



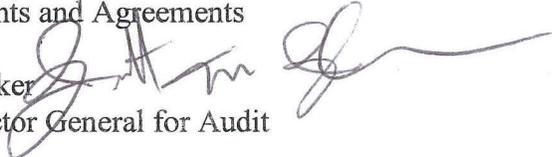
National Science Foundation • Office of Inspector General
4201 Wilson Boulevard, Suite I-1135, Arlington, Virginia 22230

MEMORANDUM

Date: AUG 14 2014

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. 14-1-004
University of California, Los Angeles

This memo transmits Cotton & Company's report for the audit of costs totaling \$225.8 million charged by the University of California, Los Angeles (UCLA) to its sponsored agreements with NSF during the period July 1, 2009 through June 30, 2012. The objectives of the audit were to identify and report on instances of unallowable, unallocable, and unreasonable costs, as well as instances of noncompliance with regulations, Federal financial assistance requirements, and provisions of the NSF award agreements as they relate to the transactions tested.

The auditors determined that costs that UCLA charged to its NSF sponsored agreements did not always comply with applicable Federal requirements. Specifically, the auditors determined that claimed costs totaling \$2,358,380 were questioned for reasons relating to summer salaries (\$2,111,653), per diem costs (\$131,139), visa application fees (\$73,135), equipment (\$15,700), general salaries (\$15,186), travel (\$6,104), indirect costs (\$3,200), and technology infrastructure fees (\$2,263). UCLA incorrectly charged unallocable, unreasonable, and unallowable costs to NSF awards.

The auditors recommended that NSF address and resolve the findings by requiring UCLA to refund the questioned costs of \$2,358,380 and strengthen administrative and management processes and controls. UCLA did not agree with all of the recommendations; however, they did agree that some of the questioned costs were unallowable. UCLA's response, described in the report, is included in its entirety in Appendix B.

Appendix A contains a summary of the unallowable items that were questioned. Additional information concerning the questioned items was provided separately by the 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 Cotton & Company'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 Cotton & Company officials, as necessary, to discuss audit progress, findings, and recommendations;
- Reviewed the audit report, prepared by Cotton & Company to ensure compliance with generally accepted government auditing standards; and
- Coordinated issuance of the audit report.

Cotton & Company is responsible for the attached auditor's report on UCLA and the conclusions expressed in the report. We do not express any opinion on the conclusions presented in Cotton & Company'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 Louise Nelson at 303-88-4689 or Ken Lish at 303-844-4738.

Attachment

cc: Alex Wynnyk, Branch Chief, CAAR
Michael Van Woert, Executive Officer, NSB
Ruth David, Audit & Oversight Committee Chairperson, NSB

UNIVERSITY OF CALIFORNIA, LOS ANGELES

**PERFORMANCE AUDIT OF INCURRED COSTS FOR
NATIONAL SCIENCE FOUNDATION AWARDS FOR THE PERIOD**

JULY 1, 2009, TO JUNE 30, 2012

NATIONAL SCIENCE FOUNDATION

OFFICE OF INSPECTOR GENERAL



Cotton & Company LLP
635 Slaters Lane
4th Floor
Alexandria, VA 22314



Office of Inspector General
National Science Foundation
Arlington, VA

Subject: Performance Audit of the University of California, Los Angeles

Cotton & Company LLP (referred to as “we” in this letter) conducted a performance audit of expenditures reported by the University of California, Los Angeles (UCLA) on the Federal Financial Reports (FFRs) that it filed with the National Science Foundation (NSF) for cost reimbursement against its grant awards. We evaluated whether the costs claimed by the recipients were allocable, allowable, reasonable, and in conformity with NSF award terms and conditions, as well as with applicable federal financial assistance requirements. This performance audit, conducted under Contract No. D12PS00465, was designed to meet the objective identified in the “Objectives, Scope, and Methodology” section of this report.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS), issued by the Government Accountability Office (GAO). We communicated the results of our audit and the related findings and recommendations to UCLA and the NSF Office of Inspector General.



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**NATIONAL SCIENCE FOUNDATION
PERFORMANCE AUDIT OF INCURRED COSTS
UNIVERSITY OF CALIFORNIA, LOS ANGELES**

I. BACKGROUND

The National Science Foundation (NSF) is an independent federal agency whose mission is “to promote the progress of science; to advance the national health, prosperity, and welfare; and to secure the national defense.” To support this mission, NSF funds research and education opportunities across all fields of science and engineering, primarily through grants and cooperative agreements awarded to more than 2,000 colleges, universities, and other institutions throughout the United States.

Every federal agency has an Office of Inspector General (OIG) that provides independent oversight of the agency’s programs and operations. Part of the NSF OIG’s mission is to conduct audits and investigations to prevent and detect fraud, waste, and abuse. In support of this mission, the NSF OIG may conduct independent and objective audits, investigations, and other reviews to promote the economy, efficiency, and effectiveness of NSF programs and operations, as well as to safeguard their integrity. The NSF OIG may also hire a contractor to provide audit services.

In July 2012, the NSF OIG issued a solicitation to engage a contractor to conduct performance audits of incurred costs for four separate NSF award recipients, including the University of California, Los Angeles (UCLA). UCLA is a public research university whose mission is the creation, dissemination, preservation, and application of knowledge for the betterment of our global society. With over 40,000 students, UCLA is the largest university within the University of California system, offering over 5,000 courses in 109 academic departments with 125 different majors. In 2011, UCLA exceeded \$1 billion in competitively awarded research grants and contracts in a single year; it was ranked among the nation’s top research universities by the Center for Measuring University Performance. Our audit of UCLA, which covered the period from July 1, 2009, through June 30, 2012, encompassed \$225,830,782 in costs that UCLA claimed on Federal Financial Reports (FFRs) related to 769 NSF awards.

