




National Science Foundation • Office of Inspector General
4201 Wilson Boulevard, Suite I-1135, Arlington, Virginia 22230

MEMORANDUM

Date: September 26, 2013

To: Mary F. Santonastasso, Director
Division of Institution and Award Support

Karen Tiplady, Director
Division of Grants and Agreements

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

Subject: Audit Report No. OIG-13-1-004
Cornell University

This memo transmits the Health and Human Services, Office of Inspector General's (HHS OIG) report for the audit of direct costs totaling [REDACTED] million charged by Cornell University to its sponsored agreements with NSF during the period April 1, 2008 through June 30, 2011. The audit objectives were to determine if (1) direct costs charged by Cornell to its NSF sponsored agreements complied with applicable Federal requirements; (2) Cornell properly reported the use of NSF funds awarded under the American Recovery and Reinvestment Act (Recovery Act); and (3) NSF was liable for pension costs associated with the National Astronomy & Ionosphere Center (NAIC) sponsored agreement.

The auditors determined that costs that Cornell charged to its NSF sponsored agreements did not always comply with applicable Federal requirements. Specifically, the auditors estimate that costs totaling \$794,221 for supplies (\$660,699), recharge centers (\$75,312), general expenses (\$34,085), foreign travel (\$17,544), clerical and administrative salaries (\$6,581), as well as associated fringe benefits and facilities and administrative (F&A) costs were unallowable. Cornell directly charged costs that should have been treated as F&A costs and also claimed costs that were unrelated to the sponsored agreements, calculated incorrectly, unsupported, or not approved by NSF. The auditors reported that these deficiencies occurred because Cornell did not always adhere to its established policies and procedures for charging costs to NSF sponsored agreements.

The auditors also found that Cornell had properly accounted for and segregated the Recovery Act funds in its accounting system, and submitted accurate and timely quarterly Recovery Act reports. However, the auditors found that \$11,945 in unallowable costs (of the \$794,221 in total questioned costs) were charged to Recovery Act awards. Additionally, the auditors determined

that NSF was not liable for pension costs associated with the NAIC sponsored agreement because it was Cornell's practice to provide a defined-contribution plan, and as a result there is no trailing cost.

The auditors recommended that NSF address and resolve the findings by requiring Cornell to refund the questioned costs of \$794,221 and adhere to its established policies and procedures for charging costs to sponsored agreements with NSF. Cornell University, in its response dated April 29, 2013, disagreed with the auditor's two recommendations, however, the University agreed that some of the questioned costs were unallowable. Cornell University's response, described in the report, is included in its entirety in Appendix E.

Appendix D contains a detailed summary of the unallowable sample items that were questioned. Additional information concerning the questioned sample items was provided separately by OIG to the Division of Institution and Award Support, Cost Analysis and Audit Resolution Branch. Please coordinate with our office during the six month resolution period, as specified by OMB Circular A-50, to develop a mutually agreeable resolution of the audit findings. Also, 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 Audit

To fulfill our responsibilities under generally accepted government auditing standards, the Office of Inspector General:

- Reviewed HHS OIG'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 HHS OIG and NSF officials, as necessary, to discuss audit progress, findings, and recommendations;
- Reviewed the audit report, prepared by HHS OIG to ensure compliance with generally accepted government auditing standards; and
- Coordinated issuance of the audit report.

HHS OIG is responsible for the attached auditor's report on Cornell University and the conclusions expressed in the report. We do not express any opinion on the conclusions presented in HHS OIG's audit report.

We thank your staff for the assistance that was extended to our auditors during this audit. If you have any questions regarding this report, please contact Jannifer Jenkins at 703-292-4996 or Sherrye McGregor at 703-292-5003.

Attachment

cc: Alex Wynnyk, Branch Chief, CAAR
Dr. G. P. Peterson, NSB



DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL



OFFICE OF AUDIT SERVICES, REGION II
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September 16, 2013

Report Number: A-02-12-02004

Brett M. Baker, Ph.D., C.P.A., C.I.S.A.
Assistant Inspector General for Audit
National Science Foundation
4201 Wilson Boulevard
Stafford II, Room 705
Arlington, VA 22230

Dear Dr. Baker:

Enclosed is the U.S. Department of Health and Human Services, Office of Inspector General, final report entitled *Cornell University Claimed Federal Reimbursement for Unallowable Costs Related to Sponsored Agreements with the National Science Foundation*. This report is provided in response to a National Science Foundation (NSF) request and supersedes our report issued May 14, 2013, as NSF subsequently requested that we perform additional audit work. Please note that we have not provided Cornell University with a copy of this final report.

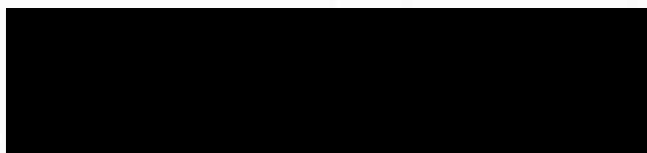
This report contains restricted, sensitive information that may be exempt from release under the Freedom of Information Act, 5 U.S.C. § 552. [REDACTED] If information in the report is released pursuant to a request under the Act, the restricted, sensitive information and other information exempt from release will be redacted.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Glenn H. Richter, Audit Manager, at (518) 437-9390 extension 227 or through email at Glenn.Richter@oig.hhs.gov. Please refer to report number A-02-12-02004 in all correspondence.

Sincerely,

James P. Edert
Regional Inspector General
for Audit Services

Enclosure



Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**CORNELL UNIVERSITY
CLAIMED FEDERAL
REIMBURSEMENT FOR
UNALLOWABLE COSTS RELATED
TO SPONSORED AGREEMENTS
WITH THE NATIONAL
SCIENCE FOUNDATION**



James P. Edert
Regional Inspector General

September 2013
A-02-12-02004

Office of Inspector General

<https://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

Notices



The organization for whom this report was prepared may distribute the report at its discretion.

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS.

EXECUTIVE SUMMARY

Cornell University claimed \$794,221 for unallowable costs related to its sponsored agreements with the National Science Foundation.

WHY WE DID THIS REVIEW

The National Science Foundation (NSF) requested that we review its sponsored agreements with Cornell University (Cornell) during the period April 1, 2008, through June 30, 2011. Specifically, NSF requested that we determine if (1) direct costs charged to the agreements by Cornell complied with applicable Federal requirements, (2) Cornell properly reported the use of funds awarded under the American Recovery and Reinvestment Act of 2009 (Recovery Act), and (3) NSF was liable for pension costs associated with the National Astronomy and Ionosphere Center (NAIC) sponsored agreement.

Our objectives were to determine if: (1) direct costs charged by Cornell to its NSF sponsored agreements complied with applicable Federal requirements; (2) Cornell properly reported the use of NSF funds awarded under the Recovery Act; and (3) NSF was liable for pension costs associated with the NAIC sponsored agreement.

BACKGROUND

NSF received \$3 billion under the Recovery Act. Of that, \$2.5 billion was allocated for science and engineering research and related activities (e.g., education, training, and acquisition and development of research instrumentation). The Recovery Act required recipients to report on their use of funds not later than 10 days after the end of each calendar quarter. The reports must include, among other things, the total amount of Recovery Act funds received, funds expended, project status, and the number of jobs created or retained.

Cornell is a private research university located in Ithaca, New York. During the period April 1, 2008, through June 30, 2011, Cornell claimed reimbursement totaling [REDACTED] for direct costs charged to [REDACTED] sponsored agreements with NSF including a sponsored agreement awarded to operate the NAIC observatory located in Arecibo, Puerto Rico.

Principles for determining the allowability of expenditures charged to sponsored agreements with Cornell and other educational institutions are set forth in 2 CFR pt. 220, *Cost Principles for Educational Institutions* (Office of Management and Budget Circular A-21). These cost principles apply to both direct costs—expenses incurred solely for the performance of a particular sponsored agreement—and to facilities and administrative (F&A) costs—indirect expenses incurred for common or joint objectives of the institution that cannot be readily and specifically identified with a particular sponsored agreement.

HOW WE CONDUCTED THIS REVIEW

Our audit covered direct costs totaling \$ [REDACTED] charged by Cornell to its sponsored agreements with NSF during the period April 1, 2008, through June 30, 2011. Specifically, we reviewed 614 statistically selected sample items from [REDACTED] expenditures, totaling \$ [REDACTED]. The sample items consisted of supplies, recharge center expenditures, general expenditures, foreign travel, clerical and administrative salaries, and cost transfers. We also reviewed 100 judgmentally selected sample items from [REDACTED] other salary expenditures, totaling \$ [REDACTED]. We calculated fringe benefits and/or F&A costs associated with sample items that we determined to be unallowable. Therefore, our estimate of unallowable costs includes both direct costs and applicable fringe benefits and/or F&A costs.

