

UNIVERSITY OF CALIFORNIA, BERKELEY

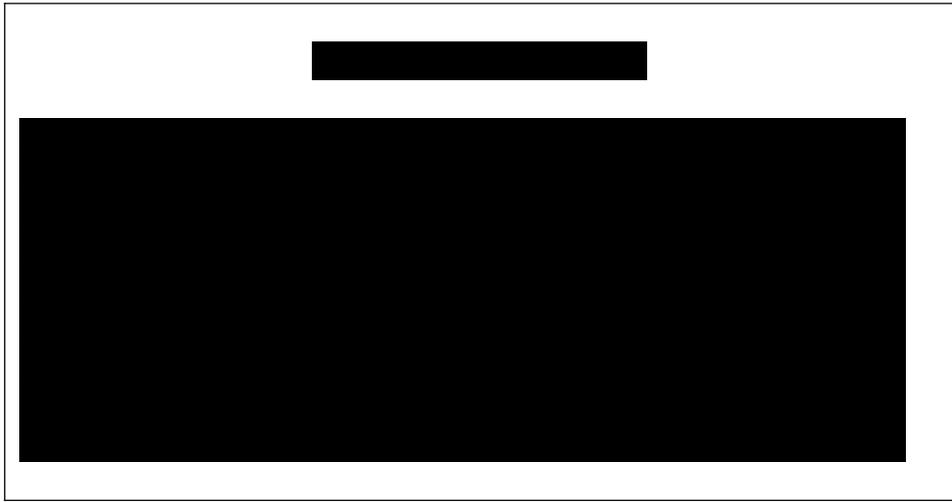
c/o Sponsored Projects Office
336 Sproul Hall
Berkeley, California 94720-5940

National Science Foundation Award Number
EEC-9701568

Financial Audit
of
Financial Schedules
and
Independent Auditors' Reports

For the Period October 1, 1997 to September 30, 2003

M.D. Oppenheim & Company, P.C.
Certified Public Accountants
485 U.S. Highway 1, Building C
Iselin, New Jersey 08830-4100



UNIVERSITY OF CALIFORNIA, BERKELEY

TABLE OF CONTENTS

	<u>Page</u>
ACRONYMS	1
BACKGROUND	3
AUDIT OBJECTIVES, SCOPE AND METHODOLOGY	3
SUMMARY OF AUDIT RESULTS	4
EXIT CONFERENCE	8
INDEPENDENT AUDITORS' REPORT ON FINANCIAL SCHEDULES	10
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS AND INTERNAL CONTROL OVER FINANCIAL REPORTING	12
FINDINGS AND RECOMMENDATIONS ON COMPLIANCE	14
SCHEDULE A – SCHEDULE OF AWARD COSTS	21
SCHEDULE B – SCHEDULE OF QUESTIONED COSTS	22
SCHEDULE C – SCHEDULE OF COST SHARING	24
SCHEDULE C-1 – SCHEDULE OF UNACCEPTABLE COST SHARING	25
SCHEDULE D – SUMMARY SCHEDULE OF AWARD AUDITED AND AUDIT RESULTS	27
NOTES TO FINANCIAL SCHEDULES	28
APPENDIX A – AWARDEE'S COMMENTS TO REPORT	30

UNIVERSITY OF CALIFORNIA, BERKELEY

Acronyms

<u>Acronym</u>	<u>Explanation of Acronym</u>
DACS	Division of Acquisition and Cost Support
DGA	Division of Grants and Agreements
FCTR	Federal Cash Transactions Report
GPM	Grant Policy Manual
MTDC	Modified Total Direct Costs
NSF	U.S. National Science Foundation
OIG	Office of Inspector General
OMB	Office of Management and Budget
PEER	Pacific Earthquake Engineering Research
UCAL	University of California

EXECUTIVE SUMMARY

BACKGROUND

We audited the funds awarded by the National Science Foundation (NSF) to the University of California (UCAL), Berkeley's College of Engineering component unit Pacific Earthquake Engineering Research (PEER) Center, under Cooperative Agreement Number EEC-9701568 for the period October 1, 1997 to September 30, 2003.

The University of California is a public, state-supported educational institution. UCAL, Berkeley, a component unit of the University of California, was awarded a cooperative agreement from NSF for the PEER Center to reduce the risk of urban earthquakes through the development and dissemination of a performance basis for earthquake engineering. The mission of the PEER Center is to develop, validate and disseminate technology for the design and construction of buildings and infrastructures to meet the diverse seismic performance needs of owners and society.

NSF awarded Cooperative Agreement No. EEC-9701568 to UCAL, Berkeley-PEER Center for the period October 1, 1997 to September 30, 2007. The ten-year agreement provides funding in the amount of \$16,510,667 with a required cost-sharing match of \$16,000,000. As of September 30, 2003, the end of our audit coverage period, the award was budgeted and funded for \$12,394,364 with a cost sharing requirement of \$12,000,000. As of September 30, 2003, UCAL, Berkeley reported \$10,437,233 in claimed costs and \$12,438,419 in cost sharing.

In order to carry out the requirements of the NSF award agreement, the PEER Center has entered into subcontract agreements with eight Core Institutions (Universities) which are: California Institute of Technology, Stanford University, University of California - Davis, University of California - Irvine, University of California - Los Angeles, University of California - San Diego, University of Southern California and the University of Washington. These participating Universities along with UCAL, Berkeley provide the research, education and outreach to accomplish the goals of this NSF award.

UCAL, Berkeley, as a Federal awardee, is required to follow the cost principles specified in Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions* and Federal administrative requirements contained in OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of our audit were to:

1. Determine whether UCAL, Berkeley's Schedule of Award Costs presents fairly, in all material respects, the costs claimed on the Federal Cash Transactions Reports (FCTR) – Federal Share of Net Disbursements and that the costs claimed including cost sharing are in conformity with Federal and National Science Foundation award requirements.
2. Identify matters concerning instances of noncompliance with laws, regulations, and the provisions of the award agreement pertaining to the NSF award and weaknesses in

the awardee’s internal control over financial reporting that could have a direct and material effect on the Schedule of Award Costs and UCAL, Berkeley’s ability to properly administer, account for, and monitor its NSF awards.

3. Determine whether the costs incurred under subcontracts awarded by UCAL, Berkeley to Stanford University and the University of Washington were documented and allowable under the terms and conditions of the subcontract agreement, NSF and Federal regulations, based upon performing on-site audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* (June 2003 Revision) issued by the Comptroller General of the United States, and the *National Science Foundation Audit Guide* (September 1996), as applicable. Those standards and the *National Science Foundation Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed to the National Science Foundation as presented in the *Schedule of Award Costs* (Schedule A), are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the *Schedule of Award Costs* (Schedule A). An audit also includes assessing the accounting principles used and significant estimates made by the UCAL, Berkeley, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

We used statistical and random sampling to test the costs claimed by the UCAL, Berkeley to test for compliance with Federal award requirements. Based on this sampling plan, questioned costs in this report may not represent total costs that may have been questioned had all expenditures been tested. In addition, we made no attempt to project such costs to total costs claimed, based on the relationship of costs tested to total costs.