II. AUDIT RESULTS

Based on the results of our testing, we determined there were a number of instances in which UCLA did not comply with all federal, NSF, and university-specific award requirements. Specifically, we determined that UCLA’s effort certification and reporting system does not ensure that all effort reports are certified on a timely basis as required. In addition, we noted a number of compliance issues that resulted in our questioning \$2,358,380 of costs claimed by UCLA. Specifically, we found:

- \$2,111,653 in overcharged summer salaries.
- \$131,139 in unsupported per diem costs.
- \$73,135 in costs related to visa application fees that were inappropriately allocated to NSF awards.

- \$15,700 in unreasonable equipment purchases made at the end of a grant’s period of performance.
- \$15,186 in salary expenses that were unreasonably charged to an NSF award.
- \$6,104 in unallocable domestic travel charged to NSF awards.
- \$3,200 of unallowable indirect costs that were charged to an NSF award.
- \$2,263 in unallowable technology infrastructure fees (TIFs) charged to NSF awards.

Exhibit A of this report provides a breakdown of the questioned costs by finding. We summarized UCLA’s responses to each finding in the appropriate sections of the report. Appendix B of this report includes UCLA’s response to the findings in its entirety.

Finding 1: Overcharged Summer Salaries

UCLA overcharged NSF awards by more than \$2 million for summer salaries and related benefits and indirect costs. UCLA’s methodology for reimbursing employees and charging awards for work performed during its summer quarters resulted in the university charging costs that exceeded the proportionate share of an employee’s salary and/or their base monthly salary amount. This methodology is also inconsistent with how employees’ salaries are reimbursed and charged to awards during the academic year.

With regard to salary rates for faculty members during the academic year, 2 Code of Federal Regulations (CFR) 220 (formerly Office of Management and Budget Circular A-21), *Cost Principles for Educational Institutions*, Appendix A, Section J.10 states the following:

In no event will charges to sponsored agreements, irrespective of the basis of computation, exceed the proportionate share of the base salary for that period. This principle applies to all members of the faculty at an institution.

It further states:

...charges for work performed by faculty members on sponsored agreements during the summer months or other period not included in the base salary period will be determined for each faculty member at a rate not in excess of the base salary divided by the period to which the base salary relates, and will be limited to charges made in accordance with other parts of this section. The base salary period used in computing charges for work performed during the summer months will be the number of months covered by the faculty member’s official academic year appointment.

The NSF *Proposal and Award Policies and Procedures Guide, Part II: Award & Administration Guide* (effective January 5, 2009), Chapter V: *Allowability of Costs*, Section B.1.a. (ii) (a) states, “Salary is to be paid at a monthly rate not in excess of the base salary divided by the number of months in the period for which the base salary is paid.”

According to UCLA policy, eligible academic-year appointees are allowed to earn a maximum of one-third of their nine-month annual salary rate as additional compensation for services performed during the summer period. *The University of California Guidelines for Payment of*

- If an employee planned on [REDACTED] in July 2010:
 - **Using a Daily Rate:** 116 percent of their salary [REDACTED] would be allocated to the grant in July.
 - **Using a Monthly Rate:** 100 percent of their salary [REDACTED] would be allocated to the grant in July.

We can see from this example that all instances in which the percentage of effort charged to a grant was calculated using a daily rate instead of a monthly rate resulted in an overstatement of effort. The monthly rate is only used when an employee works exactly one month in the summer; therefore, all instances in which an employee worked for more than one month in the summer, or allocated greater than or less than 100 percent of their monthly salary to a grant, would have been calculated based on a daily rate. This led to UCLA overstating the proportion of the employee's base salary that was allocable to the grant. Using the daily rate resulted in inflated salary allocations as follows:

A	B	(A-B)/A	Summer Months Affected
Number of Working Days in the Month	Number of Days Effort is Based On	Percent of Effort Overcharged	
[REDACTED]	[REDACTED]	9.52%	August 2009, July 2011, June 2012
[REDACTED]	[REDACTED]	13.64%	June 2009, September 2009, June – August 2010, September 2010, June 2011, September 2011
[REDACTED]	[REDACTED]	17.39%	July 2009, August 2011

Over the audit period, [REDACTED] employees allocated less than 100 percent of their monthly effort in one or more summer months to an NSF award, which indicates that their effort was based on a daily rate that assumed a [REDACTED] y month. We also noted that [REDACTED] individuals that received multiple summer salary payments during the fiscal year allocated exactly 100 percent of their effort to an NSF award during one or more of the summer months. Based on UCLA policy, unless the employee only works one month in the summer, a 100 percent allocation of summer salary would only occur when an employee works a total of [REDACTED] days, rather than the actual number of working days in the month. This discrepancy in the number of days indicates that the effort for each of these individuals was also overstated, as shown in the table below.

Daily Time Factors for Payment Calculations Based on One-Month Annual Salary Rate for Summer Service for Academic Year Appointees:

Number of Service Days in Duty Status for Pay Entitlement per Month	1/3 Summer Period (19 Days)	2/3 Summer Period (38 Days)	Full Summer Period (57 Per Month)
			1.0000
			1.0526
			1.1053
			1.1579
			1.2105

The NSF *Proposal and Award Policies and Procedures Guide, Part II: Award & Administration Guide*, Chapter V: *Allowability of Costs*, Section B.1.a. (ii) (a) prohibits salary payments that exceed the amount of the base salary divided by the number of months in the period for which the base salary is paid. However, as seen in the UCLA table above, the use of a daily rate can result in an employee receiving more than 100 percent of their monthly salary if they work more [REDACTED] during the month. As a result of our testing, we found that [REDACTED] employees received more than 100 percent of their monthly salary as an additional summer salary payment for one or more months during our audit period.

According to 2 Code of Federal Regulations (CFR) 220, *Cost Principles for Educational Institutions*, Appendix A, Section C.2, *Factors affecting allowability of costs*:

The tests of allowability of costs under these principles are: they must be reasonable; they must be allocable to sponsored agreements under the principles and methods provided herein; they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and they must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items.