WHAT WE FOUND

Cornell charged some costs to its NSF sponsored agreements that did not always comply with applicable Federal requirements. Specifically, we estimate that Cornell charged costs totaling \$794,221 – \$660,699 for supplies, \$75,312 for recharge centers, \$34,085 for general expenses, \$17,544 for foreign travel, and \$6,581 for clerical and administrative salaries – as well as associated fringe benefits and F&A costs that were unallowable. Cornell directly charged these costs that should have been treated as F&A costs and also claimed costs that were unrelated to the sponsored agreements, calculated incorrectly, unsupported, or not approved by NSF. These deficiencies occurred because Cornell did not always adhere to its established policies and procedures for charging costs to NSF sponsored agreements.

We also found that Cornell properly accounted for and segregated NSF Recovery Act funds in its accounting system, and submitted accurate and timely quarterly Recovery Act reports. However, we found that Cornell charged unallowable costs totaling \$11,945 to its Recovery Act awards. In addition, NSF was not liable for pension costs associated with the NAIC sponsored agreement because it was Cornell's practice to provide a defined-contribution plan, and as a result there is no trailing cost.

WHAT WE RECOMMEND

We recommend that NSF address and resolve our findings by requiring Cornell to:

- refund \$794,221 to the Federal Government and
- adhere to its established policies and procedures for charging costs to sponsored agreements with NSF.

CORNELL UNIVERSITY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, Cornell disagreed with our two recommendations; however, it agreed some of the costs identified in our draft report were unallowable.



Specifically, Cornell agreed that costs associated with 26 of the 86 questioned transactions should be returned to the Federal Government but stated that the remaining 60 transactions represented allowable costs that should be accepted. Cornell provided a detailed justification of its position for each of the 60 transactions. However, Cornell did not provide any new documentation or other information in its comments that we had not already considered. Cornell also stated that the limited number of unallowable costs found during our review provides support that the University has sound policies and procedures in place and is adhering to them.

After reviewing Cornell's comments on our draft report, we maintain that our findings are valid. The detailed justifications provided by Cornell did not support that the questioned transactions complied with applicable Federal requirements. However, we revised our recommended recovery to reflect additional documentation supporting foreign travel charges that Cornell provided prior to the receipt of written comments.



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INTRODUCTION

WHY WE DID THIS REVIEW

The National Science Foundation (NSF) requested that we review its sponsored agreements with Cornell University (Cornell) during the period April 1, 2008, through June 30, 2011. Specifically, NSF requested that we determine if (1) direct costs charged to the agreements by Cornell complied with applicable Federal requirements,¹ (2) Cornell properly reported the use of funds awarded under the American Recovery and Reinvestment Act of 2009 (Recovery Act), and (3) NSF was liable for pension costs associated with the National Astronomy and Ionosphere Center (NAIC) sponsored agreement.

OBJECTIVES

Our objectives were to determine if: (1) direct costs charged by Cornell to its NSF sponsored agreements complied with applicable Federal requirements; (2) Cornell properly reported the use of NSF funds awarded under the Recovery Act; and (3) NSF was liable for pension costs associated with the NAIC sponsored agreement.

BACKGROUND

American Recovery and Reinvestment Act of 2009

NSF received \$3 billion under the Recovery Act. Of that, \$2.5 billion was allocated for science and engineering research and related activities (e.g., education, training, and acquisition and development of research instrumentation).² The majority of the research supported by NSF is conducted at colleges and universities.

The Recovery Act required recipients to report on use of funds not later than 10 days after the end of each calendar quarter. The reports must include, among other things, the total amount of Recovery Act funds received, funds expended, project status, and the number of jobs created or retained.

During the period February 17, 2009, through June 30, 2011, NSF awarded Cornell \$64,615,304 in Recovery Act funds.

¹ Sponsored agreements are externally funded activities in which a formal written agreement (i.e., a grant, contract, or cooperative agreement) is entered into by the university and the sponsor.

² NSF is an independent agency in the executive branch that is responsible for maintaining the academic science and engineering enterprise of the United States. NSF promotes academic research by providing support to colleges and universities, industrial laboratories, private research firms, and major research facilities and centers.



Cornell University

Cornell is a private research university located in Ithaca, New York. Founded in 1865, Cornell comprises 14 colleges and schools. During the period April 1, 2008, through June 30, 2011, Cornell claimed reimbursement totaling [REDACTED] for direct costs charged to [REDACTED] sponsored agreements with NSF.

National Astronomy and Ionosphere Center

The NAIC, located in Arecibo, Puerto Rico, facilitates research in the areas of astronomy, planetary studies, and space and atmospheric sciences by providing unique capabilities and state-of-the-art instrumentation for data collection and analysis, together with logistical support to users. The NAIC hosts the Arecibo Observatory, the world's largest single-dish radio telescope.³

Cost Principles for Educational Institutions

Principles for determining the allowability of expenditures charged to sponsored agreements with Cornell and other educational institutions are set forth in 2 CFR pt. 220, *Cost Principles for Educational Institutions* (Office of Management and Budget Circular (OMB) A-21), incorporated by reference at 45 CFR § 74.27(a). These cost principles apply to both direct costs—expenses incurred solely for the performance of a particular sponsored agreement—and to facilities and administrative (F&A) costs—indirect expenses incurred for common or joint objectives of the institution that cannot be readily and specifically identified with a particular sponsored agreement.⁴

HOW WE CONDUCTED THIS REVIEW

Our audit covered direct costs totaling \$ [REDACTED] charged by Cornell to its sponsored agreements with NSF during the period April 1, 2008, through June 30, 2011. Specifically, we reviewed 614 statistically selected sample items from [REDACTED] expenditures, totaling [REDACTED]. The sample items consisted of supplies, recharge center expenditures, general expenditures, foreign travel, clerical and administrative salaries, and cost transfers. We also reviewed 100 judgmentally selected sample items from [REDACTED] other salary expenditures, totaling [REDACTED]. We calculated fringe benefits and/or F&A costs associated with sample items that we determined to be unallowable. Therefore, our estimate of unallowable costs includes both direct costs and applicable fringe benefits and/or F&A costs.

³ The center is operated by SRI International, the Universities Space Research Association, and Metropolitan University, under a cooperative agreement with NSF. During our audit period, Cornell operated the center.

⁴ Educational institutions are reimbursed for F&A costs through rates negotiated with the Department of Health and Human Services, Division of Cost Allocation. Institutions with significant numbers of federally funded agreements frequently have multiple F&A rates applicable to different functions.

[REDACTED]

Appendix A contains the details of our audit scope and methodology, Appendix B contains our statistical sampling methodologies, Appendix C contains our sample results and estimates, and Appendix D contains a detailed summary of the unallowable sample items.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

FINDINGS

Cornell charged some costs to its NSF sponsored agreements that did not always comply with applicable Federal requirements. Specifically, we estimate that Cornell charged costs totaling \$794,221 – \$660,699 for supplies, \$75,312 for recharge centers, \$34,085 for general expenses, \$17,544 for foreign travel, and \$6,581 for clerical and administrative salaries – as well as associated fringe benefits and F&A costs that were unallowable. Cornell directly charged costs that should have been treated as F&A costs and also claimed costs that were unrelated to the sponsored agreements, calculated incorrectly, unsupported, or not approved by NSF. These deficiencies occurred because Cornell did not always adhere to its established policies and procedures for charging costs to NSF sponsored agreements.⁵

We also found that Cornell properly accounted for and segregated NSF Recovery Act funds in its accounting system, and submitted accurate and timely quarterly Recovery Act reports. However, we found that Cornell charged unallowable costs totaling \$11,945 to Recovery Act awards.⁶ In addition, NSF was not liable for pension costs associated with the NAIC sponsored agreement because it was Cornell's practice to provide a defined-contribution plan, and as a result there is no trailing cost.

UNALLOWABLE COSTS

Supplies

Expenditures for office supplies should normally be treated as F&A costs (2 CFR pt. 220, App. A § F.6.b.(3)). Expenditures for meeting and conference costs, including food, are only allowable if such costs are specifically and clearly identified in the proposed scope of work and budget, as approved by NSF (NSF *Grants Policy Manual*, § 625).