SUMMARY OF AUDIT RESULTS

An audit was performed on the costs claimed in financial reports submitted to the National Science Foundation (NSF) as well as cost sharing provided by UCAL, Berkeley on the NSF award audited. These costs are shown in the *Schedule of Award Costs* (Schedule A) and are summarized as follows:

<u>Award Number</u>	<u>Award Budget</u>	<u>Claimed Costs</u>	<u>Questioned Costs</u>	<u>Unacceptable Cost Sharing</u>
EEC-9701568	<u>\$ 12,394,364</u>	<u>\$ 10,437,233</u>	<u>\$ 15,819</u>	
Cost Sharing	<u>\$ 12,000,000</u>	<u>\$ 12,438,419</u>		<u>\$ 516,115</u>

We determined that the costs claimed by UCAL, Berkeley are, in all material respects, fairly stated and represent allowable, allocable, and reasonable costs, in accordance with the NSF award agreement and federal requirements. We questioned \$15,819 in claimed costs for

unallowable and undocumented travel and the related indirect costs and \$516,115 in over-reported and undocumented cost sharing. Additionally, no items came to our attention regarding the allowability of costs claimed by Stanford University or University of Washington as subcontractors on this award. However, we noted several compliance and internal control weaknesses, one of which could have a significant impact on UCAL, Berkeley's ability to record, process, summarize and report financial data, and effectively and efficiently administer the funds in a manner that is consistent with NSF and other federal laws and regulations. If UCAL, Berkeley fails to address these compliance and internal control weaknesses, similar problems may occur on other existing and future NSF awards.

The following is a brief description of the internal control and compliance findings that resulted from our audit. For a complete discussion of these findings, refer to the Independent Auditors' Report on Compliance With Laws and Regulations and Internal Control Over Financial Reporting.

- The most serious internal control deficiency relates to a lack of adequate fiscal monitoring of subcontract costs. Specifically, during the period of October 1, 1997 to September 30, 2003, UCAL, Berkeley PEER Center personnel did not reconcile its subcontractor costs that they had recorded in progress logs with those recorded in the UCAL, Berkeley accounting system and reported to NSF. During our audit, we noted a difference of \$1,740,316 at September 30, 2003 between subcontractor costs reflected in the PEER Center progress logs and the UCAL, Berkeley accounting system. The bulk of the discrepancy between the two data sources involved timing differences and incorrect classification of salaries and wages, fringe benefits, materials and supplies, and equipment costs as subcontract costs on the PEER Center progress logs. All of these costs were in support of UCAL, Berkeley professors working on the NSF award and were deemed allowable. However, neither PEER Center nor UCAL, Berkeley accounting personnel were aware of the difference, because there was no procedure in place to routinely reconcile costs reported by the two sources.

Subcontract costs represents 86 percent of the total direct costs claimed on the NSF award. By federal requirements, the PEER Center personnel are responsible for monitoring the costs of 217 PEER Center subawards to ensure the allowability of the costs incurred and ensure that the programmatic objectives are accomplished. If monthly reconciliations are not performed, errors in subcontract payments and cost information submitted to NSF program and accounting offices could go undetected, raising questions as to the reliability and integrity of the amounts UCAL, Berkeley claims to NSF.

- An internal control weakness was also identified in the cost sharing system that the PEER Center staff used to report cost sharing to NSF. The PEER Center records cost share that has been committed by various institutions, organizations and departmental units. The UCAL, Berkeley accounting system records the actual expenditure of cost sharing contributed by these other sources. The PEER Center does not use the

UCAL, Berkeley accounting system records to ensure that it accurately records, documents, and reports actual cost sharing to NSF. As a result, cost sharing reported to NSF by the PEER Center of \$12,438,419 incorrectly exceeded, by \$277,488, the actual amount of cost sharing expended and reflected in the UCAL, Berkeley accounting system. Also, the PEER Center was unable to support \$238,627 of salary costs claimed as cost share because the PEER Center staff could not document that the employees worked on the NSF award. The cumulative effect is that UCAL, Berkeley overstated cost sharing claimed to NSF by \$516,115 as of September 30, 2003.

- Finally, a non-material compliance deficiency was identified. Travel costs and the related indirect costs amounting to \$15,819 are questioned due to a lack of supporting documentation evidencing that the costs benefited the NSF award and also because the PEER Center utilized non-U.S. flag air carriers.

To address these internal control and compliance findings, we recommend that the NSF Directors of the Division of Institution and Award Support (DIAS) and the Division of Grants and Agreements (DGA) direct UCAL, Berkeley PEER Center personnel to establish an adequate system and policies and procedures to effectively monitor its subcontractor costs and accurately report those costs to NSF. Specifically, the UCAL, Berkeley PEER Center should perform a monthly reconciliation between the subcontractor costs reflected in the PEER Center progress logs and those recorded in the accounting records of UCAL, Berkeley. Furthermore, NSF's Division Directors of DIAS and DGA should ensure that the PEER Center staff use the UCAL, Berkeley accounting system to record, document, and report actual cost sharing expenses to NSF. Finally, NSF's Division Directors of DIAS and DGA should ensure that the PEER Center staff institute procedures to ensure that adequate documentation is maintained to support travel costs claimed on NSF awards and that U.S. flag air carriers are used in accordance with the NSF Grant Policy Manual (GPM). We believe that if UCAL, Berkeley fails to address these weaknesses, similar problems may occur on the remaining portion of this award and other existing and future awards.

In March 2005, UCAL, Berkeley officials provided their response to the audit findings and recommendations made in this report and also provided additional documentation for \$5,645 of travel costs and \$3,789 of other direct charges, which reduced the original amount of \$26,685 questioned in the draft report to \$15,819 including applicable adjustments for the indirect costs. With respect to the internal control deficiency issue regarding fiscal monitoring of subcontract costs, UCAL, Berkeley officials agree with the finding and recommendation and stated that they have implemented the necessary reconciliation process and corrective actions.

With respect to the internal control weakness regarding the cost sharing system used by the PEER Center staff to report cost sharing to NSF, UCAL, Berkeley agrees with the need for PEER to utilize the UCAL, Berkeley accounting system to track and report actual cost sharing costs. However, UCAL, Berkeley disagrees that they could not support \$238,627 of salary costs claimed as cost share. They believe they provided adequate time reports which satisfy after-the-fact time reporting and certification of effort. With respect to the non-

material compliance deficiency regarding travel costs, UCAL, Berkeley officials concur with questioning \$2,000 for use of non-U.S. flag air carriers and stated they subsequently revised the unallowed charges in the general ledger.