Using a [REDACTED]-day summer month as the basis for determining the percentage of time each faculty member spent working on grant-related activities is inconsistent with how salary costs are charged during the academic year. It also caused UCLA to overstate the amount of salary that should have been allocated to the grant during the summer period. If the calculation of effort for all employees had been based on the actual number of working days in a particular month, rather than on an estimated [REDACTED]-day summer month, the total amount of summer salary charged to NSF awards would have been significantly lower. We are therefore questioning all summer salary amounts greater than 100 percent of an employee’s monthly salary, as well as the salary associated with the overcharged effort percentages for all employees that did not spend exactly [REDACTED] working on an NSF award.

summer compensation is inconsistent with how employees' salaries are reimbursed and charged to awards during the academic year.

Finding 2: Unsupported Per Diem Costs

UCLA charged NSF awards for per diem costs for trips taken by PIs; however, these costs were not supported by receipts or other documentation. UCLA did not follow the University of California's established policy for per diem limitations on long-term foreign travel.

According to 2 CFR 220 Appendix A, Section J.53, costs incurred by employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses, shall be considered reasonable and allowable only to the extent such costs do not exceed charges normally allowed by the institution in its regular operations as the result of the institution's written travel policy.

The University of California Business and Finance Bulletin Number G-28, *Policy and Regulations Governing Travel*, Section VIII.B.2.b, *Foreign Travel*, states:

Long-Term Travel - Assignments of 30 Days or More

The per diem allowance authorized for long-term travel is up to 100% of the applicable federal per diem rate (see Appendix B). The traveler is expected to seek long-term accommodations when staying in one location for 30 or more consecutive days but less than one year. See Section VIII.B.1.b, Long-Term Travel – Assignments of 30 Days or More, above, for information on estimating and computing a daily lodging rate.

In addition, Section VIII.B.1.b states:

Daily Expense Rate. *The daily expense rate is computed by [REDACTED] of days of occupancy in the rental period. The following recurring expenses may be considered part of the lodging cost when a traveler rents a room, apartment, house, or other lodging on a long-term basis:*

- *Rental cost of a furnished dwelling;*
- *Utilities;*
- *Monthly base telephone charges.*

UCLA representatives stated that despite the University of California's travel policy, the UCLA Travel Accounting Office's standard procedure is to reimburse [REDACTED] per diem rate. Travelers are instructed to personally maintain expense documentation but are not required to provide receipts for reimbursement unless the traveler wishes to claim actual costs that exceed the per diem rate. The representatives further stated that the University of California Business and Finance Bulletin No. G-28, Section II, *Definitions*, states that payment of per diem [REDACTED], and that per diem is authorized for all foreign travel.

We identified the following long-term foreign trips:

- **NSF Award No. 0601082.** The [REDACTED] traveled to Paris, France from July 12 through August 28, 2010. The employee charged the grant \$16,419 for [REDACTED] of

per diem at the Paris rate. We were unable to obtain support for actual lodging or subsistence costs, or for the calculation of a daily expense rate.

- **NSF Award No. 1007227.** On two occasions, [REDACTED] traveled to Jerusalem, Israel to collaborate with other researchers in the mathematics department at the Hebrew University. The first trip was from July 1 through September 27, 2011, and the employee charged the grant [REDACTED] of per diem at the Jerusalem rate. The second trip was from February [REDACTED] 10, 2012, and the employee charged the grant [REDACTED] for [REDACTED] days of per diem at the Jerusalem rate. We were unable to obtain support for actual lodging or subsistence costs, or for the calculation of a daily expense rate for either of these trips.

The intent of the University of California travel policy is to require travelers to seek long-term accommodations in order to reduce travel costs. UCLA failed to obtain supporting documentation for long-term travel or to calculate daily expense rates. Accordingly, we are questioning the following costs:

NSF Award Number	Trip Location	Total Lodging Per Diem Reimbursed	Total M&IE Per Diem Reimbursed	Related IDC (Estimated)	Questioned Costs
0601082	Paris, France	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1007227	Jerusalem, Israel	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total		[REDACTED]	[REDACTED]	[REDACTED]	<u>\$131,139</u>

Recommendations

We recommend that NSF’s Director of the Division of Institution and Award Support address and resolve the following recommendations that UCLA:

1. Repay NSF the \$131,139 of questioned costs.
2. Strengthen the administrative and management controls and processes over long-term foreign travel costs charged to its federal awards. Processes could include:
 - a. Developing monitoring and detective controls to ensure that employees are adhering to, and are in compliance with, UCLA’s own system of policies and procedures, specifically those procedures related to ensuring that the university receives and maintains supporting documentation for all long-term travel reimbursement requests.
 - b. Reviewing UCLA’s policies and procedures, including performing periodic reviews of individual departments and divisions for compliance with, and proper implementation of, established cost controls, as well as to ensure that costs claimed on NSF awards relate to that specific award, are within the award budget, and are incurred during the award period.

University of California, Los Angeles Response: UCLA stated that it does not believe these costs should be repaid, and that it followed University of California policy regarding the questioned costs related to foreign travel per diem. The university stated that travelers are told to [REDACTED] of the per diem rate, with the understanding that they will adjust the rate down if less is spent. The university also noted that the University of California’s policy for long-term travel arrangements of [REDACTED] that an employee is “expected” to seek long-term accommodations during long-term travel; however, this is not required.

Auditors’ Additional Comments: Our position regarding the finding does not change. While UCLA did note that the policy uses the term “expected” rather than “required,” we noted that the same policy states that the per diem allowance authorized for long-term travel is **up to [REDACTED] that they will adjust the rate down if less is spent** [emphasis added]. These employees spent more than [REDACTED] in each location but did not submit any documentation supporting the expenses incurred during the travel or explaining why they claimed the full per diem rate rather than adjusting it per university policy.

Finding 3: Unallowable Visa Application Fees

Over \$73,000 in expenses related to visa application fees was inappropriately allocated to NSF grants. While UCLA policy does allow visa application costs to be charged to federally sponsored projects, we determined that UCLA does not always follow either its own internal policies or federal rules and regulations when allocating these fees to NSF grants.