For 22 of the 100 transactions in our sample, Cornell improperly charged supply costs to NSF sponsored agreements. Specifically, Cornell directly charged 21 supply costs, including claims

⁵ Cornell's Financial Management policy, section 3.18, dated April 2, 2007, states "Cornell University must comply with the standards set forth in OMB Circular A-21, Cost Principles for Educational Institutions."

⁶ This total (\$11,945) is not an estimate. It is the value of the unallowable costs charged to Recovery Act awards.



for items such as laptops, monitors, and toner cartridges that should have been treated as F&A costs. In addition, Cornell improperly charged one cost (for food) that was not approved by NSF. Three of the 22 unallowable transactions, totaling \$2,316, were charged to Recovery Act awards. On the basis of our sample results, we estimated that Cornell improperly claimed \$660,699 for supplies, including related F&A costs.

Recharge Centers

Recharge centers are facilities, such as computer centers, supply stores, animal facilities, and motor pools, which provide specialized services, and charge the users of those services on the basis of actual use.

For 15 of the 100 transactions in our sample, Cornell improperly charged recharge center costs to NSF sponsored agreements. Specifically, Cornell directly charged transactions for office supplies. However, these costs should have been treated as F&A costs. One of the 15 unallowable transactions, totaling \$5,540, was charged to a Recovery Act award. On the basis of our sample results, we estimated that Cornell improperly claimed \$75,312 for recharge center expenditures, including related F&A costs.

General Expenses

Charges to sponsored agreements are unallowable if incurred outside of the funding period authorized by the awarding agency (2 CFR pt. 215 § 215.28). A cost is allocable to a sponsored agreement if the goods or services involved are charged to the sponsored agreement in accordance with the relative benefits received (2 CFR pt. 220, App. A § C.4). Costs charged to sponsored agreements must be reasonable (2 CFR pt. 220, App. A §§ C.2 and C.3).

For 32 of the 100 transactions in our sample, Cornell improperly charged general expenses to NSF sponsored agreements. Specifically, Cornell charged unallowable costs for:

- participant support⁷ that was not properly documented,
- a magazine subscription that did not benefit the sponsored agreement,
- visa expenses incurred outside the period covered by the sponsored agreement, and
- late fees associated with publishing a thesis.

In addition, Cornell directly charged office supply costs that should have been treated as F&A costs. Seven of the 32 unallowable transactions, totaling \$3,880, were charged to Recovery Act awards. On the basis of our sample results, we estimated that Cornell improperly claimed \$34,085 in general expenses, including related F&A costs.

⁷ Participant support costs are costs paid to (or on behalf of) participants or trainees (not employees) for participation in meetings, conferences, symposia, and workshops or other training activities.



Foreign Travel

Maximum per diem rates allowed for foreign areas, as established by the U.S. Department of State, cover travel beginning on the day the traveler departs an authorized point and ending on the day the traveler returns to the authorized point (41 CFR § 301-11.9). Laundry expenses incurred in foreign areas and costs of alcoholic beverages are unallowable (41 CFR § 301-11.31 and 2 CFR pt. 220, App. A § J.3).

For 11 of the 104 transactions in our sample, Cornell improperly charged foreign travel costs to NSF sponsored agreements. Specifically, Cornell charged costs that (1) exceeded the maximum allowable per diem rate; (2) were incurred outside the authorized travel dates; (3) were for unallowable expenses (e.g., alcohol and laundry); (4) were not reasonable; and (5) were not adequately documented. Two of the 11 unallowable transactions, totaling \$209, were charged to Recovery Act awards. On the basis of our sample results, we estimated that Cornell improperly claimed \$17,544 in foreign travel costs, including related F&A costs.

Clerical and Administrative Salaries

Salaries of clerical and administrative staff should normally be treated as F&A costs (2 CFR pt. 220, App. A § F.6.b.(2)).

For 6 of the 100 transactions in our sample, Cornell improperly charged clerical and administrative salaries to NSF sponsored agreements. Specifically, Cornell directly charged salaries for employees that performed tasks such as coordinating meetings and events, maintaining travel forms, and acting as a general liaison for students. The salaries of these employees should have been treated as F&A costs. None of the six unallowable transactions related to Recovery Act awards. Cornell improperly claimed \$6,581 in clerical and administrative salaries, including fringe benefits and related F&A costs.

CONCLUSION

We estimated that Cornell improperly claimed costs totaling \$794,221 because it did not adhere to its policies and procedures for charging costs to NSF sponsored agreements.

RECOMMENDATIONS

We recommend that NSF address and resolve our findings by requiring Cornell to:

- refund \$794,221 to the Federal Government and
- adhere to its established policies and procedures for charging costs to sponsored agreements with NSF.



CORNELL UNIVERSITY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, Cornell disagreed with our two recommendations; however, it agreed that some of the costs identified in our draft report were unallowable.⁸ Specifically, Cornell agreed that costs associated with 26 of the 86 questioned transactions should be returned to the Federal Government but stated that the remaining 60 transactions represented allowable costs that should be accepted. Cornell provided a detailed justification of its position for each of the 60 transactions. However, Cornell did not provide any new documentation or other information in its comments that we had not already considered. Cornell also stated that the limited number of unallowable costs found during our review provides support that the University has sound policies and procedures in place and is adhering to them.

After reviewing Cornell's comments on our draft report, we maintain that our findings are valid. The detailed justifications provided by Cornell did not support that the questioned transactions complied with applicable Federal requirements. However, we revised our recommended recovery to reflect additional documentation supporting foreign travel charges that Cornell provided prior to the receipt of written comments.

Cornell's comments are included in their entirety as Appendix E.

⁸ Cornell agreed that 26 transactions accounting for \$23,665 were unallowable. However, Cornell stated that such figures should not be used to estimate the total unallowable amount charged to its NSF sponsored agreements because they fall below our threshold for extrapolating such an estimate.



APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered direct costs totaling \$ [REDACTED] for supplies, recharge center expenditures, general expenditures, foreign travel, clerical and administrative salaries, cost transfers, and other salaries that Cornell charged to its NSF sponsored agreements from April 1, 2008, through June 30, 2011. We did not evaluate expenditures related to Cornell's sponsored agreements with other Federal agencies.

We did not perform an overall assessment of Cornell's internal control structure. Rather, we reviewed only the internal controls related to our audit objective.

We performed our fieldwork at Cornell's offices in Ithaca, New York in September 2012.

METHODOLOGY

To accomplish our objectives, we:

- held discussions with Cornell officials and reviewed Cornell's policies to obtain an understanding of Cornell's procedures for charging costs to its NSF sponsored agreements and reporting Recovery Act funds;
- held discussions with Cornell officials to obtain an understanding of Cornell's policy for claiming pension liabilities related to NAIC employees,
- reviewed Cornell's approved Cost Accounting Standards Board Disclosure Statement (DS-2);⁹
- obtained from Cornell, a database of [REDACTED] expenditures, totaling \$ [REDACTED] that it charged to [REDACTED] NSF sponsored agreements during the period April 1, 2008, through June 30, 2011;
- performed analytical test work to ensure that the database was complete and accurate;
- from the database of [REDACTED] expenditures, we selected a population of 94,057 expenditures, totaling \$116,373,413, from cost centers generally considered to be at a high risk for error, including supplies, recharge center expenditures, general expenditures, foreign travel, clerical and administrative salaries, cost transfers, and other salaries;

⁹ Educational institutions that receive aggregate sponsored agreements totaling \$25 million or more are required to disclose their cost accounting practices by filing a DS-2.



- from the population of 94,057 expenditures, we eliminated 45,471 expenditures, totaling \$2,731,027, which fell below thresholds established for sample selection;¹⁰
- for the remaining 48,586 expenditures, totaling [REDACTED], we:
 - reviewed 614 statistically selected sample items from 42,607 expenditures totaling \$[REDACTED] which consisted of supplies, recharge center expenditures, general expenditures, foreign travel, clerical and administrative salaries, and cost transfers;
 - reviewed 100 judgmentally selected sample items from [REDACTED] other salary expenditures, totaling [REDACTED] and
 - determined which sponsored agreements, related to 714 sample items, met the definition of “major project;”¹¹
- discussed the allowability of certain expenditures with NSF officials;
- computed fringe benefit and F&A costs related to the unallowable expenditures; and
- determined the unallowable costs charged to Recovery Act awards.