We believe that UCAL, Berkeley's comments are generally responsive to our recommendations. However, we disagree with UCAL, Berkeley's comments regarding the support for the \$238,627 of salary costs claimed as cost share. The actual percentage of time spent on the project was not documented.

The findings and recommendations in the report cannot be resolved until NSF verifies that the recommendations have been adequately addressed and the proposed corrective actions have been satisfactorily implemented. UCAL, Berkeley's response has been summarized within the report and is included in its entirety in Appendix A.

EXIT CONFERENCE

An exit conference was held on October 8, 2004 at the University of California, Berkeley Finance Office located at 417 University Hall, Berkeley, California. Findings and recommendations as well as other observations contained in this report were discussed with those attending.

Representing the University of California, Berkeley:

[REDACTED]

Representing M.D. Oppenheim & Company, P.C.:

[REDACTED]

FINDINGS AND RECOMMENDATIONS

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

INDEPENDENT AUDITORS' REPORT ON FINANCIAL SCHEDULES

We have audited the costs claimed by the University of California, Berkeley to the National Science Foundation (NSF) on the Federal Cash Transactions Reports (FCTR) – Federal Share of Net Disbursements for the NSF award listed below. In addition, we also audited the amount of cost sharing on the award. The Federal Cash Transactions Reports, as presented in the *Schedule of Award Costs* (Schedule A) are the responsibility of the University of California, Berkeley's management. Our responsibility is to express an opinion on the Schedule of Award Costs (Schedule A) based on our audit.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
EEC-9701568	10/01/97-09/30/07	10/01/97-09/30/03

We conducted our audit in accordance with auditing standards generally accepted in the United States, *Government Auditing Standards* (June 2003 Revision) issued by the Comptroller General of the United States, and the *National Science Foundation Audit Guide* (September 1996), as applicable. Those standards and the *National Science Foundation Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed to the National Science Foundation as presented in the *Schedule of Award Costs* (Schedule A), are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the *Schedule of Award Costs* (Schedule A). An audit also includes assessing the accounting principles used and significant estimates made by the University of California, Berkeley's management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying financial schedules were prepared to comply with the requirements of the *National Science Foundation Audit Guide* as described in the Notes to the Schedules, and are not intended to be a complete presentation of financial position in conformity with accounting principles generally accepted in the United States of America.

National Science Foundation
Office of Inspector General
Arlington, Virginia 22230

The *Schedule of Questioned Costs* (Schedule B) explains the claimed costs in the amount of \$15,819 that are questioned as to their allowability under the award agreement. Questioned costs are (1) costs for which there is documentation that the recorded costs were expended in violation of the laws, regulations or specific conditions of the award, (2) costs that require additional support by the awardee, or (3) costs that require interpretation of allowability by the National Science Foundation, Division of Institution and Award Support (DIAS). The final determination as to whether such costs are allowable will be made by the National Science Foundation. The ultimate outcome of this determination cannot presently be determined. Accordingly, no adjustment has been made to costs claimed for any potential disallowance by NSF.

In our opinion, the *Schedule of Award Costs* (Schedule A) referred to above presents fairly, in all material respects, the costs claimed on the Federal Cash Transactions Reports – Federal Share of Net Disbursements and cost sharing claimed for the period October 1, 1997 to September 30, 2003 in conformity with the *National Science Foundation Audit Guide, NSF Grant Policy Manual*, and the terms and conditions of the award and on the basis of accounting described in the Notes to the Financial Schedules. This schedule is not intended to be a complete presentation of financial position in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* and the provisions of the *National Science Foundation Audit Guide*, we have also issued a report dated October 8, 2004 on our tests of the University of California, Berkeley's compliance with certain provisions of laws, regulations, the NSF award terms and conditions, and our consideration of the University of California, Berkeley's internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the University of California, Berkeley's management, the National Science Foundation, the cognizant federal audit agency, the Office of Management and Budget, and the Congress of the United States and is not intended to be and should not be used by anyone other than these specified parties.

M.D. Oppenheim & Company, P.C.

October 8, 2004

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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

We have audited the costs claimed as presented in the *Schedule of Award Costs* (Schedule A), which summarizes the financial reports submitted by the University of California, Berkeley to the National Science Foundation (NSF) and claimed cost sharing, for the award listed below and have issued our report thereon dated October 8, 2004.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
EEC-9701568	10/01/97-09/30/07	10/01/97-09/30/03

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* (June 2003 Revision) issued by the Comptroller General of the United States, and the *National Science Foundation Audit Guide* (September 1996), as applicable. These standards and the *National Science Foundation Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement.

COMPLIANCE WITH LAWS AND REGULATIONS

Compliance with applicable Federal laws, regulations, and the NSF award terms and conditions is the responsibility of the University of California, Berkeley's management. As part of obtaining reasonable assurance about whether the financial schedule is free of material misstatement, we performed tests of the University of California, Berkeley's compliance with certain provisions of laws, regulations, and the NSF award terms and conditions, noncompliance with which could have a direct and material effect on the determination of the financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and the *National Science Foundation Audit Guide*. See Finding Nos. 1-3 presented in the Findings and Recommendation section of this report.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the University of California, Berkeley's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedule and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University of California, Berkeley's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial schedule. The reportable conditions noted are described in Finding Nos. 1 and 2 presented in the Findings and Recommendations section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions noted above are also material weaknesses.

This report is intended solely for the information and use of the University of California, Berkeley's management, the National Science Foundation, the cognizant Federal Audit Agency, the Office of Management and Budget, and the Congress of the United States and is not intended to be and should not be used by anyone other than these specified parties.

M.D. Oppenheim & Company, P.C.

October 8, 2004

UNIVERSITY OF CALIFORNIA, BERKELEY
Findings and Recommendations
NSF Award Number EEC-9701568
From October 1, 1997 to September 30, 2003

Material Weakness

Finding No. 1 – Lack of Adequate Fiscal Monitoring of Subcontract Costs

UCAL, Berkeley lacks an adequate system and policies and procedures to monitor and report its subcontract costs. OMB Circular A-110, Subpart C, Section .51 (a), requires recipients to manage and monitor each project, program and sub award. In addition, Subpart C, Section .21 (b) (1) requires accurate, current and complete disclosure of the financial results of each federally-sponsored project or program.

