



**National Science Foundation**

4201 Wilson Boulevard  
Arlington, Virginia 22230

Office of Inspector General

**MEMORANDUM**

**DATE:** November 20, 2014

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

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

**SUBJECT:** NSF OIG Audit Report No. OIG-15-1-001, *Independent Audit Report on National Ecological Observatory Network, Inc.'s Accounting System*

We contracted with the Defense Contract Audit Agency (DCAA) to perform an audit of National Ecological Observatory Network, Inc.'s (NEON) accounting system. The purpose of this audit was to determine if NEON's accounting system is in compliance with grant terms. DCAA issued two reports: an audit report with a recommendation regarding NEON's practices, which is attached to this memo; and a letter with observations and recommendations concerning NSF's grant policies and guidance to awardees, which will be issued via a separate transmittal.<sup>1</sup>

**Background**

In 2012, DCAA audited NEON's construction proposal budget.<sup>2</sup> DCAA rendered an adverse opinion on NEON's proposal since the audit disclosed significant questioned and unsupported costs of \$154.4 million (nearly 36% of the proposed \$433.7 million budget). We contracted for an accounting system audit because of the significance of the findings in that report.

**Summary and Basis for Adverse Opinion**

DCAA found three instances of material noncompliance, rendered an adverse opinion, and stated, "because of the significant effect of the noncompliance, NEON's accounting system does not comply with grant terms." The three instances of noncompliance are described in the Statement of Conditions and Recommendations as follows:

1. NEON's practice of recording time charges is noncompliant with its written policy.
2. NEON's indirect cost structure did not comply with 2 CFR Part 230.
3. NEON's indirect cost principles did not comply with 2 CFR Part 230.

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<sup>1</sup> NSF-OIG Report No. 15-6-001, *Observations that Warrant NSF's Attention Found During Audit on National Ecological Observatory Network, Inc.*

<sup>2</sup> NSF-OIG Report No. 12-1-008, *Audit of NEON, Inc.'s Proposed NEON Construction Budget*, dated September 28, 2012

Regarding material noncompliance no. 1, DCAA found that NEON's timekeeping practices (charging time on a weekly basis) are noncompliant with its written policies and procedures (requiring charging time on a daily basis). DCAA stated, "This condition could lead to misallocations between contracts and increased costs to the Government (if the employee records total hours incorrectly or records commercial hours on a Government contract)." NEON stated that it would update its policies and procedures in FY 2015 to require time reporting on a weekly basis, but did not provide DCAA a copy of its revised policies and procedures for review or confirmation as of the date of DCAA's report.

The other two material noncompliances (nos. 2 and 3 above) were corrected during the course of DCAA's fieldwork. As for no. 2, beginning October 1, 2013 (and continuing into FY 2014), NEON changed its indirect cost allocation method from the noncompliant simplified allocation method to the proper multiple allocation method. As for no. 3, during FY 2013, NEON revised its accounting practice to include unallowable costs in its G&A base to comply with 2 CFR 230.

### Scope Limitation

DCAA also reported a scope limitation stating that "...we are unable to determine how much of the \$74.2 million in contingency funds may have been used for unapproved scope changes." Specifically, DCAA was unable to determine how much of the contingency funds that NEON had used from August 2011 to March 2013 (approximately \$4.5 million according to NEON's Contingency Log) may have been used for unapproved scope changes.

The \$74.2 million was the approved contingency budget as of the award effective date (August 1, 2011), of which \$12.4 million had been spent through June 2014, according to the table DCAA received from NEON below.

Award No.	Awardee	Award Title	Approved Contingency Budget as of the Award Effective Date	Amount Returned to Contingency through Jun 2014	Contingency Spend FY14 (Oct 2013 - Jun 2014)	Contingency Spend Award-to-Date
1029808	National Ecological Observatory Network, Inc.	CSA for MREFC of the NEON	\$74,174,000	\$1,253,566	\$1,964,702	\$12,430,815

NEON maintains a Contingency Log in which it captures approved budget for contingency expenditures to be made from "contingency funds." The contingency fund estimate represents the portion of the project construction budget to account for unknowns relative to requirements and the uncertainty that are within the scope of the project. DCAA verified that NEON received NSF approval for contingency requests greater than the NSF-specified threshold of \$150,000. However, the majority of the changes were below the threshold, so NSF approval was not obtained for those changes. Also, during the audit, DCAA identified possible use of contingencies for unapproved scope changes.

The report notes that DCAA requested a technical evaluation from NSF-OIG to determine whether NEON's expenditures (of contingency funds) were changes in the scope or the objective of the project or program. We were unable to provide the technical evaluation because an independent technical assessment of the NEON project is outside of our mission and expertise,

and we were requested to make this determination without involving NSF. DCAA further stated that, had it completed its planned procedures (i.e., received a technical evaluation), it may have identified additional noncompliances.

We believe that DCAA's request warrants an answer by NEON program officials with the expertise, because of the need to determine if NEON obtained prior written approval from NSF if changes in scope or objective occurred, in accordance with 2 CFR 215.25(h).

## **Recommendations**

We recommend that the NSF Director of the Division of Acquisition and Cooperative Support take appropriate action to ensure that the uncorrected material noncompliance and the scope limitation cited in DCAA's report are fully addressed and corrected before funding any additional amounts for the NEON project. Such action would include requiring that NEON:

1. immediately notify all of its employees that they are required to enter their time in accordance with NEON's Policies and Procedures Manual;
2. review all of its expenditures of contingency funds (with particular attention to those under the \$150,000 NSF approval threshold) to determine if any represent changes in the scope or the objective of the project or program, and submit a certifying statement with the results of this review to NSF; and
3. establish written policies and procedures to request prior written approval from NSF for any changes in the scope or objective of the project or program to ensure compliance with 2 CFR 215.25(h).

In accordance with OMB Circular A-50, please coordinate with our office during the six-month resolution period to develop a mutually agreeable resolution of the audit findings. Also, the findings should not be closed until NSF determines that the recommendations have been adequately addressed and the proposed corrective actions have been satisfactorily implemented.

We are providing a copy of this memorandum to the NEON Program Director and the Director of Large Facilities Projects. The responsibility for audit resolution rests with DACS. Accordingly, we ask that no action be taken concerning the report's findings without first consulting DACS at (703) 292-8242.

## OIG Monitoring of Audit

To fulfill our monitoring responsibilities, the Office of Inspector General:

- Reviewed the 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 DCAA and NSF officials as necessary to discuss audit progress, findings and recommendations;
- Reviewed the report prepared by DCAA; and
- Coordinated issuance of the report.

DCAA's draft on NEON's accounting system cited eight significant deficiencies and differed significantly from this final report, which found that NEON's timekeeping practices did not comply with its policies and procedures, but did not include all of the previously cited deficiencies. As an independent audit agency, DCAA provides its conclusions in accordance with auditing standards, and the OIG does not control those conclusions. However, in response to our request, for information underlying its conclusions, DCAA has addressed some of the previously cited deficiencies, including those relating to management fee and contingency costs in a letter, which we, as previously stated, will transmit separately.

DCAA is responsible for the attached report on NEON and the conclusions expressed in that report.

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

### Attachments:

DCAA Audit Report No. 3121-2014J11090001, *Independent Audit Report on National Ecological Observatory Network, Inc.'s Accounting System*, dated October 3, 2014

cc: Martha Rubenstein, BFA  
Mary Santonastasso, DIAS  
Elizabeth Blood, BIO  
Matthew Hawkins, LFO  
Fae Korsmo, OD  
Michael Van Woert, NSB  
Ruth David, NSB