See Appendix B for details of our statistical sampling methodologies, Appendix C for our sample results and estimates, and Appendix D for a detailed summary of the unallowable sample items.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

¹⁰ We eliminated transactions which were less than the following thresholds: supplies - \$100, recharge center expenditures - \$15, general expenditures - \$20, foreign travel - \$1,000, clerical and administrative salaries - \$50, and cost transfers - \$200.

¹¹ “Major project” is defined as a sponsored agreement that requires an extensive amount of administrative or clerical support, which is significantly greater than the routine level of such service provided by academic departments (2 CFR pt. 220, App. A § F.6.b.2). Clerical or administrative salaries may be directly charged for major projects.



APPENDIX B: STATISTICAL SAMPLING METHODOLOGIES

SUPPLIES

Population

The population consisted of all supply and material expense transactions (and associated F&A costs) for the period April 1, 2008, through June 30, 2011, charged to NSF sponsored agreements that were greater than or equal to \$100. Supply and material expenditure transactions included computers, food, durable goods, office supplies and class room supplies.

Sampling Frame

The sampling frame consisted of an Excel spreadsheet containing [REDACTED] supply and material transactions greater than or equal to \$100, totaling [REDACTED].¹² The data for these transactions were extracted from Cornell's electronic general ledger.

Sample Unit

The sample unit was one supply and material transaction (and associated F&A costs).

Sample Design

We used a stratified random sample. To accomplish this, we separated the sampling frame into four strata, as follows:

- Stratum 1: \$100.00 to \$700.00 ([REDACTED] transactions, totaling [REDACTED]).
- Stratum 2: \$700.01 to \$3,000.00 ([REDACTED] transactions, totaling \$[REDACTED]).
- Stratum 3: \$3,000.01 to \$24,375.00 ([REDACTED] transactions, totaling [REDACTED]).
- Stratum 4: all transaction greater than \$24,375.01 ([REDACTED] transactions, totaling \$[REDACTED]).

Sample Size

We selected a sample of 100 supply and material transactions as follows:

- 30 transactions from stratum 1,
- 30 transactions from stratum 2,

¹² The total ([REDACTED]) does not include F&A costs because these costs were not known until the sample items were reviewed.



- 30 transactions from stratum 3, and
- 10 transactions from stratum 4.

Source of the Random Numbers

We generated the random numbers with the Office of Inspector General (OIG), Office of Audit Services (OAS) statistical software.

Method of Selecting Sample Items

We sorted (ascending order) and consecutively numbered the sample units in the sampling frame. After generating 90 random numbers for strata 1, 2 and 3 (30 for each stratum), we selected the corresponding frame items. We selected all 10 transactions in stratum 4 for review.

Estimation Methodology

We used the OIG/OAS statistical software to calculate our estimates. We used the lower limit of the 90-percent confidence interval to estimate the total amount of unallowable costs (including F&A costs) for which Cornell claimed reimbursement.



RECHARGE CENTERS

Population

The population consisted of all Cornell's recharge center transactions (and associated F&A costs) for the period April 1, 2008, through June 30, 2011, charged to NSF sponsored agreements that were greater than or equal to \$15.

Sampling Frame

The sampling frame consisted of an Excel spreadsheet containing [REDACTED] recharge center transactions greater than or equal to \$15, totaling [REDACTED].¹³ The data for the recharge center transactions were extracted from Cornell's electronic general ledger.

Sample Unit

The sample unit was one recharge center transaction (and associated F&A costs).

Sample Design

We used a stratified random sample. To accomplish this, we separated the sampling frame into three strata as follows:

- Stratum 1: \$15.00 to \$600.00 ([REDACTED] transactions, totaling [REDACTED]).
- Stratum 2: \$600.01 to \$3,435.00 ([REDACTED] transactions, totaling [REDACTED]).
- Stratum 3: all transactions greater than \$3,435.00 [REDACTED] transactions, totaling [REDACTED]).

Sample Size

We selected a sample of 100 recharge center transactions as follows:

- 45 transactions from stratum 1,
- 45 transactions from stratum 2, and
- 10 transactions from stratum 3.

Source of the Random Numbers

We generated the random numbers with the OIG/OAS statistical software.

¹³ The total ([REDACTED]) does not include F&A costs because these costs were not known until the sample items were reviewed.

Method of Selecting Sample Items

We sorted (ascending order) and consecutively numbered the sampling frame. After generating 90 random numbers for strata 1 and 2 (45 for each stratum), we selected the corresponding frame items. We selected for review all 10 recharge center transactions in stratum 3.

Estimation Methodology

We used the OIG/OAS statistical software to calculate our estimates. We used the lower limit of the 90-percent confidence interval to estimate the total amount of unallowable recharge center costs (including F&A costs) for which Cornell claimed reimbursement.



GENERAL EXPENSES

Population

The population consisted of all Cornell's general expense transactions (and associated F&A costs) for the period April 1, 2008, through June 30, 2011, charged to NSF sponsored agreements that were greater than or equal to \$20.

Sampling Frame

The sampling frame consisted of an Excel spreadsheet containing [REDACTED] general expense transactions greater than or equal to \$20, totaling [REDACTED].¹⁴ The data for other, general expense transactions were extracted from Cornell's electronic general ledger.

Sample Unit

The sample unit was one general expense transaction (and associated F&A costs).

Sample Design

We used a simple random sample.

Sample Size

We selected a sample size of 100 general expense transactions.

Source of the Random Numbers

We generated the random numbers with the OIG/OAS statistical software.

Method of Selecting Sample Items

We sorted (ascending order) and consecutively numbered the sampling frame. After generating 100 random numbers, we selected the corresponding frame items.

Estimation Methodology

We used the OIG/OAS statistical software to calculate our estimates. We used the lower limit of the 90-percent confidence interval to estimate the total amount of unallowable general expense costs (including F&A costs) for which Cornell claimed reimbursement.

¹⁴ The total ([REDACTED]) does not include F&A costs because these costs were not known until the sample items were reviewed.



FOREIGN TRAVEL

Population

The population consisted of all Cornell's foreign travel transactions (and associated F&A costs) for the period April 1, 2008, through June 30, 2011, charged to NSF sponsored agreements that were greater than or equal to \$1000.

Sampling Frame

The sampling frame consisted of an Excel spreadsheet containing [REDACTED] foreign travel transactions greater than or equal to \$1,000, totaling [REDACTED].¹⁵ The data for foreign travel transactions were extracted from Cornell's electronic general ledger.

Sample Unit

The sample unit was one foreign travel transaction (and associated F&A costs).

Sample Design

We used a stratified random sample. To accomplish this, we separated the sampling frame into two strata as follows:

- Stratum 1: \$1,000.00 to \$16,000.00 ([REDACTED] transactions, totaling [REDACTED]).
- Stratum 2: all transactions greater than \$16,000.00 ([REDACTED] transactions, totaling [REDACTED]).

Sample Size

We selected a sample of 104 foreign travel transactions as follows:

- 100 transactions from stratum 1, and
- 4 transactions from stratum 2.

Source of the Random Numbers

We generated the random numbers with the OIG/OAS statistical software.

¹⁵ The total ([REDACTED]) does not include F&A costs because these costs were not known until the sample items were reviewed.

Method of Selecting Sample Items

We sorted (ascending order) and consecutively numbered the sampling frame. After generating 100 random numbers for stratum 1, we selected the corresponding frame items. We selected for review all 4 foreign travel transactions in stratum 2.

Estimation Methodology

We used the OIG/OAS statistical software to calculate our estimates. We used the lower limit of the 90-percent confidence interval to estimate the total amount of unallowable foreign travel costs (including F&A costs) for which Cornell claimed reimbursement.



CLERICAL AND ADMINISTRATIVE SALARIES

Population

The population consisted of all clerical and administrative salaries, (including any related fringe benefits and associated F&A costs) for the period April 1, 2008, through June 30, 2011, charged to NSF sponsored agreements that were greater than \$50.

Sampling Frame

The sampling frame consisted of an Excel spreadsheet containing [REDACTED] clerical and administrative salary transactions, greater than \$50, totaling \$ [REDACTED].¹⁶ The data for clerical and administrative salaries was extracted from Cornell's electronic general ledger and payroll system.

Sample Unit

The sample unit was one clerical or administrative salary transaction (including any related fringe benefits and associated F&A costs).

Sample Design

We used a stratified random sample. To accomplish this, we separated the sampling frame into two strata as follows:

- Stratum 1: \$50.00 to \$1,000.00 [REDACTED] transactions, totaling [REDACTED].
- Stratum 2: all transactions greater than \$1,000.00 [REDACTED] transactions, totaling [REDACTED].

