




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

MEMORANDUM

DATE: March 18, 2015

TO: Jeffery M. Lupis, Director
Division of Acquisition and Cooperative Support (DACS)

FROM: Dr. Brett M. Baker 
Assistant Inspector General for Audit

SUBJECT: NSF OIG Audit Report No. OIG-13-1-003, Rev 1, *Supplement to Independent Audit of University of Wisconsin-Madison's Noncompliance with CAS 501, 502 and its Disclosed Practices Related to the IceCube Neutrino Observatory Cooperative Agreements*

The Defense Contract Audit Agency's (DCAA) revised noncompliance audit report for the University of Wisconsin-Madison's (UW-M) IceCube Cooperative Agreements, dated May 28, 2014, is attached. The previous version of this report was provided to your office (NSF OIG Audit Report No. OIG-13-1-003, dated March 29, 2013). The attached DCAA revised audit report replaces the 2013 report in its entirety.

Summary of Changes: In the attached 2014 report, DCAA retracted its opinion that UW-M did not comply with CAS (Cost Accounting Standards) and OMB Circulars in accounting for its expenditure of contingency funds. However, although DCAA retracted that opinion, the fact remains that UW-M estimated contingency percentage factors for each WBS (Work Breakdown Structure) in its proposal budget to NSF, but did not segregate and separately account for its expenditure of contingency funds in its accounting records, to ensure that contingency outlays can be compared to budget amounts of contingencies.

DCAA retracted its 2013 opinion of noncompliance because it concluded that federal regulations do not specifically require contingency expenditures to be separately tracked in the accounting system, and there was no requirement in NSF's cooperative agreement to separately track those expenditures. This issue is discussed in greater detail in Note 3 of DCAA's revised incurred cost audit report and the last bullet on page 4 of the OIG transmittal letter, OIG Report No. 13-1-001, Rev. 2, "*Supplement to Independent Audit of University of Wisconsin-Madison's Incurred Costs of Cooperative Agreements for the IceCube Neutrino Observatory*," dated March 18, 2015.

Purpose and Scope of Audit: We contracted with the Defense Contract Audit Agency (DCAA) Tri-State Branch Office to perform an incurred cost audit of approximately \$218.8 million of interim incurred direct costs claimed on the University of Wisconsin-Madison's (UW-M) IceCube Cooperative Agreements. We reissued UW-M's incurred cost audit report to your office (Supplement NSF OIG Audit Report No. OIG-13-1-001) dated March 18, 2015. The period of performance audited was from August 1, 2002 through June 30, 2011.

DCAA limited its audit to an examination of the UW-M's cost accounting practices related to interim incurred direct costs claimed under the IceCube Cooperative Agreements. This audit included evaluating whether UW-M had complied with the CAS Board rules, regulations and standards, and applicable Office of Management and Budget (OMB) Circulars A-21 and A-110 requirements during the performance of the cooperative agreements. DCAA performed its audit in accordance with Generally Accepted Government Auditing Standards, with the exception that DCAA did not, at the time of the audit, have an external opinion on its quality control system.

Results of Audit:

During the incurred cost audit, DCAA noted three specific instances of UW-M's noncompliance with Cost Accounting Standards (specifically CAS 501, 502 and UW-M's disclosed practices) related to costs claimed on UW-M's IceCube project under NSF Award Nos. ANT-0236449, ANT-0639286, and ANT-0937462.¹ Therefore, DCAA opined that UW-M's interim incurred direct cost claims are not acceptable as submitted. DCAA formally addressed the noncompliances in a separate CAS noncompliance report attached to this transmittal memo. UW-M's response is included in the attached DCAA audit report.

The results of the DCAA audit are summarized below.

DCAA found that UW-M did not comply with CAS and did not consistently follow accounting practices disclosed in its CAS Disclosure Statement, resulting in \$2,134,379 of questioned costs. Correction of the noncompliances may also result in additional questioned costs. Specifically, DCAA cited three cases in which UW-M's actual cost accounting practices were noncompliant with CAS 501, CAS 502 and its disclosed practices during the performance of the IceCube Cooperative Agreements. For two of the three cases (points 1 and 3 below), DCAA determined the cost impact and questioned costs accordingly (\$2,127,594 in point 1 and \$6,785 in point 3). For the other case, the cost impact is not yet known and, to determine this, will require UW-M to submit a cost impact proposal and revised incurred cost statements for the three IceCube Cooperative Agreements that will ultimately need to be audited. Since the Department of Health and Human Services (HHS) is the cognizant federal agency for negotiating and administering indirect F&A rates for UW-M, we recommend that NSF work closely with HHS Division of Cost Allocation (DCA) to resolve these recommendations.

¹ The NSF IceCube Cooperative Agreements were awarded to fund the design, development, and construction of an 86-string array of mirrors in Antarctica, designed to capture and record neutrinos falling and embedded in the Antarctic ice.

The noncompliance findings, other significant issues, and the associated recommendations are described below.