UCAL, Berkeley PEER Center has 217 subawards, which represent 86 percent of the total claimed costs on the NSF award. The UCAL, Berkeley accounting system cost data is utilized in the preparation of Federal Cash Transactions Reports (FCTR) filed to report costs to NSF, however, it only accounts for subcontractors' cost in total by fund and by fiscal year. The program coordinator at the PEER Center receives and approves for payment the subcontractors' monthly invoices, and records the invoice in an electronic spreadsheet called a "progress log." The progress logs are prepared for each subcontractors' award and contain the name of the subcontractor, the award amount and records of each payment. The PEER Center staff monitors the cost of each subaward through the use of its progress logs, which are the only detail available for tracking costs by each subcontractor award.

For the audit period of October 1, 1997 to September 30, 2003, UCAL, Berkeley PEER Center personnel did not reconcile the subcontractor costs recorded in its progress logs with those costs recorded in the UCAL, Berkeley accounting system. During our audit, we noted a difference of \$1,740,316 at September 30, 2003 between subcontractor costs reflected in the progress logs summary report and the UCAL, Berkeley accounting system. Neither PEER Center nor UCAL, Berkeley accounting personnel were aware of the difference, because there was no procedure in place to routinely reconcile costs reported by the two sources.

Subsequent to this discovery, UCAL, Berkeley performed a reconciliation of costs reported by the two sources for the period October 1, 1997 to September 30, 2003, and provided explanations for why the progress logs differed from accounting records. While UCAL, Berkeley accounting data and the costs claimed on the FCTR, appear correct, the differing amounts reported in the progress logs diminishes the effectiveness of PEER Center cost monitoring. The progress logs incorrectly reflected a net \$1,191,717 of subcontract costs that were either erroneously omitted from the progress logs or were recorded and incurred after September 30, 2003. The predominant portion of this reconciling amount was the costs pertaining to subcontractors' operations subsequent to September 30, 2003. Additionally, the progress logs also incorrectly recorded \$548,599 as subcontract costs that were salaries and wages, fringe benefits, materials and supplies, equipment, etc. related to the NSF award and

PEER Center activities for professors employed at UCAL, Berkeley because the yearly budgets submitted to NSF erroneously included these as subcontract costs. PEER Center personnel should record subcontractor costs in the correct accounting period and budget project costs assigned to UCAL, Berkeley professors in the appropriate NSF budget category (i.e. salaries and wages, fringe benefits, materials and supplies, equipment, etc.) rather than in the category of subcontract costs.

Absent a reconciliation, PEER Center personnel, who were in-charge of monitoring fiscal operations related to each sub award, could not have known if progress logs were accurate or if all payments were made and recorded in the UCAL, Berkeley accounting system. Without this check, errors in subcontract payments and cost information submitted to NSF program and accounting offices could go undetected raising questions as to the reliability and integrity of the costs reported to NSF.

Recommendation No. 1

We recommend that NSF Division Directors for the Division of Institution and Award Support (DIAS) and the Division of Grants and Agreements (DGA) require that UCAL, Berkeley PEER Center personnel establish a system, policies and procedures to monitor its subcontractor costs and accurately report those costs to NSF. Specifically, UCAL, Berkeley PEER Center personnel should:

- a. perform a monthly reconciliation between subcontractors costs reflected in the PEER Center Progress Logs and subcontractors costs recorded in the UCAL, Berkeley accounting system.
- b. ensure that costs are recorded in the Progress Logs accurately and in the proper reporting time periods.
- c. budget project costs assigned to UCAL, Berkeley professors in the appropriate NSF budget category (i.e. salaries and wages, fringe benefits, materials and supplies, equipment, etc.) rather than in the category of subcontracts.

Awardee's Response

UCAL, Berkeley officials in their March, 2005 response letter, state that they have reviewed the findings and have implemented procedures to properly record subcontractor costs in the Progress Logs and reconcile those costs to the UCAL, Berkeley accounting system as discussed in the recommendation. UCAL, Berkeley agreed to report budgeted project costs in the proper cost categories once the specific cost information is known.

Auditor's Comment

Overall, UCAL, Berkeley's comments appear responsive to the recommendation. However, the finding cannot be resolved until all recommendations have been adequately addressed and NSF verifies that the proposed corrective actions have been satisfactorily implemented.

Material Weakness

Finding No. 2 – Cost Sharing Reporting Deficiencies

The PEER Center does not use the UCAL, Berkeley accounting system to ensure that it effectively and accurately records, documents, and reports to NSF actual cost sharing expenses, thereby raising questions as to the reliability and integrity of the \$12,438,419 that the PEER Center claimed as cost sharing. OMB Circular A-21, Section C.6.b states that all costs should be supported by a cost allocation plan, in accordance with applicable Federal cost accounting principles. OMB Circular A-110, Subpart C, Section .23 prescribes the criteria and procedures for the allowability of cash contributions in satisfying cost sharing and matching requirements. In addition, the NSF Grant Policy Manual, Section 333.6 requires cost sharing records be maintained for all project costs which are claimed as cost sharing. Cost sharing for salary and wages require after-the-fact-certifications. Such records are subject to audit. In addition, in cases where cost sharing commitments are \$500,000 or more, the Authorized Organizational Representative is required to report and certify the actual cost sharing on an annual and cumulative basis. These cost sharing reports shall be included as part of the annual progress and final project reports.

The PEER Center staff prepares and certifies the cost sharing reports submitted to NSF based on records maintained at the PEER Center. The PEER Center records from the time of the award through September 30, 2003 show cost share totaling \$12,438,419. The NSF award required \$12,000,000 in cost sharing.

The PEER Center records cost share that has been committed by various institutions, organizations and departmental units. The UCAL, Berkeley accounting system records the actual cost sharing expenditures incurred on behalf of the NSF award. The PEER Center does not use the UCAL, Berkeley accounting system to ensure that it accurately records, documents, and reports actual cost sharing to NSF. As a result, cost sharing reported to NSF by the PEER Center of \$12,438,419 incorrectly exceeded, by \$277,488, the actual amount of cost sharing expended and reflected in the UCAL, Berkeley accounting system. Our tests, in all material respects, substantiated the cost sharing amount of \$12,160,931 recorded in the UCAL, Berkeley accounting system, with the exception of \$238,627 of salary costs claimed as cost share for five employees. PEER Center personnel could not locate after-the fact certification documents for these employees to evidence that they had worked on the NSF award. Except for the five employees, all other time charges tested were adequately certified. The cumulative effect is that UCAL, Berkeley overstated cost sharing claimed to NSF by \$516,115 as of September 30, 2003.

Recommendation No. 2

NSF's Division Directors of DIAS and DGA should ensure that the PEER Center staff use the UCAL, Berkeley accounting system to record, document, and report actual cost sharing expenses to NSF. The PEER Center staff should institute procedures to utilize the UCAL, Berkeley accounting system information to (a) track and report actual cost sharing funds received and expended in its reports to NSF and (b) maintain all written after-the-fact certifications to support salary and wage costs reported as cost share, as required by *OMB Circulars* and the *NSF Grant Policy Manual*.