Sample Size

We selected a sample of 100 clerical and administrative salary transactions as follows:

- 50 transactions from stratum 1 and
- 50 transactions from stratum 2.

¹⁶ The total [REDACTED] does not include fringe benefits or F&A costs because these costs were not known until the sample items were reviewed.

Source of the Random Numbers

We generated the random numbers with the OIG/OAS statistical software.

Method of Selecting Sample Items

We sorted (ascending order) and consecutively numbered the sampling frame. After generating 100 random numbers for strata 1 and 2 (50 for each stratum), we selected the corresponding frame items.

Estimation Methodology

We used the OIG/OAS statistical software to calculate our estimates. We used the lower limit of the 90-percent confidence interval to estimate the total amount of unallowable clerical and administrative salary cost (including fringe benefits and benefits and associated F&A costs) for which Cornell claimed reimbursement.



COST TRANSFERS

Population

The population consisted of all Cornell's positive cost transfers (including any related fringe benefits and associated F&A costs) for the period April 1, 2008, through June 30, 2011, charged to NSF sponsored agreements that were greater than \$200.

Sampling Frame

The sampling frame consisted of an Excel spreadsheet containing [REDACTED] cost transfers, greater than \$200, totaling [REDACTED].¹⁷ The data for cost transfers was extracted from Cornell's electronic general ledger and payroll system.

Sample Unit

The sample unit was one cost transfer (including any related fringe benefits and associated F&A costs).

Sample Design

We used a stratified random sample. To accomplish this, we separated the sampling frame into three strata as follows:

- Stratum 1: \$200.00 to \$9,000.00 [REDACTED] transactions, totaling [REDACTED].
- Stratum 2: \$9,000.01 to \$488,609.42 ([REDACTED] transactions, totaling [REDACTED]).
- Stratum 3: all transactions greater than \$488,609.42 [REDACTED] transactions, totaling [REDACTED].

Sample Size

We selected a sample of 110 cost transfers as follows:

- 50 transactions from stratum 1,
- 50 transactions from stratum 2, and
- 10 transactions from stratum 3.

¹⁷ The total (\$[REDACTED]) does not include F&A costs because these costs were not known until the sample items were reviewed.

Source of the Random Numbers

We generated the random numbers with the OIG/OAS statistical software.

Method of Selecting Sample Items

We sorted (ascending order) and consecutively numbered the sampling frame. After generating 100 random numbers for strata 1 and 2 (50 for each stratum), we selected the corresponding frame items. We selected for review all 10 cost transfers in stratum 3.

Estimation Methodology

We used the OIG/OAS statistical software to calculate our estimates. We used the lower limit of the 90-percent confidence interval to estimate the total amount of unallowable cost transfers (including fringe benefits and associated F&A costs) for which Cornell claimed reimbursement.



APPENDIX C: SAMPLE RESULTS AND ESTIMATES

SUPPLIES

Sample Details and Results

Stratum	No. of Transactions in Frame	Value of Frame	Sample Size	Value of Sample	No. of Unallowable Transactions	Value of Unallowable Transactions
1	████	██████	30	\$10,062	12	\$3,800
2	██	██████	30	60,585	8	19,672
3	██	██████	30	303,085	2	35,242 ^a
4	█	██████	10	2,014,289	0	0
Total	████	██████	100	\$2,388,021	22	\$58,714^b

^a We did not estimate the value of unallowable transactions related to stratum 3 because it contained only two errors. We added the value of the two errors to the lower limit to calculate the total supply disallowance of \$660,699.

^b The value of unallowable transactions includes associated F&A costs.

Estimated Unallowable Costs (Limits Calculated for the 90-Percent Confidence Interval)

Point Estimate	\$ 1,018,156
Lower Limit	\$ 625,457
Upper Limit	\$ 1,410,856



RECHARGE CENTERS

Sample Details and Results

Stratum	No. of Transactions in Frame	Value of Frame	Sample Size	Value of Sample	No. of Unallowable Transactions	Value of Unallowable Transactions
1	■	■	45	\$8,688	6	\$708
2	■	■	45	97,933	8	21,455
3	■	■	10	93,817	1	5,540
Total	■	■	100	\$200,438	15	\$27,703^a

^a The value of unallowable transactions includes associated F&A costs.

Estimated Unallowable Costs (Limits Calculated for the 90-Percent Confidence Interval)

Point Estimate	\$ 136,103
Lower Limit	\$ 75,312
Upper Limit	\$ 196,894



GENERAL EXPENSES

Sample Details and Results

No. of Transactions in Frame	Value of Frame	Sample Size	Value of Sample	No. of Unallowable Transactions	Value of Unallowable Transactions
■	\$■	100	\$171,022	32	\$15,827 ^a

^a The value of unallowable transactions includes associated F&A costs.

Estimated Unallowable Costs (Limits Calculated for the 90-Percent Confidence Interval)

Point Estimate	\$50,964
Lower Limit	\$34,085
Upper Limit	\$67,842



FOREIGN TRAVEL

Sample Details and Results

Stratum	No. of Transactions in Frame	Value of Frame	Sample Size	Value of Sample	No. of Unallowable Transactions	Value of Unallowable Transactions
1	██████	██████████	100	\$326,194	9	\$3,612
2	██████	██████	4	158,565	2	2,822
Total	██████	██████████	104	\$484,759	11	\$6,434^a

^a The value of unallowable transactions includes associated F&A costs.

Estimated Unallowable Costs (Limits Calculated for the 90-Percent Confidence Interval)

Point Estimate	\$ 50,855
Lower Limit	\$ 17,544
Upper Limit	\$ 84,166



Appendix D is redacted in its entirety.

APPENDIX E: CORNELL UNIVERSITY COMMENTS



Cornell University
Division of
Financial Affairs

[REDACTED]
Associate Vice President and
University Controller
341 Pine Tree Road
Ithaca, New York 14850-2820
[REDACTED]

April 29, 2013

Mr. James P. Edert
Regional Inspector General
For Audit Services
Department of Health and Human Services
Office of Inspector General
Jacob K. Javits Federal Building
26 Federal Plaza, Room 3900
New York, NY 10278

RE: A-02-12-02004

Dear Mr. Edert:

Cornell University (the "University") submits these comments in response to the March 28, 2013 draft audit report titled "*Cornell University Claimed Federal Reimbursement for Unallowable Costs Related to Sponsored Agreements with the National Science Foundation*" (hereinafter the "Draft Audit Report").

The University takes the audit process seriously and considers it to be an integral tool in the University's ongoing program of internal controls. Regular audits – internal and external – facilitate management's ability to identify those areas where internal controls may require further enhancement and those where they are performing effectively. To that end, we have analyzed each of the auditors' findings herein, and while we may not agree with each one, we will use this report to enhance our overall system of compliance and controls.

Summary

This audit was based on approximately [REDACTED] National Science Foundation (NSF)-funded transactions that spanned 39 months and totaled approximately \$[REDACTED] million. The auditors performed analytic reviews on this entire population prior to judgmentally selecting a subset of approximately 94,000 direct cost transactions totaling \$116M in areas believed to have the greatest risk for error. The extrapolated questioned costs of \$799,018 should be considered in the context of the entire \$[REDACTED]M population.

The University appreciates the auditors' willingness to work with us over the course of the past year. We are also very pleased to learn that the auditors have not identified any concerns regarding (a) 100 judgmentally selected transactions representing close to \$2 million of salary charges, (b) any of the tested cost transfers, (c) our reporting of Recovery Act funds, or (d) the manner in which we account for pension costs associated with a particular sponsored agreement. The University submits that the aforementioned results reflect the robust nature and efficacy of our policies, procedures, and system of internal controls.

Cornell University is an equal opportunity, affirmative action educator and employer.



We note, however, that the Draft Audit Report does include some draft or initial findings that the auditors have posited were the result of the University not following its own policies and procedures for charging costs to NSF awards. As discussed in more detail below, the University respectfully takes exception to many of the Draft Audit Report's initial findings. Specifically, the Draft Audit Report has questioned \$77,923.11 of direct costs related to 86 transactions and, after adding associated F&A, extrapolates those findings to \$799,018 of unallowable charges to NSF awards. The University concurs with 26 of those transactions accounting for \$23,665.34, but disagrees with the auditors' initial conclusions on the remaining 60 transactions, which account for \$54,257.77 of direct costs.

