Allowable Amount	Questioned Amount	Comments
Plan	8/10/04	██████████ - Reimbursement for the Vision Paper meeting (June1-5)	1,657	530	1,128	(4)Flew on KLM/Royal Dutch airlines (Non-US flag carrier) International travel with no prior approval; exchanged 939.76EUR for \$1127.71USD (a rate of \$1.20USD/Euro) on May 31,2004, when OANDA interback exchange rate was \$1.2243USD/Euro, for \$1150.55
Plan	8/10/04	██████████ - Reimbursement for Vision Paper meeting (June 14-16)	2,543	586	1,957	(5) Flew on Qantas (non-US air carrier); Used exchange rate of \$.69 US to \$1 AUS for 15 June 2004, when OANDA interbank exchange rate was 0.68680; lodging was above per diem, but it was approved beforehand
Subtotal PSC - Plan					\$ 3,084	Difference of \$1 due to rounding
Core	7/13/03	██████████ - Reimb Synthesis meeting, Santa Barbara, CA (July 9-13)	1,320	957	363	CUAHSI paid participant Grigg's hotel, even though Grigg's didn't request reimbursement because he stated the hotel was already paid for by NCEAS.
Core	6/5/04	██████████ - Reimb for Vision paper meeting Penn State Univ.; June1-5	2,689	1,089	1,600	(15) Used an exchange rate of .724 USD/AUS Dollar, for 2,977.86 AUS; OANDA interbank exchange rate on 6/5/04 was .6962; cash rate (+4%) was .72405; Based on this exchange rate, questioned \$1,600.37 for the plane ticket; no ticket was provided, but the tax invoice for the ticket, which was provided, uses a flight number for Qantas ("QF 93"), which is not a US flag air carrier.
Core	6/10/04	██████████ - Reimbursement for Vision Paper meeting, Columbia Univ.; June9-10	517	0	517	Double reimbursement: once on each of two FCTRs
Core	6/30/04	Christopher Duffy - Reimb. for Vision Paper, Los Alamos National Laboratory, June29-30	975	0	975	(18) Double reimbursement: once on each of two FCTRs
Core	7/15/04	██████████ - Reimb for Vision Paper meeting (July 14-15)	410	303	108	CUAHSI paid \$107.50 in per diem to a participant even though the participant didn't request it. The participant was hosting the meeting at his home institution, and NSF's GPM 618.2 specifies that does not allow per diem in this case anyway.
Subtotal PSC - Core					\$ 3,563	
Overall PSC Total					\$ 6,647	

Questioned Other Direct Costs (ODCs)

Core	12/23/04	Fleet Business Services - Advance Payment to credit card-online	\$ 4,000	\$ 4,000	Amount is a payment to a credit card that is not tied to specific transactions. No support provided, outstanding since 11/29/05
ODCs Total - Core				\$ 4,000	
Subtotal Questioned Transactions - Plan				\$43,547	
Subtotal Questioned Transactions - Core				\$14,531	
Total Questioned Transactions				\$58,078	
Over Claim on Core Award				\$6,647	
Total Questioned Costs				\$64,725	

Appendix 3

List of Unsupported Transactions

Award	Budget Category	Date	Trans Description	Claimed Amount	Supported Amount	Unsupported Amount
Plan	Other Direct Cost	Dec-02	Annual Meeting Facilities	\$850		\$850
Plan	Other Direct Cost	Dec-02	Dec exp AP#60 AT&T	\$3,094		\$3,094
Plan	Travel	Dec-02	Annual Meeting travel	\$1,309	\$0	\$1,309
			Totals	\$5,253	\$0	\$5,253



June 27, 2006

James J. Noeth
Senior Audit Manager
Office of Inspector General
National Science Foundation
4201 Wilson Blvd.
Arlington, VA 22230

Dear Mr. Noeth:

Thank you for your letter of June 19, and the related draft audit report. We thank you for the professional conduct, spirit of cooperation and, most of all, the patience exhibited by James Berry Schneck and his team. We learned a lot during the course of this audit. I trust that the lessons learned are self evident in the below responses to the audit comments.

Before addressing the various recommendations, I first would like to provide a general comment related to the body of the report: At the top of page 5, there is a sentence that says the DGA notified CUAHSI in July and December 2003 that its accounting policies and procedures were deficient. This is certainly true, but the statement seems to me one-sided, and therefore misleading. At least for the record, I would like to add that we responded immediately to the July letter by requesting advice from the auditors who had just delivered our 2002 financial statements. They helped us establish formal accounting policies and procedures, which we then provided, along with a formal response to the letter of July, to the DGA in August 2003. We also responded in January 2004 to the issues raised during the DGA's site visit of November 2003. In both cases, we were as responsive as we knew how to be (establishing policies and procedures, sending our Business Manager to OMB Circular classes, adjusting our chart of accounts so as to group expenses by grant, etc.), but we got no direct response to either of our responses. In fact, it was not until now, with this draft report, that we received a comprehensive response.