On October 24, 2006, UCLA’s Office of the Vice Chancellor for Research published a memo regarding charging visa application fees, legal fees associated with those applications, and internal visa processing recharges to contracts and grants. The memo states that, unless

[REDACTED] immigration visa costs and related legal fees are subject to the same principles as all other allowable costs. As such, if an employee’s effort is devoted entirely to one project, all costs can be charged to that project. However, if effort will be spread across multiple projects, costs should be distributed across those projects in proportion to the effort.

According to 2 CFR 220 Appendix A, Section C.4.d(3), “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.”

To determine compliance with these policies, we examined the amount of effort each employee certified expending on the sponsored grant to which their visa application fee was allocated. Through our review of supporting documentation, we determined that the allocation of visa fees for each sampled transaction violated one or more of the policies enacted by this memo.

We sampled [REDACTED] transactions charged to five NSF awards. These transactions were related to visa fees for [REDACTED] employees. In each sampled transaction, the visa application fees were

allocated to only one grant, even though the fees incurred were for employees that were not devoted entirely to one project.

NSF Grant Awards	Employee Reference Number	Expense Document Date	% of Effort Allocated to the Grant in Month of Expense	% of Effort Allocated to the Grant During the Effective Grant Period	% of Sampled Visa Application Fee Charged to Grant
[REDACTED]	1	10/31/2007	50%	[REDACTED]	100%
	2	4/23/2010	[REDACTED]	[REDACTED]	[REDACTED]
	3	8/4/2011	[REDACTED]	50%	100%
	4	8/20/2009	[REDACTED]	[REDACTED]	[REDACTED]
	5	7/9/2009	[REDACTED]	9% ¹	100%
	6	4/27/2010	[REDACTED]	[REDACTED]	[REDACTED]

¹ NSF Award No. 0531621 was related to the renewal of the Basic Plasma Facility and was jointly funded by the Department of Energy (DOE). Employees No. 5 and 6 allocated [REDACTED] of their respective effort to the associated DOE grant during the effective period of the grant.

In addition to visa fees not being allocated based on the employee’s effort, visa fees for long-term employees were improperly allocated to the grant. The UCLA visa application memo states that visa application fees are typically classified as relocation costs, which are allowable under federal regulations. According to 2 CFR 220 Appendix A, Section J.42.a, “relocation costs incurred incident to recruitment of new employees are allowable to the extent that such costs are incurred pursuant to a well-managed recruitment program.”

While 2 CFR 220 allows for relocation costs incurred for the recruitment of new employees, each of the sample employees was hired well before the university incurred the visa application expenses for these individuals. UCLA hired these six employees to fill positions that were not specific to an NSF award, and their relocation costs would therefore not be allocable to the NSF award regardless.

NSF Award Number	Employee Reference Number	Expense Document Date	Employee Hire Date	Number of Days Employed Prior to Incurred Expense
[REDACTED]	1	[REDACTED]	[REDACTED]	[REDACTED]
	2	4/23/2010	[REDACTED]	[REDACTED]
	3	[REDACTED]	12/1/2010	[REDACTED]
	4	8/20/2009	[REDACTED]	1,067
	5	7/9/2009	8	[REDACTED]
	6	[REDACTED]	[REDACTED]	[REDACTED]

As a result of our testing, we also determined that the hiring process used for at least one of the sampled employees violated requirements set forth in the visa application fee memo. The October 24 memo states that a thorough justification is necessary when hiring someone for whom relocation and immigration expenses are necessary, rather than someone who is already legally qualified to work in the United States. The documentation provided to support the hiring of Employee No. 5 contained an Academic Recruitment-Selection Data and Compliance Form as support. This form indicated that a search for other eligible employees was not appropriate because the position was for an individual who had a fellowship, was on sabbatical leave, or was receiving their funding from a grant or award. While this form was not provided for other individuals, it indicates that if employees are hired specifically to work on a grant, the normal hiring search procedures can be waived. As the visa application memo requires that the university complete a thorough search of all eligible U.S. employees in order for visa application fees to be allowable, all fees for employees hired under this methodology would be unallowable.

In addition to waiving the requirements set forth by the UCLA [REDACTED] memo, the [REDACTED] Form also results in inconsistent treatment of fees associated with the hiring of employees sponsored by non-university funding. According to 2 CFR 220 Appendix A, Section C.3, *Reasonable Costs*, a cost may be considered reasonable to "...the extent to which the actions taken with respect to the incurrence of the cost are consistent with established institutional policies and practices applicable to the work of the institution generally, including sponsored agreements." The [REDACTED] memo provided shows that the [REDACTED] of an employee, and by extension the [REDACTED] with hiring that employee, is influenced by whether the employee will be [REDACTED] or by external funding. As this policy indicates that the hiring process [REDACTED] with [REDACTED] than with [REDACTED] funds, it violates 2 CFR 220, which states that a cost is only considered reasonable if it is consistently treated, indeterminate of the funding source.

Each sampled transaction related to visa fees violated one or more of the policies established by UCLA, in addition to violating federal and NSF policies and procedures. The university's allocation methods were not in compliance with established policies, and its [REDACTED] form indicates that UCLA allows employees to be hired without performing a thorough search of eligible U.S. citizens, even though such a search is required for visa fees to be allowable. As UCLA does not appear to have established policies and procedures that ensure the allowability of all visa application expenses charged to NSF awards, we are questioning all costs associated with visa application fees that were charged to NSF awards during our audit period.