Examples of disputed transactions:

- The acquisition of 20 laptop computers, totaling \$18,382, purchased for a high school teacher training program on fossils was deemed an unallowable direct-cost expenditure. The computers were justified in the proposal, in accordance with NSF guidelines, approved for acquisition, and used exclusively in the field for this sponsored program by the teacher-trainees during the summer program. Then, as stated in the grant proposal, they were subsequently used by these teachers at their high schools to incorporate the new methods in their courses.
- The auditors questioned ten teacher stipends, totaling \$5,400, due to a lack of signed attendance records. However, eight other documented controls, not counting the on-site photographs of each of the program participants taken at the program start, were submitted as evidence of program attendance to justify the individual payments for participation ranging from \$300 to \$600.
- The salary of the Research Experiences for Undergraduates Program Coordinator for an undergraduate research program component of a Materials Research Science and Engineering Center (MRSEC), despite the program being a Major Center, the costs being directly allocable, of an unlike type, and the project following the provisions in OMB Circular A-21 for direct charging such costs.

A. Summary of Questioned Costs

Of the 60 (out of 86) transactions that we dispute, most of the findings are associated with the following issues: (a) the allowability of office supplies and information technology expenses; (b) the sufficiency of the documentation needed to substantiate a charge to a sponsored project; and (c) charging administrative and clerical salaries directly to NSF awards. Given the overall significance of those issues to the Draft Audit Report, we have included herewith an overview of the applicable regulatory regime and the University's policies and procedures implementing those requirements.

1. Supplies, Including Computers and Computer-related Costs

The Draft Audit Report has questioned 39 "supply" transactions (in the supply, recharge, general expense, and travel areas) on the basis that office supplies should normally be treated as F&A costs.



The University agrees with the axiomatic point that office supplies should normally be treated as F&A costs, but disagrees with the Draft Audit Report's position that the questioned supply costs are office supplies. Nearly all of the questioned costs are computer or computer-related expenses. The University also takes issue with the Draft Audit Report's interpretation of the Circular's use of the word "normally."

Taking the second issue first, OMB Circular A-21, sec. D.1 provides that direct costs "are those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy." In contrast, section E.1 of the Circular explains that costs incurred "for common or joint objectives" that "cannot be identified readily and specifically with a particular sponsored project" should be accounted for as F&A costs.

In addition to the foregoing generally applicable principles, OMB Circular A-21 provides specific guidance regarding the direct charging of non-salary administrative expenses, such as the computers and computer-related costs. Section F.6.b. dealing with "Departmental administration expenses" governs purchases with an acquisition cost below \$5,000. All of the questioned computer and computer-related charges fall below the \$5,000 threshold and are therefore subject to Section F.6.b. Consistent with the general guidance set forth above, this section states that "computer costs . . . shall be treated as direct cost wherever identifiable to a particular cost objective" and distinguishes such costs from "[i]tems such as office supplies . . . [which] shall normally be treated as F&A costs." In sum, computer and computer-related costs are allowable direct charges so long as they can be identified "to a particular cost objective." The word "normally" in section F.6.b is nothing more than the Circular's recognition that office supplies cannot typically be identified with a particular sponsored project. However, as discussed in detail in Section B.1 of these comments, 24 of the 39 questioned transactions are computer or computer-related costs that can be identified with a particular sponsored project.

We also note that when considering the allowability of non-salary administrative-type costs, the project to which the costs are directly charged need not be a major project.¹ As noted above, the allowability of such costs is addressed in Sections F.6.b(1) and F.6.b(3) of Circular A-21. Nowhere in either section is there any reference to major projects. Indeed, the reference to major projects is limited to F.6.b(2), which is explicitly limited to salary charges. ("The *salaries* of administrative and clerical staff should normally be treated as F&A costs. Direct charging of these costs may be appropriate where a major

¹ Although not a requirement for allowability, many of the items we assert are allowable *were* associated with major projects (NSF Large Facility, NSF FFRDC, NSF MRSEC), where the specific above-average program needs, and associated allocability, were identified in the funding proposal. The auditors' disagreed with our characterization of major projects, limiting it to two groups of projects at Cornell, and we believe that they have taken too narrow an interpretation of the standards of A-21 embodied in our policy and the regulation itself.



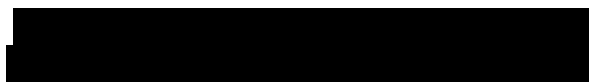
project or activity explicitly budgets” for these costs.) (emphasis added). The only test for non-salary expenses is that they be “identified readily and specifically with a particular sponsored project.”

Additionally, the University has direct charged non-salary administrative-type costs in compliance with A-21 consistently. OMB Circular A-21 states (at sec. D.2) that universities must be consistent in their direct charging practices. In practice, this means that if costs specifically identifiable with research are charged directly to sponsored research projects, such costs specifically identifiable with other functions (such as instruction) must in like circumstances be directly charged to those functions.

The University has disclosed its policies and procedures of accounting for capital and non-capital equipment in its Disclosure Statement (DS-2) that was approved by the Office of Naval Research on August 8, 1997, and subsequently transferred to the Department of Health and Human Services. Specifically, Section 3.2.0 “Description of Direct Materials” states that “[t]he principal types of materials and supplies charged directly to sponsored agreements are: . . . Computer, Laboratory.” In addition, the University’s DS-2 explains (at section 3.1) that “[w]hen direct charges are made to sponsored agreements for general support expenses, equivalent ratios of costs are directly assigned to non-sponsored, non-federal direct cost objectives through the use of a ‘Direct Charge Equivalents’ (DCE).” The use of a DCE ensures that the allocation of such costs is equitable.

The University has several policies and procedures in place that ensure compliance with Circular A-21’s consistency requirement and ensure that only allowable costs are charged to sponsored accounts. For example, the policy on “Charging Directly to Sponsored Projects Costs that are Normally Considered Indirect” specifically provides guidance on charging those types of costs which may generally be considered indirect costs directly to sponsored projects. This policy—consistent with the aforementioned language of the DS-2—explains that technical and scientific capital and non-capital equipment, as well as software, are all normally accounted for as direct costs. It also states that office supplies may only be charged directly so long as “the intended use is for project specific activities that are clearly justified in terms of their relevance to the methods used in conducting the research.” The University has submitted this policy to many agencies, including NSF, as part of various reviews and it has not previously been found to be inconsistent with Circular A-21.

In sum, there is substantial University guidance in place to assist University personnel with determining reasonable methods to allocate purchases of office supplies and general purpose equipment, such as computers and related items, to sponsored projects. The University respectfully submits that \$37,714.92 of the \$55,472.84 total direct (but not extrapolated) questioned computer and computer-related charges are allowable for the reasons set forth above, and for the reasons set forth in the University’s detailed discussion of each questioned charge.



2. General Expenses and Foreign Travel

The Draft Audit Report questions 32 general expense transactions and 11 foreign travel transactions. The University disagrees with the Draft Audit Report's preliminary finding on 29 of the general expense transactions and 4 of the foreign travel expenses.

With respect to participant support costs and other stipend costs questioned, the University has provided auditors with documentary support of the charges, whether in the form of agreements signed by participants or attestations of attendance from the responsible University personnel. We subsequently requested that the participants provide a statement certifying their attendance; however, we were informed that such confirmations would not be accepted without adequate rationale.

With respect to foreign travel charges questioned due to insufficient documentation, as part of its sound business practices and internal controls, the University requires documentation for payments, travel and other reimbursable expenses. These requirements are set forth in the "University Travel" and "Business Expenses" policies, as well as in the supporting procedures for the travel and payment systems. These requirements are consistent with agency rules, OMB Circulars and Federal Travel Regulations, as applicable.

More generally, per the NSF Award Administration Guide, documentation requirements for NSF transactions are described in OMB Circulars A-21 and A-110. These circulars state:

OMB Circular A-21 § A.2.e "The application of these cost accounting principles should require no significant changes in the generally accepted accounting practices of colleges and universities. However, the accounting practices of individual colleges and universities must support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to sponsored agreements."

OMB Circular A-110 § 21(b)(7) [Recipients' financial management systems shall provide for] "Accounting records including cost accounting records that are supported by source documentation."

And, the federal regulations are not prescriptive as to the form of documentation. For example:

- While certain activities, such as attendance at a workshop, can be documented through an attendance sheet, we assert that another reasonable and adequate form of documentation would be an attestation from workshop staff in attendance at the program. This approach is consistent with Circular A-21's guidance regarding compensation charges, which explicitly recognizes that either the employee or someone else with a suitable means of verification can document compensation costs.