Awardee's Response

UCAL, Berkeley officials, in their March, 2005 response letter, stated that they have reviewed the findings and concur with the identification of the \$277,488 difference in committed and actual cost share received. UCAL, Berkeley officials believe this was the result of a timing difference between the actual dates the transactions were recorded in the UCAL, Berkeley general ledger and the dates the transactions were included in the original cost sharing report. According to the officials, the accounting periods for the cost sharing transactions have been revised and the cost sharing report to NSF has been corrected.

However, the UCAL, Berkeley officials disagree with the unsupported cost share for salaries and wages. UCAL, Berkeley officials believe that they have provided the necessary after-the-fact certified time reports depicting the actual time worked on the PEER project to the auditors and that they maintain a cost allocation plan to ensure that costs are applied appropriately.

Auditor's Comment

The time reports cited by UCAL, Berkeley officials as adequate cost share support for five employees in their audit response do not document actual time worked on the NSF award. Instead, the time reports provided state the budgeted level of effort proposed for the employees to work on the NSF award. The costs claimed for the five staff employees as cost share should be based on after-the fact time certification documents that reflect actual time worked. Because after-the fact time certification documents were not provided by UCAL, Berkeley officials, the \$238,627 of costs associated with the five staff employees remains questioned.

The awardee's comments concerning the timing differences of \$277,488 of cost share recorded in UCAL, Berkeley's accounting system and the PEER Center records appear responsive. However, the finding cannot be resolved until NSF verifies that all recommendations have been adequately addressed and the proposed corrective actions have been satisfactorily implemented.

Non-Material Compliance Deficiency

Finding No. 3- Inadequate Travel Documentation and Utilization of Non-U.S. Flag Carriers

The PEER Center staff was not able to adequately support certain travel costs reported to NSF and some of the travel costs incurred were for the use of a non-US Flag air carrier. Therefore, we are questioning \$21,464 of travel costs and applicable indirect costs related to this finding. OMB Circular A-110, Subpart C, Section .21 prescribes the criteria and procedures for the standards for financial management, which requires that accounting records including cost accounting records be supported by source documentation. In addition, the NSF Grant Policy Manual (GPM), Section 761.2 requires the use of United States flag carriers for international travel under the following circumstances:

- A U.S.-flag air carrier shall be used to a destination point or, in the absence of direct or through service, to the farthest interchange point on a usually traveled route;
- If a U.S.-flag air carrier does not serve an origin or interchange point, a foreign-flag air carrier shall be used only to the nearest interchange point on a usually traveled route to connect with a U.S.-flag air carrier; or
- If a U.S.-flag air carrier involuntarily reroutes the traveler via a foreign-flag carrier, the foreign-flag air carrier may be used notwithstanding the availability of alternative U.S.-flag air carrier service.

In addition, GPM Section 761.3 allows the use of a foreign-flag carrier when the following documented circumstances occur:

- The traveler's origin or destination airport, and use of U.S.-flag air carrier service would extend the time in travel status by at least 24 hours more than travel by a foreign-flag carrier; or
- An interchange point, and use of U.S.-flag air carrier service would require the traveler to wait six hours or more to make connections at that point, or would extend the time in travel status by at least six hours more than travel by a foreign-flag air carrier.

From a sample of 61 travel transactions, the PEER Center staff was originally unable to provide documentation to support 8 transactions representing \$13,612 of travel costs. The PEER Center staff relies on the UCAL, Berkeley accounting system to maintain the source documentation for all transactions. The UCAL, Berkeley accounting system staff could not locate the documentation for the 8 travel transactions. Complete source documentation records are not maintained at the PEER Center.

Additionally, we questioned \$2,000 for airline costs to an earthquake seminar in Yerevan, Armenia. Although the purpose of the trip was NSF program related, the PEER staff member utilized two foreign-flag air carriers for the trip. The trip originated and terminated in San Francisco, California. The outbound flight was to Frankfurt, Germany on Lufthansa Airlines, with the connecting flight to Armenia on Armenia Airlines. Since there are no U.S.-flag air carriers to Armenia, the trip to Armenia and from Armenia to the next interchange point (Istanbul) was allowable. However, the continued routing of the flight back to San Francisco through Istanbul and Athens on Lufthansa, with a several day stopover in Athens to visit family is not acceptable. The intervening stop in Athens and the use of the foreign-flag air carrier to facilitate the stopover for personal reasons added \$2,000 of unallowable costs to the trip, which had not been reimbursed by the employee at the time of the audit.

Recommendation No. 3

NSF's Division Directors of DIAS and DGA should ensure that the PEER Center staff institute procedures to ensure that adequate documentation is maintained to support travel costs claimed on NSF awards and that US flag air carriers are used in accordance with the NSF GPM.

Awardee's Response

UCAL, Berkeley officials in their March, 2005 response letter, provided documentation to support three of the eight missing travel items and the documentation to support all "other direct" charges. UCAL, Berkeley officials state that they could not locate the missing documentation for the five remaining questioned travel transactions that occurred prior to June 2000, due to the replacement of their Legacy Financial System in mid-2000. UCAL, Berkeley concurs with the non-U.S. flag carrier finding and has subsequently reversed the unallowed charges for \$2,000 from the general ledger.

Auditor's Comment

The documentation provided for the three travel items and "other direct" charges was adequate; therefore, we reduced the questioned travel costs (including applicable indirect costs) from \$21,464 to \$15,819, and reduced the \$3,789 in questioned "other direct" charges. (See revised Schedule B). However, the finding cannot be resolved until NSF verifies that all recommendations have been adequately addressed and the proposed corrective actions have been satisfactorily implemented.

**FINANCIAL SCHEDULES AND
SUPPLEMENTAL INFORMATION**

UNIVERSITY OF CALIFORNIA, BERKELEY
National Science Foundation Award No. EEC-9701568
Schedule of Award Costs
From October 1, 1997 to September 30, 2003
Interim

Cost Category	Approved Budget	(A) Claimed Costs	Reclassifications	Claimed Costs After Reclassification	Questioned Costs Amount	Schedule Reference
Direct costs:						
Salaries and wages	██████████	██████████	\$	██████████	\$	
Fringe benefits	██████████	██████████		██████████		
Permanent equipment	██████████	██████████		██████████		
Travel	██████████	██████████		██████████	11,513	B
Participant support	██████████	██████████		██████████		
Other direct costs:						
Materials and supplies	██████████	██████████		██████████		
Publication costs	██████████	██████████		██████████		
Consultant services	██████████	██████████		██████████		
Computer services	██████████	██████████		██████████		
Subcontracts	██████████	██████████		██████████		
Other	██████████	██████████		██████████		
Total direct costs	11,801,453	9,964,441	-0-	9,964,441	11,513	
Indirect costs (B)	<u>592,911</u>	<u>472,792</u>		<u>472,792</u>	<u>4,306</u>	B
Total	<u>\$ 12,394,364</u>	<u>\$ 10,437,233</u>	<u>\$ -0-</u>	<u>\$ 10,437,233</u>	<u>\$ 15,819</u>	
Cost sharing	<u>\$ 12,000,000</u>	<u>\$ 12,438,419</u>	<u>\$ -0-</u>	<u>\$ 12,438,419</u>		

(A) The total representing costs claimed agreed with the expenditures reported on the Federal Cash Transactions Report – Federal Share of Net Disbursements as of the quarter ended September 30, 2003. Claimed costs reported above are taken directly from the University of California, Berkeley’s books of accounts.