As visa fees under [REDACTED] are typically associated with temporary visas for traveling, which are allowable, we only questioned [REDACTED]

Our findings are as follows:

- We noted that during our audit period, [REDACTED] transactions related to visa applications were charged to NSF awards under object code 3545, *Visa Application- Outside Legal Services Fee*, as follows:

NSF Award Number	Transaction Amount	Estimated IDC Applied	Questioned Costs
0531621			
0550227			
1027494	3,000		
0527015			
1040868	2,050		
0501720			
0714083			3
1027494			
0802843			
1022379			
0809832			
0550227			
0531621			
1027494			
1040868			
0840755			
0904039			
1022379			
Total			<u>\$61,872</u>

- We also noted that three transactions related to visa applications were charged to NSF awards under object code 3399, *Costs of Legal Proceedings*:

NSF Award Number	Transaction Amount	Estimated IDC Applied	Questioned Costs
Total			<u>\$9,723</u>

- Finally, we noted one transaction booked to object code 7223, *Hospital Legal Fee*, that was related to a premium processing fee incurred to expedite the visa fee application process in order to avoid a gap in employment for Employee No. 2. The visa application fee memo states that regular visa application costs can be charged to grant-supported projects as direct costs, but that expedited visa application costs cannot. This expense is therefore unallowable. We questioned these fees and the related indirect costs as follows:

NSF Award Number	Transaction Amount	Estimated IDC Applied	Questioned Costs
Total			<u>\$1,540</u>

Recommendations

We recommend that NSF’s Director of the Division of Institution and Award Support address and resolve the following recommendations that UCLA:

1. Repay NSF the \$73,135 of questioned costs.
2. Strengthen the administrative and management controls and processes over the way in which costs incurred for visa application fees are allocated to its federal awards. Processes could include:
 - a. Implementing new policies and procedures to ensure that visa application fees related to individuals that are currently employed by the university are not directly allocated to federal grants.
 - b. Editing current policies and procedures to ensure that the same hiring process is used for all personnel, regardless of the source of salary funding.
 - c. Developing monitoring and detective controls to ensure that employees are adhering to, and are in compliance with, UCLA’s own system of policies and procedures. UCLA’s policies and procedures require visa application fees incurred to be allocated to funding sources based on the employee’s effort for the period in which the fee was incurred.

University of California, Los Angeles Response: UCLA agreed to the questioned costs of \$73,135 and acknowledged that its current visa fee guidance should be revised. UCLA agreed that immigration visa costs and related legal fees should have been distributed across projects in proportion to each employee’s effort. UCLA also noted calculation errors in the “% of Effort Allocated to the Grant in Month of Expense” and “% of Effort Allocated to the Grant During the Effective Grant Period” columns in the table above, and stated that the “% of Effort Allocated to the Grant in the Month of the Expense” column is not relevant, and the “% of Effort Allocated to the Grant During the Effective Grant Period” column is understated.

Auditors’ Additional Comments: We corrected the calculation errors identified by UCLA personnel. We noted that these calculation errors were not significant and did not change our position regarding this finding.

Finding 4: Unreasonable Equipment Purchases Made at the End of the Grant Period

UCLA purchased computer equipment totaling \$10,289 and charged it to NSF awards within the final 23 days of the grant periods. These purchases were not available for use during most of the

award periods; therefore, they were not necessary for accomplishing the award objectives and did not benefit the NSF programs.

According to 2 CFR 220 Appendix A, Section C, to be allowable for a federal grant, a cost must be allocable to the federal award and must be necessary and reasonable for the administration and performance of the award. 2 CFR 215 also requires that a federal award recipient's financial management system maintain "effective control over and accountability of all funds, property and other assets."

The NSF *Proposal and Award Policies and Procedures Guide, Part II: Award & Administration Guide*, Chapter V: *Allowability of Costs* reiterates that unallowable costs, such as meals and entertainment, pre-award costs, general-purpose equipment, and other unnecessary and unreasonable costs, should not be charged to NSF awards.

NSF Award No. 0833375, titled "Phylogeography of Capuchins, Squirrel Monkeys and Owl Monkeys: A Critical Comparative Framework for Studying Evolution, Behavioral Ecology, and Conservation in Neotropical Primates," had an effective period of 4 years, beginning April 1, 2008, and expiring on March 31, 2012. An invoice dated March 8, 2012 (23 days before the grant's expiration date) details the purchase of an [REDACTED] computer that was charged to this NSF award. The PI stated that this purchase was necessary despite being at the end of the grant period because the computer they were using to store data and write articles was acting erratically. The PI provided additional justification that claimed that without this computer, the PI would not have been able to organize or prepare for the Comparative Biogeography for Neotropical Primates conference in Cancun, Mexico, or prepare for a roundtable discussion of the implications of their research. We noted, however, that both of these meetings took place after the grant period. As this grant had an effective period of 4 years and the equipment purchase was not made until the final month of the grant, we believe that the expense was unreasonably allocated to the NSF award.

NSF Award No. 0553571, titled "Heat Transfer in Fluids at Near-Critical Pressures: Experiments and Mathematical Modeling," had an effective period of 4 years, beginning September 15, 2006, and expiring August 31, 2010. On August 23, 2010 (7 days before the grant period expired), the PI ordered a [REDACTED] Computing Processor and associated components, subsequently charging the purchase to the grant. The PI stated that the purchase of the computer equipment was necessary to convert their serial machines to parallel machines, which significantly decreased the amount of time required to run Computational Fluid Dynamic (CFD) simulations. As this grant had an effective period of 4 years and the computer was not purchased until 7 days before the grant expired, we believe that the expense was unreasonably allocated to the award.

NSF Award No. 0707055, titled "From Information Scaling to Regimes of Statistical Models of Natural Image Patterns," had an effective period of 3.5 years, beginning July 1, 2007, and expiring December 31, 2010. On December 21, 2010 (10 days before the grant expired), the PI ordered a [REDACTED] Computer and subsequently charged the purchase to the grant. The purchase order stated that this computer was to be used by the PI and his research assistants for various research experiments and data-gathering. The PI provided additional justification, stating that they had purchased the computer because his team required a more powerful computer with

GPU for working on developing generative models for natural images. As the computer was not purchased until 10 days before the grant expired, we believe that the expense was unreasonably allocated to the award.

We questioned the unreasonable equipment costs and the related indirect costs as shown below:

NSF Award No.	Award Expiration Date	Invoice Date	Days Before Expiration	Trans. Amount	Estimated Applied IDC ¹	Total Questioned Costs
0833375	3/31/2012	3/8/2012	23			
0553571	8/31/2010	8/23/2010	7			
0707055	12/31/2010	12/21/2010	10			
Total Questioned Amount						<u>\$15,700</u>

¹While these expenses were charged to an equipment account, the purchases did not exceed the \$5,000 equipment threshold established by NSF, and the university therefore applied indirect costs.