- Subsistence payments for travelers or field work may be documented through the provision of receipts, or per diems may be utilized, and the cost principles explicitly defer to the University's policy. OMB Circular A-21 § J.53.a-b.
- While perhaps a sound business practice, there is no federal requirement that the amount of an expenditure be formally documented prior to its being incurred. In certain instances, especially where token payments under \$100 are made, the overhead of formalizing an arrangement may outweigh the value of the control.

Cornell's internal controls always provide for at least two individuals – separate from the payee – to review and approve any payment. University Policy 3.20, Cost Transfers on Sponsored Agreements, states that Principal Investigators (PIs) or their designees review of all sponsored transactions at least bimonthly.

The University has policies, systems, and other controls that reasonably ensure that payments are made only for valid project purposes, we assert that of the \$16,323.05 direct costs questioned for lacking sufficient documentation, \$13,657.25 are sufficiently supported with documentation as required.

3. Administrative and Clerical Salaries

The Draft Report questioned 6 transactions as improperly charged to NSF sponsored agreements. The University disagrees with 5 of the 6 questioned costs.

OMB Circular A-21, in section F.6.b(2), allows for direct charging of administrative and clerical salaries in certain instances ("Direct charging of these costs may be appropriate where a major project or activity explicitly budgets for administrative or clerical services and individuals involved can be specifically identified with the project or activity."). In addition, section F.6.b.2 cites to Circular A-21's Exhibit C, which provides a list of six examples of the kinds of projects that can be major projects. Importantly, the Circular is clear in its guidance that the enumerated examples are literally just examples and that a project need not fall squarely within the scope of one of the examples in order to be considered a major project. Circular A-21 further provides that a project may be considered a major project if it requires a level of administrative support in excess of what is normally provided by a typical academic department. That unusual need for administrative support establishes the "unlike circumstances" that allow a university to direct charge administrative or clerical salaries.

To implement the guidance for OMB A-21, the University has developed a policy on direct and indirect costs. This policy has been submitted to many agencies, including the National Science Foundation (NSF), as part of various reviews. The policy outlines a procedure of internal reviews for unlike circumstances, and requires that the costs be identified in the proposal budget and not be specifically disapproved by the sponsor.



In addition, Item 2.1.0 of the University's DS-2 states: "The University uses OMB Circular A-21, supplemental OMB and ONR guidelines and the judgment of the sponsoring agency and the Principal Investigator to assist in identifying 'unlike circumstances' under CAS502, that is, circumstances in which costs normally considered indirect are appropriate as direct charges...." Furthermore, the section states: "Salaries and fringe benefits of administrative and clerical staff are normally treated as indirect costs, as required by OMB Circular A-21. However, also in accordance with OMB Circular A-21 and supplemental guidance on this subject issued by NSF, the Office of Management and Budget (OMB), and other funding agencies, these costs are treated as direct costs when the nature of the work performed under a particular project is directly related to the technical substance of the project, or when the project requires an extensive amount of administrative or clerical support, such as large, complex programs. These situations are considered 'different purpose' or 'unlike circumstance' under CAS 502. As with all costs directly charged to sponsored agreements, they must meet the general criteria for direct charging in OMB Circular A-21 (i.e., can be identified specifically with the project)."

Finally, the same section of the DS-2 provides for an appropriate adjustment in the development of the F&A rate, as required by Exhibit C of Circular A-21. ("It would be inappropriate to charge the cost of such activities directly to specific sponsored agreements if, in similar circumstances, the costs of performing the same type of activity for other sponsored agreements were included as allocable costs in the institution's F&A cost pools"). The DS-2 states: "When direct charges are made to sponsored agreements for general support salaries equivalent ratios of costs are directly assigned to non-sponsored, non-federal direct cost objectives through the use of 'direct charge equivalents' (DCE)." Direct-charged administrative or supply costs remain in the organized research base, dilute the F&A rate, and further reduce the possibility of over-recovery.

For \$2,732.12 of the \$4,279.07 direct salary and benefit costs questioned, we assert that administrative salaries were charged in accordance with the provisions of the federal circulars, agency regulations, and the University's policies and disclosed costing practices. These are allowable charges allocable to the subject awards and have been consistently treated in accordance with the applicable cost principles.

B. Response to Specific Findings

Having now set forth its summary views on the regulatory framework governing the primary categories of preliminarily questioned costs, the University will address the specific transactions at issue.

1. Supplies

Of the 100 transaction tested, the Draft Audit Report tentatively questioned 22 transactions with a value of \$37,651. The University concurs with two of the auditors' 22 findings in this area with a direct cost of \$374.91.

Cornell disagrees with the following findings, for the following reasons:



- One item of \$127.08 was not a “conference meal” as described in section V.C.5 of the NSF Award Administration Guide. This was an allowable incentive, in lieu of a budgeted participant stipend, for a team of high school students who were part of the outreach component of the project. (S1-504)
- Ten of the items totaling \$4,731.27 were software and hardware supplies associated with the NSF-funded synchrotron-based programs. These were specifically identifiable to the NSF Major Facility for which they were charged, and incorporated into the joint NSF-Cornell annual budgeting and award process for these cooperative agreements. These devices and supplies were used by individuals supported by the project to support the synchrotron development, operation, and research. (S1-173, S1-471, S1-619, S1-660, S1-698, S1-2870, S1-2960, S2-10, S2-179, S2-607)
- One item of \$2,780.09 represented two computers for the headquarters of the University-run Federally Funded Research and Development Center. These computers were used exclusively by FFRDC-funded individuals for performance of FFRDC responsibilities. (S2-883)
- One item for \$18,382.65 represented 20 laptops for a multi-summer teacher training program. As originally proposed to the NSF, we acquired the systems for use by the teachers to catalog fossils during the summer, and then take them back to their schools during the subsequent year. The individuals to which these were assigned had no other Cornell projects or responsibilities. These computers met all OMB and NSF criteria for allowability. (S3-181)
- Seven items totaling \$11,255.39 were specific components (e.g. monitor, hard drive) with capabilities not normally provided as part of departmental computing resources, where the PI stated they were allocable to the award and which were necessary for the particular NSF-funded project. Computer supplies in a laboratory are treated consistently with other laboratory supplies (e.g. chemicals). They are allowable where allocable, reasonable and necessary. (S1-753, S1-1402, S2-417, S2-470, S2-644, S2-836, S3-83)

2. Recharge Centers

Of the 100 transactions tested, the Draft Audit Report tentatively questioned 15 transactions with a value of \$17,438. Cornell concurs with 13 of the 15 auditors’ findings in this area and will enhance PI and unit training regarding transactions in this area.

Cornell disagrees with the following audit findings in this area, for the following reason:

- Two items, totaling \$87.13 (direct and F&A cost), were allocable to the awards to which they are charged, and thus should be allowable. These were laboratory computer supplies (flash drive and DVDs for storing project data). The principal investigators indicated that these supplies were allocable to and necessary for the particular project. Project supplies are defined as normally-direct costs in the University’s disclosed costing practices (i.e. policy and DS-2). Computer supplies in a laboratory are treated consistently with other laboratory supplies (e.g. chemicals). They are allowable where allocable, reasonable and necessary. (S1-77, S1-264)



3. General Expenses

Of the 100 transactions tested, the Draft Audit Report tentatively questioned 32 transactions with a value of \$14,066. Cornell concurs with three of the 32 auditors' findings in this area.

Cornell disagrees with 29 of the 32 questioned transactions, for the following reasons:

- Fourteen items totaling \$6,870 were teacher or other participant stipends associated with the Cornell Institute for Physics Teachers (see below). They were disallowed due to a purported lack of sufficient documentation to substantiate the expense. The University, however, provided multiple types of documentation and evidence of internal controls (for example, the program coordinator, who had daily interaction with participants, authorized payment of the stipends only upon the participant's completion of the program) which adequately substantiates participant attendance.

The Center for Nanoscale Systems Institute for Physics Teachers ("CIPT") Contemporary Physics for Teachers course (<http://www.cns.cornell.edu/cipt/index.html>) is a unique professional development opportunity for high school physics teachers, and is an outreach program of the NSF-sponsored Center for Nanoscale Systems.

In summer 2008, the CIPT Contemporary Physics for Teachers program ran from July 6 through July 18, 2008. In order to participate in the course, teachers must complete an application. All accepted participants then sign an agreement pledging full participation in the CIPT course. As is typical for these types of courses, a stipend is paid to attendees in order to facilitate participation by a diverse population of qualified applicants. At the time of the questioned charges, this stipend was \$300/week.