I also have some factual corrections/clarifications that I would like to suggest to the text of the report:

- At the bottom of page 4 and top of page 5 are 3 sentences related to our receipt of the 2003 A-133 audit report, with various cites from that report. That report was not received by us until late December 2004. Consequently, our ability to positively respond to that report was necessarily limited to the year 2005, a period outside of the

scope of the IG's audit. We therefore request that these 3 sentences be deleted. Should you opt to instead retain these sentences, then we would request that after "audit management letter", the following phrase be added: ", received by CUAHSI management in December 2004", so that the sentence would read, in part, "... previously cited in its OMB Circular A-133 audit management letter, received by CUAHSI management in December 2004."

- The paragraph spanning the bottom of page 5 and the top of page 6, includes a couple of false conclusions. Specifically:
 - The first two sentences state that CUAHSI lacked the ability to manage its awards, and therefore we overspent one grant and underspent the other. In fact, we believe these were the same costs, and that we had verbal authorization to move the expenses from one grant to the other. That is, the movement was deliberate, not the result of some inability to manage.
 - The next two sentences say that because we did not routinely compare budget to actual expenses, we had a significant overrun in subaward expense. That is not true; that overrun was deliberate, and formally requested and approved well in advance.

I would like to see some clarification or corrections to the way these facts are laid out.

- On page 6, third paragraph, last sentence, I would like to remove the words "because it has yet to correct", and replace them with "pending a demonstration of having since corrected", so that the sentence would read: "CUAHSI remains on special payments pending a demonstration of having since corrected its grants accounting system deficiencies."
- Also on page 6, last sentence, I would like to insert after the word "transactions" the following phrase: "(all incurred in 2002 during which time AGU continued to maintain the books and records for CUAHSI)", so that the sentence would read, in part, "Although CUAHSI eventually provided source documentation for all but 5 transactions (all incurred in 2002 during which time AGU continued to maintain the books and records for CUAHSI), ..."
- On page 7, I would like to insert the following phrase in front of the third bullet at the top of the page, and thus make that bullet a one-sentence paragraph: "And, because AGU did not adequately track supporting documentation for CUAHSI-claimed costs in 2002," so that the one-sentence paragraph would read, in part: "And, because AGU did not adequately track supporting documentation for CUAHSI-claimed costs in 2002, CUAHSI did not provide documentation for ...".
- On page 8, third bullet, second sentence, I would like to replace the word "already" with "otherwise", so that the sentence would read, in part, "... likely related to transactions otherwise claimed ...".

Regarding the audit recommendations, our responses are as follows:

Recommendation 1

Agree.

The accounting system in use during the years 2003 and 2004 (Peachtree) was replaced January 1, 2005 with the higher level Solomon system. That system is being currently used to provide financial results by project, including the detail of expenses by award/award year, and including budgeted expenses by award/award year, and including budget to actual reporting by period and for inception to date

See sample reports, attached.

Recommendation 2

Agree.

[REDACTED] a CPA with 25 years experience in federally funded nonprofits (see resume attached), was hired on a contract basis in 2005. [REDACTED] was hired as a full-time Controller in February of this year (replacing the former Business Manager). [REDACTED] was hired as a full-time Administrative Assistant/Accounting Assistant in June of this year (replacing the former Administrative Assistant). As these latter two individuals are fully trained and integrated into CUAHSI, the need for Mr. Thrasher's specialized skills is declining; we expect him to remain with us indefinitely, however, but in some limited capacity.

Recommendation 3

Agree. More particularly:

With respect to the over-claimed costs of \$6,647 on the Core award, the draft audit report on Schedule A cites a Planning award overrun of \$6,050. We believe that both the \$6,647 and the \$6,050 are in fact the same expenses (for the Vision Paper), and that we had verbal authorization to take the overage for the Planning award and charge it instead to the Core award. We look forward to a discussion with the Directors of DIAS and DGA to resolve this issue.