1. Facilities and Administrative (F&A) Costs Applied to Subawards over \$25,000. UW-M did not comply with its disclosed practices for applying its F&A rate to Cooperative Agreement No. ANT-0236449. UW-M's [REDACTED] Both [REDACTED] and [REDACTED] were identified as subawards in budgets submitted to and approved by NSF. UW-M unilaterally changed their classification from subawards to service agreements without adequate written documentation to justify these changes. Reclassifying the subawards resulted in UW-M claiming increased F&A costs of [REDACTED] for [REDACTED] and [REDACTED] for [REDACTED] (totaling \$2,127,594) over the indirect allocation that UW-M would have received on the subawards. The F&A costs increased because UW-M's [REDACTED] F&A rate is allocable to the entire amount of service agreement costs, whereas subaward costs in excess of \$25,000 are excluded from receiving an F&A allocation, per federal regulations.

Recommendation 1: DCAA recommends that the \$2,127,594 of increased F&A costs to NSF be disallowed. To prevent this condition from recurring, DCAA also recommends that UW-M establish a procedure to document why an award is determined to be a subaward (i.e., what portion of the program the subrecipient is responsible for, and what management roles the subrecipient will be performing). UW-M should provide for changing a subaward to a service agreement only if documentation is available to show that the scope of work has changed significantly and no longer includes responsibility for a part of the program or management functions. In addition, DCAA recommends obtaining prior written approval from the contracting officer for any proposed classification change, which should include a budget impact showing any increased F&A costs.

2. F&A Costs Commingled with Direct Charges in the Cost Accumulation Records. UW-M commingled indirect F&A costs charged to the IceCube Cooperative Agreements with direct costs in an internal account ([REDACTED]). UW-M reported the indirect costs charged to these cooperative agreements on a line in its incurred cost statement called "Other Expenditures" which contains both direct and indirect costs. The incurred cost statements for all three cooperative agreements had a line for F&A costs with zero dollars as the amount. In contrast, UW-M's pricing proposals submitted to NSF identify indirect F&A costs as a separate line item. Therefore, DCAA cited UW-M's accounting practice as being noncompliant with CAS 501 [48 CFR 9905.501-40(b)], which states that "an educational institution's cost accounting practices used in accumulating and reporting actual costs for a contract shall be consistent with the institution's practices used in estimating costs in pricing the related proposal." Also, OMB Circular A-110 C.21.b.4 states that recipients' financial management systems shall provide for "comparison of outlays with budget amounts for each award." The budgeted amount of F&A expenses cannot be compared to the actual F&A expenses claimed, since the actual F&A expenses are not identified separately from the direct costs claimed.

UW-M asserted and DCAA agreed that the amount of F&A costs charged is available to the university in its detailed transaction support. However, because the amount of F&A costs charged is not available at the summary level, UW-M has not met the basic requirement of CAS

UW-M in an exit conference on April 1, 2014, but the University did not provide another written response to this report.

We consider the issues in this report to be significant. In accordance with OMB Circular A-50, please coordinate with our office to develop a mutually agreeable resolution of the audit findings. Accordingly, we request that NSF work with HHS-DCA and with UW-M to develop a written Corrective Action Plan detailing specific actions taken and/or planned to address each report recommendation. Milestone dates should be provided for corrective actions not yet completed. Also, the findings should not be closed until NSF determines that the recommendation has been adequately addressed and the proposed corrective actions have been satisfactorily implemented.

We are providing a copy of this memorandum to NSF officials. The responsibility for audit resolution rests with HHS and with NSF Division of Acquisition and Cooperative Support (DACS). Accordingly, we ask that no action be taken concerning the report's findings without first consulting DACS at (703) 292-8242.

OIG Oversight of Audit

To fulfill our responsibilities to ensure that DCAA complied with Generally Accepted Government Auditing Standards, the Office of Inspector General:

- Reviewed DCAA's approach and planning of the audit;
- Monitored the progress of the audit at key points;
- Coordinated periodic meetings with DCAA and NSF officials as necessary to discuss audit progress, findings and recommendations;
- Had discussions with HHS-DCA officials;
- Reviewed the audit report prepared by DCAA to ensure compliance with Generally Accepted Government Auditing Standards and Office of Management and Budget Circulars; and
- Coordinated issuance of the audit report.

DCAA is responsible for the attached auditor's report on UW-M's Noncompliance with CAS 501, 502 and its Disclosed Practices for the IceCube Cooperative Agreements and the conclusions expressed in the report.

We thank you and your staff for the assistance extended to us during the audit. If you have any questions about this report, please contact Sherrye McGregor at (703) 292-5003, David Willems at (703) 292-4979, or Jannifer Jenkins at (703) 292-4996.

Attachment:

DCAA Audit Report No. 3541-2013W19200002-S1 *Supplement to Independent Audit of University of Wisconsin-Madison (UW-M), Noncompliance with CAS 501, 502 and its Disclosed Practices*, dated May 28, 2014.

cc: Richard Buckius, OD
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