At the beginning and end of the course, each participant takes a test anonymously in order to determine how effective the program was in his or her opinion. In summer 2008, every enrollee in the CIPT course took both the pre- and post- program tests, meaning that all participants who received a stipend completed the full program.

During the coursework, the teachers live in Cornell residence halls and participate in daily scheduled activities, where each participant is regularly in contact with the Program Coordinator. The Program Coordinator monitors the daily activities of each participant, and addresses any participation problems. There were no problems identified by the Program Coordinator that would affect program completion.

When the program is nearly complete, the Program Coordinator prepares a request to pay the participant's stipend. The payment request is effectively an attestation that the participant is eligible to receive payment based on the day-to-day contact with each participant. Specifically,

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the Program Coordinator has first-hand knowledge of whether the teachers fully participated in the program and authorizes the stipend for only those she deemed eligible. This payment request is subsequently reviewed by a University payment approver. Each time the payment is approved, the system logs the approval using cryptographically-validated (using the campus authentication system) names and dates/times. Upon completion of the program, the payments are mailed to the home addresses of the participants. In accordance with University policy, the PI or one of his designees received and reviewed financial reports for the award indicating the payment of each individual stipend. In all cases, this process was followed for each participant in these summer courses.

Thus, Cornell established a stringent control environment for ensuring that the stipend payments were paid only to course participants who fulfilled the program participation requirement.

OMB Circular A-21, A.2.e requires only that universities “provide for adequate documentation to support costs charged to sponsored agreements.” Cornell respectfully submits that the documentation previously provided is “adequate” to support the stipend costs because it demonstrates that each participant pledged participation in the program, lived on campus during the program, and was subject to rigorous daily oversight and monitoring. (21, 22, 24, 87, 90, 172, 175, 177, 178, 181, 182, 185, 187, 229)

- Two items totaling \$78.31 were categorized as office supplies. The two ongoing NSF-funded large facility projects to which the office supplies were charged had special outreach requirements, met by creating publications and other documentation. Both projects identified directly charged administrative costs in their proposals. This major center has procedures in place (i.e. pre-expenditure, pre-payment, and monthly reviews) to support proper cost allocation and allocability to a particular project. (3, 13)
- Five items totaling \$2,918.02 were rejected for insufficient documentation. These payments to individuals were subsistence allowances, pursuant to a written agreement, which were well below the allowable per diem, and thus further supporting documentation was not required. (41, 66, 73, 222, 227)
- Five items were rejected for insufficient documentation. The documentation provided (certification by outreach coordinator and similar in amount to other programs) was reasonable support for the \$400 total participant support. (30, 35, 36, 37, 39)
- One item was rejected for insufficient documentation to support the additional \$100 paid to one program attendee above what was paid to the other attendees. Attendees were paid \$200 for participation in 16 hours of programming. As noted to the auditors this individual participated in 24 hours of programming and the program coordinator determined that a proportionally larger stipend was appropriate. (119)

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- One item in the amount of \$500 was rejected for insufficient documentation to support the amount of the \$500 stipend to the high school teacher/team mentor. There is no requirement for documenting how a stipend amount is determined, and as indicated to the auditors, based on an assessment of the work involved and similarities to other outreach programs at the University the project coordinator determined this was a reasonable amount for this stipend. (167)
- One item in the amount of \$1,754.93 was rejected due to lack of suitable documentation to support the allocation of costs between two projects. At the direction of the PI, the costs were allocated equally to the two projects and, after one project ended, entirely to the second project. The PI had direct knowledge of the activities of the student receiving the stipend, and per policy was required to subsequently review all charges and identify any errors. As noted in Section 4(c) of A-21 "If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost should be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding subsection b, the costs may be allocated or transferred to benefited projects on any reasonable basis, consistent with subsections d. (1) and (2)." In addition, Section 4(d) notes that "the institution's documentation requirements for the actions of those individuals (e.g., signature or initials of the principal investigator or designee or use of a password) will normally be considered sufficient." (256)

4. Foreign Travel

- Of the 104 transactions tested, the Draft Audit Report tentatively questioned 11 transactions with a value of \$4,489. Cornell concurs with seven of the 11 findings in this area. We will enhance training and/or incorporate revised guidance in our travel policy to address these concerns.

Cornell disagrees with the following findings, for the following reasons:

- One item of \$64.82 is allowable as a part of the conference registration fee. Due to the individual paying the registration fee in Brazil, he was charged the rate of R\$900 (Reals), rather than the US-based rate indicated on the registration fee. The traveler's credit card statement was provided to support this assertion. (S1-1135)
- One item of \$449.48 for a hotel room is allowable. The traveler presented a receipt for this prepaid hotel, and stated that the room was occupied by the PI. The hotel confirmed that the room was used, and was registered in the name of the PI's graduate student. (S1-1169)
- One item of \$600 for subsistence is allowable. Although noted in one portion of the reimbursement documentation as an honorarium, this amount was an allowable subsistence per

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diem to a local scientist who participated in the in-country activities. The term “honorarium” is used inconsistently within the academic community. We understand and enforce the rule that a voluntary payment to express appreciation is unallowable. However, in the travel advance request, the PI clearly requested these funds for this scientist’s per diem payments, not a voluntary honorarium. Substantial documentation was provided to support the involvement of this scientist. (S1-1311)

- One item of \$432.41 is for software and hardware needed for this project. This is an unlike circumstance, as the project took place off-campus where access to normal IT support is unavailable. We concur, however, in the disallowance of \$26.40 for alcohol. (both S2-1)

5. Clerical and Administrative Salaries

Of the 100 transactions tested, the Draft Audit Report tentatively questioned 6 transactions with a value of \$4,279. Cornell concurs with one of six findings in this area and will remind campus of University policies in this area.

Cornell disagrees with the following findings, all of which comply with the A-21 Exhibit C examples of where direct charging is appropriate:

- The remaining five items (\$2,732.12 in direct costs).
 - An item questioned the charges for an executive staff assistant associated with the Science and Technology Center (Nanobiotechnology Center) (STC). The STC is a major center (large, complex project), consistent with the definition in OMB A-21. This was proposed, awarded and charged in accordance with A-21, NSF rules, and university policy. (S2-314)
 - Two questioned items were for an administrative assistant dedicated 100% to a campus transformation award (ADVANCE program). This award is administratively intensive, and the awarded proposal requested (and the project was charged), 50% of cost associated with hiring an administrative assistant exclusively for this project. A single award requiring a dedicated administrative assistant is clearly above average, and represents unlike circumstances. This office only handles the NSF-funded program, thus allocability is also assured. This was proposed, awarded and charged in accordance with OMB Circular A-21, NSF rules, and university policy. (S1-454, S1-2209)
 - An item questioned the charging of a coordinator for the Research Experiences for Undergraduates (REU) program associated with this Materials Research Science and Engineering Center (MRSEC). The MRSEC and the associated REU supplement are a major center (large, complex project), representing unlike circumstances. This was proposed, awarded and charged in accordance with OMB Circular A-21, NSF rules, and university policy. (S1-2111)

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- An item questioned the charging of an administrative assistant to a large complex plant genomics award. This is a large, complex program, requiring numerous arrangements for international travel and conferences. This support is allocable, and was proposed, awarded and charged in accordance with OMB Circular A-21, NSF rules, and university policy. (S1-2278)

C. Conclusion and Response to Recommendations

For the reasons set forth above, the University respectfully disagrees with the Draft Audit Report's recommendation that it refund \$799,018 to the Federal government and adhere to its established policies and procedures for charging costs to sponsored agreements with NSF. The University submits that 60 of the 86 questioned transactions represent allowable costs that should be accepted. The University will return to NSF those costs associated with the transactions with which it concurs in the Draft Audit Report. Given that we believe that most of these costs are allowable, the resulting low incidence of unallowable charges would be below the HHS OIG extrapolation threshold of six per sample strata. Therefore we disagree that extrapolation is appropriate except in strata where the threshold is met. The University also submits that the limited number of unallowable costs provides support that the University has sound policies and procedures in place and is adhering to them. We are always striving to improve our sponsored projects infrastructure. Where we identified areas that further clarification and/or communication of policies is required, we will address those areas. Additionally, we appreciate the guidance we received from the audit team during the field work and afterwards.

We look forward to our opportunity to resolve these final questioned costs with the Audit Resolution group of NSF and appreciate the time and effort that HHS committed to ensuring a complete and accurate report.

Sincerely,

Associate Vice President and University Controller