Recommendations

We recommend that NSF’s Director of the Division of Institution and Award Support address and resolve the following recommendations that UCLA:

1. Repay NSF the \$15,700 of questioned costs.
2. Strengthen the administrative and management controls and processes over charging equipment to federal grants within the final 90 days of the grant’s period of performance. Processes could include implementing policies and procedures to ensure that all equipment purchased and charged to a federal grant within the final 90 days of the grant’s period of performance are reviewed for allowability, allocability, and reasonableness in terms of the grant award’s purpose.

University of California, Los Angeles Response: UCLA agreed to increase its campus training efforts and to consider implementing additional controls to highlight equipment purchases made in the last 90 days of a federal award; however, it stated that the purchases made were reasonable, allowable, and allocable to their respective projects. The university provided additional responses from the PIs of each grant for which we questioned equipment purchases. Each of these responses included a justification for the necessity of the equipment and the timing of the purchase.

Auditors’ Additional Comments: Our position regarding the finding does not change. We do not believe that any of the responses provided by the university justify the purchase of computers with less than 23 days left in the grant’s period of performance. As previously mentioned, these computers were not available for use during most of the award periods; we therefore do not believe that the allocation of the expenses incurred to purchase these computers at the end of the grant period is appropriate.

Finding 5: Unreasonable Salary Expense Charged to an Award

UCLA unreasonably charged salary expense to NSF Award No. 0713903 for a retroactive payment for the August 2010 pay period. In June 2011, 2 months before the expiration date of the award, the PI of this award requested, and received, an additional summer salary payment related to work performed in August 2010.

According to 2 CFR 220 Appendix A, Section C.4.b, costs cannot be shifted to other grants to meet deficiencies caused by overruns or for other reasons of convenience. Additionally, 2 CFR 220 Appendix A, Section J.10 states that activity reports must reflect the distribution of activity expended by employees covered by the system, and that these reports must reasonably reflect the activities for which employees are compensated by the institution.

The payroll subledger indicates that this employee did not receive any salary payments during the month of August 2010. However, in June 2011, [REDACTED] months before the grant period expired, the PI received a salary payment of [REDACTED] for the pay period ending August 31, 2010. This payment was allocated to NSF Award No. 0713903. When we requested a justification for the timing of this effort allocation, UCLA representatives originally stated that the PI wanted to ensure that sufficient funds were available to cover other research expenses prior to receiving compensation. However, UCLA representatives later stated that they believed there was a translation issue involved with the PI's original justification for the timing of this expense. They stated that the PI had not originally charged this time to the grant because he was not sure he was going to finish the project he had been working on before the grant expired. The PI stated, "If the additional task were not completed before the end of the project, it would not make sense to claim this effort through this project."

The University of California Office of the President Contract and Grant Manual, Chapter 7: Budget and Expenditures, Section 7-330: Effort Certification and Reporting System, requires those employees that are committed to work on federal contracts to certify the amount of their total work effort that is applicable to sponsored research. The policy requires this sponsored research effort to be certified on an after-the-fact basis, within 120 days of the end of the reporting period. While the PI was retroactively paid in June 2011 for effort performed in August 2010, the effort report certifying this allocation of activity was not certified until July 5, 2013, after we inquired about the transaction. As the original effort report for summer 2010 did not indicate that the PI spent any time on sponsored projects, it did not need to be certified. When UCLA allocated salary related to the pay period ending August 31, 2010, to the NSF grant in summer 2011, no procedures were in place that required the retroactive certification of the updated summer 2010 effort report.

It is clear that the [REDACTED] to retroactively request payment either was based on the fact that funds were available at the end of the grant period, or was related to an unidentified "additional task" that would not have been compensated by the university if NSF funding had not been available. We questioned the unreasonable salary costs and the related indirect costs as shown below:

Award Expiration Date	Trans. Date	Trans. Amount	Benefits Amount	Estimated Applied IDC	Total Questioned Costs
8/31/2011	6/30/2011	████████	████████	████████	\$15,186

Recommendations

We recommend that NSF’s Director of the Division of Institution and Award Support address and resolve the following recommendations that UCLA:

1. Repay NSF the \$15,186 of questioned costs.
2. Strengthen the administrative and management controls and processes over its federal awards. Processes could include establishing policies and procedures that prohibit employees from receiving additional compensation for previous time periods.

University of California, Los Angeles Response: UCLA contended that the salary expense is reasonable and therefore did not agree that the costs should be questioned or repaid. UCLA did, however, agree that the payment and effort certification should have been completed in a timely manner, and stated that it will consider strengthening the administrative and management controls relating to this type of transaction. UCLA stated that while the summer salary payment was charged to the NSF grant late in the award period, it was not related to “cost shifting,” and that the cost was appropriate, as the approved budget for NSF Grant No. ██████████ included yearly ██████████ compensation during the award period. UCLA also provided a response from the PI detailing the work performed during the period and stated that it had not notified NSF about the additional task “since no additional funding support was requested.” The university’s response also included the PI’s statement that “If the additional task was not completed before the end of the project, it would not make sense to claim this effort through this project.”

Auditors’ Additional Comments: Our position regarding the finding does not change. As the PI stated in the justification for ██████████ salary, the task performed during August 2010 was an additional task that was not identified within the grant’s original agreement, and NSF had not been informed of the project, as the ██████████. As noted previously, this payment was not a retroactive adjustment. This means that the employee did not originally ██████████ labor performed during August 2010 and then decided that this effort should be allocated to the grant; rather, the ██████████ requested it in June 2011, almost one year later, when the grant’s period of performance was expiring. Accordingly, we believe that the university would not have compensated this work if NSF funding had not been available, and that the funding was therefore unreasonably allocated to this grant.