(B) Indirect costs are calculated on the modified total direct cost basis (MTDC), which is total direct costs less equipment, participant support costs and subcontract costs in excess of \$25,000 per subcontract. The Awardee utilized predetermined MTDC indirect cost rates as follows:

Period	Federally Approved Rate	Rate Utilized in this NSF Award
October 1, 1997 to June 30, 1998	49.9%	37.4%
July 1, 1998 to June 30, 2002	50.4%	37.4%
July 1, 2002 to June 30, 2003	51.5%	37.8%
July 1, 2003 to September 30, 2003	52.0%	37.8%

See accompanying notes to this financial schedule.

UNIVERSITY OF CALIFORNIA, BERKELEY
National Science Foundation Award No. EEC-9701568
Schedule of Questioned Costs
From October 1, 1997 to September 30, 2003

Travel:

We are questioning \$11,513 of travel costs as follows:

- \$2,000 relates to the utilization of a non-U.S. flag carrier. Specifically the item in question was for airline costs to an earthquake seminar in Yerevan, Armenia. Although the purpose of the trip was program related, the PEER staff member utilized two foreign-flag air carriers for the trip. The trip originated and terminated in San Francisco, California. The outbound flight was to Frankfurt, Germany on Lufthansa Airlines, with the connecting flight to Armenia on Armenia Airlines. Since there are no U.S-flag air carriers to Armenia, the trip to Armenia and from Armenia to the next interchange point (Istanbul) was allowable. However, the continued routing of the flight back to San Francisco through Istanbul and Athens on Lufthansa, with a several day stopover in Athens to visit family is not acceptable. The intervening stop in Athens added to the cost of the trip and the use of the foreign-flag air carrier to facilitate the stopover for personal reasons is not acceptable.
- \$9,513 of travel costs for five items which UCAL, Berkeley personnel could not provide supporting documentation to the travel cost in order to determine the propriety of the expenditure claimed to NSF.

Indirect Costs:

We are questioning \$4,306 of indirect costs related to the above \$11,513 of direct costs questioned, since UCAL, Berkeley claimed indirect costs to NSF based upon these direct costs.

The details to the above questioned costs are presented on page number 23.

UNIVERSITY OF CALIFORNIA, BERKELEY
National Science Foundation Award No. EEC-9701568
Schedule of Questioned Costs (Cont.)
From October 1, 1997 to September 30, 2003

Budget Category	Account Number	Fund	Sub	Obj.	Posting Date	Journal/Voucher Number	Payee Name	Questioned Amount	Notes
Travel								\$ 2,000	Foreign-flag carrier/supporting documentation
Travel								435	(1) Missing invoice/supporting documentation
Travel								1,036	Missing invoice/supporting documentation
Travel								2,487	Missing invoice/supporting documentation
Travel								2,299	Missing invoice/supporting documentation
Travel								1,963	Missing invoice/supporting documentation
Travel								1,728	Missing invoice/supporting documentation
Travel								583	(1) Missing invoice/supporting documentation
Travel								<u>3,081</u>	(1) Missing invoice/supporting documentation
								15,612	
Other direct								<u>3,789</u>	(1) Missing invoice for "other direct" cost
Subtotal – total direct costs questioned								19,401	
Less: costs subsequently documented (1)								<u>(7,888)</u>	
Total direct costs questioned								11,513	
Plus applicable indirect costs:									
	<u>Period</u>							<u>Questioned Costs</u>	
	10/01/97-06/30/02							<u>\$ 11,513</u>	
								<u>4,306</u>	
								<u>\$ 15,819</u>	

(A) No payee information was available from UCAL, Berkeley. This wording was listed in the books of account for this transaction.

(1) Documentation provided with response to the draft audit report.

Schedule B (Cont.)

UNIVERSITY OF CALIFORNIA, BERKELEY
National Science Foundation Award No. EEC-9701568
Schedule of Cost Sharing
From October 1, 1997 to September 30, 2003

<u>Cost Sharing Required</u>	<u>Cost Sharing Claimed</u>	<u>Reclassifications</u>	<u>Cost Claimed After Reclassifications</u>	<u>Unacceptable Costs</u>	<u>Schedule Reference</u>
<u>\$ 12,000,000</u>	<u>\$ 12,438,419</u>	<u>\$ -0-</u>	<u>\$ 12,438,419</u>	<u>\$ 516,115</u>	C-1

The accompanying schedule referenced to explain unacceptable costs is an integral part of this financial schedule.

UNIVERSITY OF CALIFORNIA, BERKELEY
National Science Foundation Award No. EEC-9701568
Schedule of Unacceptable Cost Sharing
From October 1, 1997 to September 30, 2003

Unacceptable cost sharing of \$516,115 is comprised of the following two components:

<u>Explanation</u>	<u>Amount</u>
1. The cost sharing reported to NSF by the PEER Center for the period October 1, 1997 to September 30, 2003 totaled \$12,438,419, however, the actual cost sharing provided per the books of account totaled \$12,160,931, a difference of \$277,488.	\$ 277,488
2. Cost sharing salary costs for five staff of the PEER Center were allocated between cost sharing applicable to the PEER Center NSF award and non-award related time. Three staff was allocated to cost sharing at a rate of 50%, one staff at a rate of 20%, and one staff at various rates ranging from 5.3% to 50% during the audit period. Time and attendance records or a written, documented allocation plan was not maintained for any of these staff to support the allocation of costs. Per our conversation with UCAL, Berkeley and PEER Center staff, the allocation was based on an estimate of time spent. No diaries or other record of time actually spent was maintained. The salary, fringe benefit and indirect costs related to this totals \$238,627.	<u>238,627(A)</u>
Total unacceptable cost sharing	<u>\$ 516,115</u>

(A) See details on following page.