With respect to "duplicate" charges of \$575 and \$1,492, we respectfully submit the following:

- During the course of the audit, we were provided by the audit team with a copy of a spreadsheet analysis entitled "Cash Reconciliation of NSF funds paid to CUAHSI from July 2002 Through December 31, 2004 . . . with Total Costs Compared to the Total per the FCTR". That spreadsheet states as its purpose "To reconcile the cash paid to CUAHSI by NSF to CUAHSI's records", and includes in its conclusion " . . .

verified that the costs claimed per CUAHSI's general ledger is not significantly different from the costs claimed per the FCTR" and "when comparing cash on hand per the FCTR to the cash on hand [per the books], the difference was only \$77.07. Thus, we will move ahead That is, the audit team was able to demonstrate to itself that total Federal cash in and out of the books tied to Federal cash in and out on the FCTR's.

- Based on discussions with the audit team during the course of the audit, the above exercise was employed because the 270's submitted by CUAHSI during the period of audit were poorly supported and full of errors; consequently, a decision was made that the shortest route to demonstrating the components of Federal reimbursements received was to tie cash activity per the books to cash activity per the FCTR's.
- As noted on page 3 of the audit report, the last accomplished objective of the audit was that the audit team "verified that expenditures in CUAHSI's accounting records and financial reports supported total award expenditures reported to NSF in its Federal Cash Transactions Report as of December 31, 2004." So, again, cash out per the FCTR's is what was tied to the books; so cash out per the books thus became the auditable universe for testing of propriety, support, etc.
- Upon our examination of these "duplicate" charges, we find that each amount was disbursed only once (an EFT to Orbitz for \$575.50, check 1254 to Salas, including the \$515.15, and check 1260 to Duffy, including the \$975.44). So, it would appear that these amounts were only paid out once, and, since cash out per the books ties to cash out per the FCTR's, these amounts could not have been twice charged/reimbursed to/from the NSF.
- Further, we have ourselves employed the same methodology as employed by the audit team in preparing the FCTR's for fourth quarter 2005 and first quarter 2006, and we can demonstrate, if necessary, that all reimbursed amounts per the FCTR's since inception tie within an immaterial difference to cash disbursed per the books. As between cash out per the books and cash out per the FCTR's, there are no differences, and it is cash out that the audit team audited. Cash out is cash out. None of these amounts were paid out twice, so there cannot be any "duplicate" charges.
- Based on these facts, we respectfully request of the Directors of DIAS and DGA that these questioned costs be resolved in CUAHSI's favor.

With respect to "unsupported" 2002 costs of \$7,886, attached is appropriate support for the amounts of \$1,539; \$3,094 and \$1,094, all late received from the AGU. AGU continues to search for support for the amounts of \$850 and \$1,309.

With respect to "questionable" costs of \$58,019:

- Regarding the questioned housing allowance and living expense costs of \$24,800, we respectfully submit the following:
 - We stated in a letter to [REDACTED] of August 25, 2003 that “a housing allowance was provided to [REDACTED] while he was serving in a temporary capacity, consistent with NSF rotator policy. We had discussed this with NSF staff and believe it to be permissible for temporary employees.” I am not aware of ever having received a written response to this letter, but our position has not changed: we continue to believe that we had NSF permission to provide the housing allowance.
 - In the attached letter of April 7, 2004 from [REDACTED] our former Executive Director, to me [REDACTED] states that because of the lack of qualified candidates for the position of CUAHSI Executive Director, a decision was made in late 2002 to fill the position with a temporary out-of-state hire, and offer to provide to that hire, among other things, a housing allowance to help defray the costs of having to reside temporarily in Washington, DC., thus doing what was necessary to make the position attractive to that candidate. Without that offer, the single viable candidate for the position would likely have declined the position. The letter makes it clear that [REDACTED] sought the assistance of [REDACTED] and [REDACTED] of the NSF in formulating the offer, and believed that he had their consent to do so, and that such an allowance was “in full accord with the existing NSF policies for similar benefits for their (NSF) rotator positions”.
 - The temporary nature of the hire is evidenced by the attached Intergovernmental Personnel Agreement for the period January through July 2003, during which time the hire remained an employee of the US Geologic Survey while he was “lent” to CUAHSI; that agreement was subsequently extended to December 2003.
 - The temporary nature of the hire is further evidenced by the attached offer letter of December 27, 2002 from [REDACTED] to myself.
 - Thus, during this prolonged temporary hire period [REDACTED] believed he was emulating the NSF’s “rotator” policy, and that this was a reasonable, permitted thing to do; certainly, and in spite of a continuing dialogue, no one disavowed him of this notion.
 - Further, even if we had not been operating under such a belief, OMB Circular A-122, Attachment B, section 20.a. says in part “housing allowances . . . for the organization’s officers are unallowable”. The attached letters to me from [REDACTED] CUAHSI chair at the time, of May 31, 2003 and December 18, 2003, clearly demonstrate that I was not an officer of CUAHSI until January 1, 2004. Since all of the questioned housing allowance expenses were

incurred in 2003, section 20 would seem to be moot. Nor am I aware of any other provision in A-122 that would prohibit a housing allowance for a temporary employee working away from home.