Finding 6: Unallocable Domestic Travel

A PI charged expenses totaling ██████████ to NSF Award No. ██████████ for a trip that was not planned or budgeted and was not necessary to accomplish the goals of the project. The PI, along with a research team, traveled to Maine in August 2010. Expenses included ██████████ for taxis, gas,

and tolls; [REDACTED] for food; [REDACTED] for tools and hardware; and [REDACTED] for cabin rentals for one week in Howland, ME, and one week in Passadumkeag, ME.

NSF Award No. 0624177 had an effective period from November 15, 2006, to October 31, 2010. The project was intended to focus on the Los Angeles Million Tree Initiative, a multi-agency tree-planting program. Specifically, the research was planned to integrate measuring and modeling the potential impacts of a large-scale tree-planting program on urban greenhouse gas mitigation and local climate. The proposal indicated that the PI had been awarded support for other projects from NASA, but did not include plans to collaborate with NASA for this project. Additionally, the proposal did not include plans to collaborate with other universities or to analyze data pertaining to cities other than Los Angeles.

We requested justification for the trip. The response from the PI included the following:

The project had several elements including: 1. Social science (led by [REDACTED]), ecosystem measurements and modeling (lead by [REDACTED] at UCI), remote sensing and spatial analysis (lead by myself), and economic analysis (lead by [REDACTED] at UCI). The remote sensing effort included the use of satellite and airborne data over Los Angeles County and/or other urban forest environment to quantify, compare and validate the role of trees in mitigating the urban heat island effects and other ecosystem services such as increasing water use efficiency and air pollution reduction.

During the first and second year of the project, our activities were centered around [REDACTED] over the city of Los Angeles.

During the third year of the project we had an opportunity to receive [REDACTED] [REDACTED] sensors developed for forestry application, particularly urban forests.

Participation in the NASA campaign allowed us to have free training for students, free access to the data, and field measurements funded by the NASA program. The students met several other groups from University of Maryland, University of Maine, University of Massachusetts, US Forest Service scientists, and NASA scientists all interested in the same research questions. Participation in the NASA field campaign also allowed us to request data over Los Angeles county during future NASA campaigns over the western states. Currently, we are in the process of publishing the data we received subsequently from NASA sensors over Los Angeles and to improve the research products developed during the NSF grant.

As a PI and research advisor to UCLA students, [REDACTED] [REDACTED] used more efficiently if students receive the training and data from the state-of-the-art remote sensing technology designed for forestry in general and urban forests in particular.

We requested support for the invitation from NASA for the students to participate in the data collection. The PI indicated that support could not be provided because the agreement with

NASA was not formally documented; rather, it was based on the PI's participation in a team meeting that allowed the research team to collect data for two years (2009 and 2010).

The final project report was dated October 2010, only two months after the trip to Maine. The report presented the results of the research and did not include any mention of collaboration with NASA or other universities on the project.

According to 2 CFR 220 Appendix A, Section C.4, a cost is allocable to a sponsored agreement if it is incurred solely to advance the work under that sponsored agreement. The cost must be assignable to a specific cost objective of the sponsored agreement.

The purpose of the trip was outside the scope of the NSF award and appears to be related to the PI's other research projects. We are questioning \$6,104 in total costs, including [REDACTED] of expenses charged for the trip and [REDACTED] of associated indirect costs.

Recommendations

We recommend that NSF's Director of the Division of Institution and Award Support address and resolve the following recommendations that UCLA:

1. Repay NSF the \$6,104 of questioned costs.
2. Strengthen the administrative and management controls and processes over allocating travel expenses incurred by PIs with multiple federal awards. Processes could include:
 - a. Developing and implementing procedures to ensure that all travel charges allocated to federal grants have been reviewed and are certified as relating solely to the federal grant to which the travel is being charged.
 - b. Reviewing UCLA's policies and procedures, including performing periodic reviews of individual departments and divisions for compliance with, and proper implementation of, established cost controls, as well as to ensure that costs claimed on NSF awards relate to that specific award, are within the award budget, and are incurred during the award period.

University of California, Los Angeles Response: UCLA contended that the PI's responses provide support that travel taken was relevant and allocable to the project, and that the costs should therefore not be questioned or repaid. The university also stated that this NSF grant was awarded under the Federal Demonstration Project (FDP) Terms and Conditions, which allowed the PI to re-budget. The university's response included two statements provided by the PI, which were not included in the initial draft report, to provide support that the trip was within the scope of the award.

Auditors' Additional Comments: Our position regarding the finding does not change. As previously stated, we believe that the purpose of the trip was outside the scope of the NSF award and that it appears to be related to the PI's other research projects. We also noted that while FDP allows re-budgeting among budget categories, it requires NSF approval for a change in the scope

of the project, and it does not preclude the university from having to demonstrate that the cost is reasonable, allocable, and allowable.

Finding 7: Unallowable Application of Indirect Expenses

UCLA transferred [REDACTED] of participant support costs that were originally charged to NSF Award No. 0739289 to NSF Award No. 0643318. UCLA did not transfer these expenses to participant support cost accounts, however, and indirect expenses were erroneously applied to the costs and charged to NSF Award No. 0643318.

The NSF *Proposal and Award Policies and Procedures Guide, Part II: Award & Administration Guidelines* (effective January 5, 2009), Chapter V: *Allowability of Costs*, Section D: *Indirect Costs*, Subsection 1.b: *Exceptions to Basis Policy* states:

NSF generally provides no amounts for indirect costs for the following:

...
 (d) [P]articipant support costs. However, an allowance for indirect costs associated with participant support costs may be established or negotiated in advance when circumstances indicate that the grantee could be expected to incur significant expenses in administering participant payments (other than salary or other direct expenses being reimbursed under the award)...

In our initial draft report, we questioned all costs associated with the costs transferred to this grant; however, the university’s response to our draft report included an e-mail from an NSF program official in which the official stated that they verbally granted the PI of the grant permission to reallocate the remainder of the funding to support the conference in question. The university did, however, acknowledge that the indirect expenses associated with the participant support costs were inappropriately allocated to the NSF grant.