UNIVERSITY OF CALIFORNIA, BERKELEY
National Science Foundation Award No. EEC-9701568
Schedule of Unacceptable Cost Sharing (Cont.)
From October 1, 1997 to September 30, 2003

Employee	Total	07/01/99-06/30/00			07/01/00-06/30/01			07/01/01-06/30/02			07/01/02-06/30/03		
		Salaries and Wages	Fringe Benefits	Indirect Costs	Salaries and Wages	Fringe Benefits	Indirect Costs	Salaries and Wages	Fringe Benefits	Indirect Costs	Salaries and Wages	Fringe Benefits	Indirect Costs
[REDACTED]	\$ 163,516	[REDACTED]	[REDACTED]	[REDACTED]									
[REDACTED]	1,562	[REDACTED]	[REDACTED]	[REDACTED]									
[REDACTED]	11,567	[REDACTED]	[REDACTED]	[REDACTED]									
[REDACTED]	53,048	[REDACTED]	[REDACTED]	[REDACTED]									
[REDACTED]	8,934	[REDACTED]	[REDACTED]	[REDACTED]									
Totals	<u>\$ 238,627</u>	[REDACTED]	[REDACTED]	[REDACTED]									

Notes:

1. No allocated cost sharing salaries and wages applicable to the NSF award were incurred during the periods October 1, 1997 through June 30, 1999 and July 1, 2003 through September 30, 2003.
2. Fringe benefits are calculated utilizing the UCAL, Berkeley rates of 23% for the period July 1, 1999 through June 30, 2002 and 22% for the period July 1, 2002 through June 30, 2003.
3. Indirect costs are calculated utilizing the negotiated rate agreements with the U.S. Department of Health and Human Services as follows:

<u>Effective Period</u>	<u>Rate</u>	<u>Type</u>
07/01/99-06/30/02	50.40%	Predetermined
07/01/02-06/30/03	51.50%	Predetermined

UNIVERSITY OF CALIFORNIA, BERKELEY
National Science Foundation Award No. EEC-9701568
Summary Schedule of Award Audited and Audit Results
From October 1, 1997 to September 30, 2003

Summary of Award Audited

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
EEC-9701568	10/01/97-09/30/07	10/01/97-09/30/03

Summary of Questioned and Unresolved Costs

<u>NSF Award Number</u>	<u>Award Budget</u>	<u>Claimed Costs</u>	<u>Questioned Costs</u>	<u>Unresolved Costs</u>	<u>Unsupported Costs</u>
EEC-9701568	<u>\$ 12,394,364</u>	<u>\$ 10,437,233</u>	<u>\$ 15,819</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Summary of Questioned Costs by Explanation

<u>Condition</u>	<u>Questioned Cost Amount</u>	<u>Internal Control Finding</u>	<u>Noncompliance Finding</u>
Travel Costs – missing documentation and use of non-U.S. flag carrier	\$15,819(A)		X

(A) Includes applicable portion of indirect costs.

Summary of Noncompliance and Internal Control Findings

<u>Condition</u>	<u>Noncompliance or Internal Control?</u>	<u>Material, Reportable or Other?</u>	<u>Amount of Questioned Cost</u>	<u>Amount of Claimed Costs</u>
• Lack of adequate fiscal monitoring of subcontract costs	Noncompliance and Internal Control	Material	\$ -0-	\$ 8,577,237
• Cost sharing deficiencies	Noncompliance and Internal Control	Material	\$ -0-	\$ 12,438,419
• Inadequate travel documentation and utilization of non-U.S. flag carrier	Noncompliance	Reportable	\$ 15,819	\$ 245,260

UNIVERSITY OF CALIFORNIA, BERKELEY
National Science Foundation Award No. EEC-9701568
Notes to Financial Schedules
From October 1, 1997 to September 30, 2003

1. Summary of significant accounting policies:

Accounting basis

The accompanying financial schedules have been prepared in conformity with National Science Foundation (NSF) instructions. Schedules have been prepared from the reports submitted to NSF. The basis of accounting utilized in preparation of these reports differs from accounting principles generally accepted in the United States of America. The following information summarizes these differences:

a. Equity

Under the terms of the award, all funds not expended according to the award agreement and budget at the end of the award period are to be returned to NSF. Therefore, the awardee does not maintain any equity in the award and any excess cash received from NSF over final expenditures is due back to NSF.

b. Equipment

Equipment is charged to expense in the period during which it is purchased instead of being recognized as an asset and depreciated over its useful life. As a result, the expenses reflected in the statement of award costs include the cost of equipment purchased during the period rather than a provision for depreciation.

The equipment acquired is owned by the University of California, Berkeley while used in the program for which it was purchased or in other future authorized programs. However, NSF has the reversionary interest in the equipment. Its disposition, as well as the ownership of any proceeds there from, is subject to Federal regulations.

c. Inventory

Minor materials and supplies are charged to expense during the period of purchase. As a result, no inventory is recognized for these items in the financial schedules.

d. Income taxes

The University of California, Berkeley is a private nonprofit corporation, incorporated under the laws of the State of California. The University of California, Berkeley is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. It is also exempt from California income tax.

UNIVERSITY OF CALIFORNIA, BERKELEY
National Science Foundation Award No. EEC-9701568
Notes to Financial Schedules
From October 1, 1997 to September 30, 2003

2. NSF cost sharing and matching:

The following represents the cost sharing requirements and actual cost share from October 1, 1997 to September 30, 2003:

	<u>Cost Share Required</u>	<u>Actual Cost Share Claimed</u>	<u>Unsupported Cost Share</u>	<u>Net Cost Share</u>	<u>Over/ (Under)</u>
Award No. EEC- 9701568:					
Year 1	\$ 2,000,000	\$ 2,204,084	\$	\$	\$
Year 2	2,000,000	2,095,451			
Year 3	2,000,000	1,972,315			
Year 4	2,000,000	1,934,150			
Year 5	2,000,000	2,138,763			
Year 6	<u>2,000,000</u>	<u>2,093,656</u>	_____	_____	_____
Total	<u>\$ 12,000,000</u>	<u>\$ 12,438,419</u>	<u>\$ 516,115</u> (A)	<u>\$ 11,922,304</u> (A)	<u>(\$ 77,696)</u> (A)

(A) Cost sharing claimed by the PEER Center was not based on the actual cost sharing per the books of account. The total cost sharing was generated by the UCAL, Berkeley accounting office. (See Finding Number 2).

APPENDIX A – AUDITEE’S COMMENTS TO REPORT



EXTRAMURAL FUNDS ACCOUNTING
2195 HEARST STREET, ROOM 130
BERKELEY, CA 94720-1103
FAX: (510) 642-8997
<http://fbs.berkeley.edu/fbs/efaf/>

March 28, 2005

[REDACTED]
[REDACTED]
M.D. Oppenheim & Company, P.C.
485 U.S. Highway One, Building C
P.O. Box 4100
Iselin, NJ 08830

Dear [REDACTED]:

We are in receipt of the draft audit report for the National Science Foundation award number EEC-9701568. As requested, we have reviewed the items disclosed in the report. Our response follows.

