




National Science Foundation • Office of Inspector General
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MEMORANDUM

DATE: March 12, 2014

TO: Martha Rubenstein
Chief Financial Officer, National Science Foundation

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

SUBJECT: NSF Should Assess its Administrative Cost Recovery Rate to
Ensure it Accurately Reflects the Level of Effort Involved in
Interagency Agreements (14-6-001, TeamMate 14-P-3-001)

In response to a congressional request about NSF's administrative cost recovery charged on interagency agreements and how these costs affect other federal agencies' budgets, the Office of Inspector General (OIG) requested information and interviewed NSF officials about how the agency calculates its administrative cost recovery (ACR) rate and applies this rate to interagency agreements with other federal agencies. We did not review the rates charged or the methodologies used in applying administrative cost recovery by other federal agencies.

Under the Quality Standards for Inspection and Evaluation developed by the Council of Inspectors General on Integrity and Efficiency, we are communicating our results based on interviews and information gathered. This memo brings to your attention our concern that NSF's application of the same ACR rate to all interagency agreements, regardless of the effort required or the dollar value of the agreement, raises the risk of federal agencies overpaying or underpaying NSF.

Federal agencies can enter into interagency agreements with other agencies for goods and services. Agencies recoup their cost in performing a service on another agency's behalf under an interagency agreement by charging an ACR fee. Such arrangements are not intended to result in a profit.

The NSF Act of 1950 gives NSF authority to enter into interagency agreements, and Federal Financial Accounting Standards address the recovery of full (direct and indirect) costs. NSF's calculation of this fee involves applying an annually determined and published ACR rate to the dollar value of the agreement.

According to NSF, its ACR rate represents the full cost of doing business at an agency whose core business is comprised primarily of making and managing grants. Since Fiscal

Year (FY) 2011, NSF has calculated the ACR rate by dividing its administrative and support expenses, including the Agency Operations and Award Management appropriation, by the sum of its appropriations, excluding OIG, American Recovery and Reinvestment Act, and National Science Board appropriations. The rate for FY 2014 is 6.30 percent, compared to 6.31 percent in FY 2013, 6.51 percent in FY 2012, and 6.57 percent in FY 2011.

NSF Applies the Same Administrative Rate for All Interagency Agreements

In FY 2013, NSF had 329 incoming interagency agreements from other federal agencies valued at \$105 million, on which it earned \$6.8 million in ACR fees. At the same time, NSF had 260 outgoing agreements which totaled \$179 million, including ACR fees that NSF paid other agencies for goods or services they provided on NSF's behalf.

A program director estimated that the Industry/University Cooperative Research Centers (I/UCRC) program made 100 to 150 (of the 329) incoming interagency agreements in FY 2013. As part of the program, NSF awards grants for research centers. Federal agencies can become a partner in a research center and collaborate in selecting promising research projects. To do so, federal agencies can work directly with I/UCRC or they can work with the I/UCRC through an interagency agreement with NSF.

Since I/UCRC memberships obtained through interagency agreements with NSF are essentially supplements to *existing* NSF grant awards, NSF's efforts in connection with these interagency agreements consist of negotiating the agreement with the requesting agency; assisting with the membership agreement paperwork; reviewing the proposals for accuracy; transferring funds; post-award monitoring of the funds; distributing the funds to the center; and then billing the requesting agency.

In contrast, when NSF enters into interagency agreements that involve issuing grants on another agency's behalf, more effort may be required because when NSF makes a new award with another agency's funds using an existing solicitation, it follows the same processes as it does when awarding its own funds. This means that NSF conducts merit review in making the award, oversees the research performed, and financially monitors the costs. The amount of time, effort, and labor required of NSF for interagency agreements to issue and administer grants appears much larger than for agreements that involve simply transferring funds from one entity to another. Nevertheless, as previously noted, NSF charges the same ACR rate to the dollar value of the agreement to execute both types of interagency agreements¹.

Because the dollar value of an interagency agreement may not be an accurate indicator of the effort required, there is a risk that the agency is overcharging (or undercharging) for its administrative cost, especially given the variance in effort we identified. Since the purpose of the administrative fee is to recoup costs, it appears that the effort involved in

¹ We asked NSF officials if they could tell how many of the incoming 2013 interagency agreements which were not for I/UCRC involved issuing/administering grants and how many involved other types of work. NSF responded that its systems do not allow it to answer the question quickly, and that in order to do so, NSF would need to manually look through each agreement individually to find out what services were performed for each agreement.

the service performed should be the predominant factor considered, as opposed to the agreement value, in calculating the fee.