- As a final point of fact, it is not clear to me that the amount here questioned, \$24,800, is correct. ~~In taking a close look at the audit team's calculation of that amount, I see that it includes \$6,240 otherwise included in salary expense from December 2003. But I also note that, on page 7 of the draft report, second bullet from the bottom of the page, there is mention of a like credit of \$6,240. I do not see that the \$24,800 reflects that credit (or that the credit is reflected anywhere else), and it thus appears to me that the questioned amount is properly $\$24,800 - \$6,240 = \$18,560$.~~

Based on these facts and beliefs, we respectfully request of the directors of DIAS and DGA that these questioned costs be resolved in CUAHSI's favor.

- We concur that the AGU apparently overbilled CUAHSI for excess fringe benefits, and that CUAHSI thus inadvertently overbilled the NSF, and that such billings should therefore be disallowed. The total amount cited in the report is \$21,698; however, that amount includes an amount of \$6,083 (see Appendix 2 to the report) which appears to be incorrect. Referring to our argument above over the issue of "duplicate" invoices, the audit team necessarily audited cash out. Given that, Appendix 2 says that 11/30/03 Nov fringe claimed, per an invoice from AGU dated 12/15/03, was \$11,914.56, versus an allowable amount of \$5,831.20, for a questioned cost of \$6,083.36. In the general ledger and the audit team's related reconciliation of the FCTR's to general ledger cash, we see that \$11,914.56 is treated as the amount actually paid out. But, when we dig deeper, we see that the amount actually paid was \$10,904.19 (check 1302 of 12/22/04 for \$323,800.94 to AGU). The audit team's own note says "claimed amount per invoice dated 12/15/03 = \$10,904.19". Using \$10,904.19, the questioned amount would equal $\$10,904.19 - \$5,831.2 = \$5,072.99$, or an amount that is \$1,010.37 less in questioned costs. Accordingly, it seems to us that the overbilling amounts to $\$21,698 - \$1,010 = \$20,688$ and this is the amount that we think should be agreed upon.
- With respect to airfare in excess of coach class in the amount of \$2,009, we respectfully submit the attached documents in support of the fares having been paid for coach, not business class (see handwritten letter from a United Air employee – B or Y class equal coach; C and F class equal business, and see a printout from wikipedia indicating the same, and see a ticket stub with the Y class indication). Accordingly, we request of the directors of DIAS and DGA that these questioned costs be resolved in CUAHSI's favor.
- We concur that foreign flag travel costs of \$3,084; \$1,600 and \$357 did not meet reimbursable criteria, and should thus be disallowed.

- We concur that host participant support costs of \$363 and \$108 did not meet reimbursable criteria, and should thus be disallowed. The credit card deposit of \$4,000 was also inappropriately billed, and should also be disallowed.

Recommendation 4

Agree.

We appreciate the need to keep us on special payments until such time as the directors of DIAS and DGA are satisfied with the appropriateness of our responses to the recommendations herein addressed. We believe that our responses are appropriate and demonstrable, and we look forward to an expedited cessation of the special payments restrictions.

Recommendation 5

Agree,

Concurrent with our implementation of the Solomon accounting system in 2005 (see Recommendation 1, above), we have ensured that the general ledger detail clearly cross-references to source documents to ensure ease of document retrieval.

See sample reports, attached.

Recommendation 6

Agree.

All source documents are properly filed, with appropriate cross-references to general ledger detail.

Recommendation 7

Agree.

Present accounting staff are familiar with OMB Circular A-122 as well as the Grant General Conditions and Grant Policy Manual of the NSF, and thus readily identify unallowable costs and exclude such costs from reimbursement requests. Other staff members have also been trained to be aware of and recognize such costs. Such costs are few in number and amount, and are incurred only with care as we have few resources to otherwise support such costs.

See attached Travel Reimbursement Policy

Recommendation 8

Agree.

Accounting personnel have been trained in federal cost principles and administrative requirements (see also response to Recommendation 2, above), and have instructed other staff as needed.

I trust that you and the directors of DIAS and DGA will see that we have taken the weaknesses reported to heart, and accepted them in the positive spirit we believe was intended. We have tried to be pro-active in our responses, and incorporate them into a philosophy of constant improvement. If you have any questions or comments, please let me know. Otherwise, we look forward to receiving a final report from your office, and a subsequent meeting with the directors of the NSF's Division of Institutional and Award Support, and Division of Grants and Agreements.

Very truly yours,

A large black rectangular redaction covers the signature of the Executive Director.

Executive Director