Finding No. 1 – Lack of Adequate Fiscal Monitoring of Subcontract Costs

Recommendation No. 1:

M.D. Oppenheim recommends that NSF Division Directors for the Division of Institution and Award Support (DIAS) and the Division of Grants and Agreements (DGA) require that University of California, Berkeley PEER Center personnel establish an adequate system and policies and procedures to effectively monitor its subcontractor costs and accurately report those costs to NSF. Specifically, University of California, Berkeley PEER Center personnel should:

- a perform a monthly reconciliation between subcontractor costs reflected in the PEER Center Progress Logs and subcontractors costs recorded in the University of California, Berkeley accounting System.
- b Ensure that costs are recorded in the Progress Logs accurately and in the proper reporting time periods.
- c Budget project costs assigned to University of California, Berkeley professors in the appropriate NSF budget category (i.e. salaries and wages, fringe benefits, materials and supplies, equipment, etc.) rather than in the category of subcontracts.

UC Berkeley Response:

PEER Administration has reviewed the findings and has implemented procedures to address the tracking and reconciliation between the subcontractor costs recorded in the PEER Progress Logs and the actual costs recorded in the Berkeley Financial System. This reconciliation is prepared monthly by PEER staff after the prior month's close is completed to ensure that costs are recorded in the Progress Logs accurately and in the proper reporting time periods.

In reference to item "c" above, at the time that the PEER Annual Report is submitted, PEER Administration has insufficient information to include a detailed budget by category for those research projects targeted to be funded to the University of California, Berkeley Faculty. The initial budget in the Annual Report is submitted reflecting projects as Subawards. Once completed budgets and information supporting these are available for each of the University of California, Berkeley awarded projects, an amended budget is then prepared and sent to NSF correctly allocating costs in the appropriate categories. As the work is performed, the PEER Progress Log documents these costs as recorded within the Berkeley Financial System.

Finding No. 2 – Cost Sharing Reporting Deficiencies

Recommendation No 2:

NSF's Division Directors of DAIS and DGA should ensure that the PEER Center staff use the University of California, Berkeley accounting system to record, document and report actual cost sharing expenses to NSF. The PEER Center staff should institute procedures to utilize the University of California, Berkeley accounting system information to (a) track and report actual cost sharing funds received and expended in its reports to NSF and (b) maintain all written after-the-fact certifications to support salary and wage costs reported as cost share appropriately, as required by the appropriate *OMB Circulars* and the *NSF Grant Policy Manual*.

UC Berkeley Response:

PEER Administration works in conjunction with Extramural Funds Accounting staff to track and produce cost share reports based on the Berkeley Financial System. The process is to use the Berkeley Financial System and the cost sharing tracking maintained on subsidiary records in the PEER Center. This is reviewed regularly and reported as a part of the PEER Annual Report to NSF. The difference of \$277,488 identified by the auditors was due to a timing difference between the actual transaction dates recorded in the general ledger and the dates the transactions were included in the original report. This report has subsequently been corrected to show the correct accounting period for these transactions. The cost share information now provided to NSF from the Berkeley Financial System is correct for the period October 1, 1997 to September 30, 2004.

In reference to the \$238,627 identified in the audit as unsupported cost share, University of California, Berkeley disagrees with the auditors' statement. PEER administration did provide time reports for the five individuals identified by the auditors that were authorized and certified. We believe that these satisfy after-the-fact time reporting and certification of effort.

As referenced by the auditors OMB Circular A-21, Section C.6.b states that all costs should be supported by cost allocation plans in accordance with applicable Federal cost accounting standards. The PEER Center maintains a cost allocation plan and, as mentioned in our response to Finding No. 1 above, PEER Center personnel reference this plan and ensure that costs are applied to the appropriate budget categories.

Also referenced by the auditors, OMB Circular A-110, Subpart C, Section .23 prescribes the criteria and procedures for the allowability of cash contributions in satisfying cost sharing and matching requirements. The NSF Grant Policy Manual, Section 333.5 requires cost sharing records be maintained for all project costs which are claimed as being the contribution to cost participation. University of California, Berkeley and PEER Center personnel believe that we have met these requirements and that we do maintain records of cost sharing contributions.

The timecards mentioned above were not accepted by the auditors even though they were actual time recorded by the five individuals. It is the University's belief that we are in compliance with A-21 J.8 subsection b.(2) which indicates that the "payroll distribution system will (i) be incorporated into the official records of the institution, (ii) reasonably reflect the activity for which the employee is compensated by the institution..." The timesheets provided identified the time worked on the PEER project. The auditors contend the time was not specific to the task level, while we maintain it was not a requirement to delineate to that degree.

Finding No. 3 – Inadequate Travel Documentation and Utilization of Non-U.S. Flag Carriers

Recommendation No. 3:

NSF's Division Directors of DIAS and DGA should ensure that the PEER Center staff institute procedures to ensure that adequate documentation is maintained to support travel costs claimed on NSF awards and that US Flag air carriers are used in accordance with the NSF GPM.

UC Berkeley Response:

The University accounting staff has located 4 of the 8 identified missing travel documents. They are included with this response.

The remaining transactions were all incurred prior to June 2000. The documentation for these transactions could not easily be located due to the method in which these [REDACTED] transactions were processed through the campus' legacy financial system. The ledger entry did not provide sufficient information for the University to easily locate the archived supporting documentation without further extensive effort. The legacy financial system was replaced mid-2000 and the new Berkeley Financial System allows us to more easily locate archived supporting documentation for travel costs.

In reference to findings regarding the non-US Flag air carriers, per NSF's Grant Policy Manual, Section 761.2 requiring prior approval under certain circumstances to use non-US Flag carriers, the University of California, Berkeley and the PEER Center are unable to locate any

M.D. Oppenheim & Company, P.C.
March 28, 2005
Page Four

documentation that this request was made. As we are not able to justify the expenditure, we agree that the \$2,000 charge should be disallowed and we have subsequently reversed these charges from the ledger.

Thank you for the opportunity to answer the findings identified by your auditors. If you have any questions related to the response above, please don't hesitate to contact me at [REDACTED].

Sincerely,

[REDACTED]

University of California at Berkeley

**HOW TO CONTACT
THE OFFICE OF INSPECTOR GENERAL**

Internet

www.nsf.gov/oig

Email Hotline

oig@nsf.gov

Telephone

703-292-7100

Toll-Free Anonymous Hotline

1-800-428-2189

Fax

703-292-9158

Mail

Office of Inspector General
National Science Foundation
4201 Wilson Blvd., Suite 1135
Arlington, VA 22230