In this regard, and for comparison, we note that payments made under the Economy Act (a separate vehicle for interagency transactions) must relate to “the actual cost [including proportional indirect costs] of the . . . services provided.”² Elaborating on this requirement, GAO has explained that “[c]harging too much augments the appropriations of the performing agency [and] . . . [c]harging too little augments the appropriations of the ordering agency.”³ Agencies are not permitted to augment their appropriations because doing so “undercuts the congressional power of the purse.”⁴ While we understand that NSF’s interagency agreements are not subject to the Economy Act, the guiding principles with respect to fees charged under that Act should also govern fees charged by NSF.

NSF Ends Practice of Discounting ACR Rate

NSF’s 1993 cost recovery guidance stated that, “In cases where application of the . . . rate would result in NSF potentially recovering more than \$250,000 under a single agreement, special consideration will be given to adjusting the rate for recoveries above that amount.” Thus, it appears that NSF recognized that in some cases, where the agreement involved a high dollar value, its calculation of the ACR rate resulted in a fee that was larger than the costs to be recouped.

NSF officials told us that currently incoming interagency agreements are not exempted from the ACR fee. They did say that negotiations with another federal agency led to capping the ACR on one current agreement at \$250,000, which approximates an ACR rate of 3.5 percent. They indicated that the ACR rate for this one agreement is discounted because it involves transferring a large amount of funds and NSF’s level of effort is less than the amount of the full ACR rate. When we asked why this agreement was the only discounted one, we were told that routinely discounting the ACR rate was inconsistent with the ACR rate’s intended purpose of full cost recovery.

Conclusion

The ACR rate is intended to allow NSF to recoup its costs of executing an interagency agreement; it is not intended to result in a profit. NSF’s use of the same ACR rate calculation for all interagency agreements, regardless of the effort involved or the dollar amount of the agreement, suggests that NSF could be overcharging on some agreements and undercharging on others.

Based on our limited information gathering to respond to the congressional request, we identified two types of incoming interagency agreements that appeared to involve very different levels of effort by NSF. One type, transferring funds from one entity to an I/UCRC appeared to require significantly less effort than the other type, which involved NSF awarding grants on behalf of another agency.

² 31 U.S.C. § 1535(b).

³ Government Accountability Office, *Principles of Appropriations Law*, Vol. III, at 12-38 (Sept. 2008).

⁴ *Id.*, Vol. II, at 6-163 through 6-163 (Feb. 2006).

NSF stated that its ACR rate results from its bona fide attempt to determine the actual cost of the services it typically provides to requesting agencies, and that its analysis of expenses indicates that it does, in fact, reasonably approximate these costs. NSF stated that differences in the levels of effort are accounted for by utilizing the percentage formula, which results in a typical fee of \$3,260 for an I/UCRC agreement versus a fee of \$12,000 for making a \$200,000 grant.

We agree that the fees NSF charges vary, but we are concerned that the sole driver of that variance is the dollar value of the underlying interagency agreement. NSF's practice of applying the same ACR rate regardless of the effort involved or the dollar value of the agreement could result in agencies overpaying for some agreements and underpaying for others. While we are not suggesting that NSF must calculate a different ACR rate for each agreement, it is reasonable to expect that the fee charged bears some relationship to the effort required, particularly in light of the tight budget climate. At a minimum it would seem that the same rate should not be used for I/UCRC interagency agreements and interagency agreements in which NSF awards and monitors a grant or cooperative agreement.

We recommend that NSF assess its administrative cost recovery process to ensure that the fees charged reflect the level of effort involved. In making this assessment, NSF should analyze the level of effort associated with the various categories of interagency agreements it processes, and provide evidence to demonstrate that the ACRs used for the various types of interagency agreements appropriately recover its actual costs. This review may result in NSF using a smaller ACR rate for some agreements and a larger one for other, more labor intensive ones. In light of the variance we found between the work required for I/UCRC and the work required to award new grants, it would seem that NSF would have at least two separate rates.

NSF responded that, as the agency works to implement its new financial accounting system, it has considered, and will continue to consider, any additional capabilities that the new system will provide that may allow it to reassess the ACR rate methodology.

If you have any questions about this alert memo, please contact Marie Maguire, Director, Performance Audit, at (703) 292-5009.

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