As the [REDACTED] of transferred expenses related to participant support costs, it was inappropriate to apply indirect expenses to each of the transferred transactions. We questioned all indirect costs applied to the \$ [REDACTED] of conference-related expenses transferred to this NSF grant at the end of the grant period, as follows:

Cotton & Company Transaction Description	Transaction Amount	Estimated IDC Applied
Copy services for 35 booklets for teachers attending the “In the Loop” conference.	[REDACTED]	[REDACTED]
Purchase of 30 copies of “Stuck in the Shallow End,” a book written by the grant PI, from Barnes & Noble for participants who attended the “In the Loop” conference.	[REDACTED]	[REDACTED]
Purchase of [REDACTED] flash drives for the “In the Loop” conference.	[REDACTED]	[REDACTED]
Catering for the “In the Loop” conference on 8/17/2009.	[REDACTED]	[REDACTED]
Catering for the “In the Loop” conference on 8/18/2009.	[REDACTED]	[REDACTED]
Payment to an individual for participating in the “In the Loop” conference.	[REDACTED]	[REDACTED]

Cotton & Company Transaction Description	Transaction Amount	Estimated IDC Applied
Payment to an individual for participating in the “In the Loop” conference.		
Payment to an individual for participating in the “In the Loop” conference.		
Payment to an individual for participating in the “In the Loop” conference.		
Payment to an individual for participating in the “In the Loop” conference.		
Payment to an individual for participating in the “In the Loop” conference.		
Payment to an individual for participating in the “In the Loop” conference.		
Total		<u>\$3,200</u>

Recommendations

We recommend that NSF’s Director of the Division of Institution and Award Support address and resolve the following recommendations that UCLA:

1. Repay NSF the \$3,200 of questioned costs.
2. Strengthen the administrative and management controls and processes over the recording of participant support costs. Processes could include:
 - a. Implementing new policies and procedures that require a more stringent review of all cost transfers related to conference expenses to ensure that the indirect expenses are not allocated when participant support costs are transferred.
 - b. Creating new account codes specifically designed to accumulate participant support costs, which would not apply indirect expenses.

University of California, Los Angeles Response: In response to the draft report, which questioned a total of [REDACTED] related to the costs transferred to this NSF award at the end of the grant’s period of performance, UCLA provided an e-mail from an NSF program officer stating that the officer had verbally approved the reallocation of the funding that we had originally identified as unallowable. UCLA did, however, acknowledge that the costs were transferred from an account that did not assess indirect costs to an account that did assess indirect costs, and agreed to the questioned indirect costs related to the conference expenses.

Auditors’ Additional Comments: Based on our review of UCLA’s response to the draft report, as well as the additional documentation provided, we determined that the direct costs transferred were allocable to the NSF grant. As NSF does not allow the application of indirect expenses on participant support costs, however, we are still questioning the indirect expenses associated with the costs transferred to this award.

Finding 8: Unallowable Technology Infrastructure Fees

Technology Infrastructure Fees (TIFs) were erroneously charged to NSF Award Nos. 0713178 and 0924876. The Notice of Award letters for both grants specifically stated that TIFs could not be claimed as expenditures on the awards, but ██████ in TIFs were allocated to NSF Award No. 0713178, and ██████ in TIFs were allocated to NSF Award No. 0924876.

Technology infrastructure services support the entire UCLA campus, including the UCLA backbone, Commodity Internet, BOL Services, and underground inter-building wiring/cabling and maintenance. UCLA allocates fees for these services, known as TIFs, on a monthly full-time equivalent (FTE) basis (i.e., based on how each employee allocates their effort each month). UCLA’s TIF Frequently Asked Questions (FAQs) require these TIF charges to be included as a direct cost in all proposals, but also state that if the TIF charges are identified as an unallowable expense by the funding agency, the employing organizational unit is required to pay the TIF charges by utilizing unrestricted fund sources.

UCLA personnel agreed that these fees were inappropriately allocated to the NSF grants and provided the following statement in relation to the TIF charged to NSF Award No. ██████:

OCGA identified the TIF restriction and called out the restriction on the Award Snapshot... In this case, ██████ of TIF was incorrectly charged to the award, and EFM failed to detect the TIF charges and remove them during the fund closing process. EFM has taken corrective action to remove the unallowable TIF charges from this award. The award expired in August 2013, and the TIF charges are removed in October 2013 within 90 days of the award expiration.

We are questioning the unallowable TIF charges and related indirect costs as shown below:

NSF Award No.	Unallowable TIF Fees	Estimated Applied IDC	Questioned Amount
0713178	████████	████████	████████
0924876	████████	████████	████████
Total			<u>\$2,263</u>

Recommendations

We recommend that NSF’s Director of the Division of Institution and Award Support address and resolve the following recommendations that UCLA:

1. Provide support to NSF’s Director of the Division of Institution and Award Support that it has repaid the \$2,263 of questioned costs.
2. Strengthen the administrative and management controls and processes over its federal awards. Processes could include strengthening internal procedures within the extramural

fund management department to ensure that costs identified as unallowable cannot be allocated to federal grants.

University of California, Los Angeles Response: UCLA agreed that the TIFs assessed on NSF Award Nos. 0713178 and 0924876 were unallowable, and agreed to strengthen controls over the charging of TIFs to federal awards. UCLA specifically noted that its new Post Award Management System automatically flags all TIF charges for justification or transfer. The university also noted that while the auditors only calculated unallowable TIFs for the period under review, it has removed all TIFs charged to both of these awards.

- Award No. 0713178: UCLA will repay NSF the total amount of TIFs charged to the award, or \$ [REDACTED] and related indirect costs of \$ [REDACTED]).
- Award No. 0924876: As indicated in the report, UCLA removed all TIF-related expenses (\$ [REDACTED] and related indirect costs) on October 11, 2013.

Auditors' Additional Comments: Because the errors were not corrected until after the audit period, this finding remains in the report.

Finding 9: Late Effort Report Certifications

UCLA policies and procedures require that UCLA employees provide effort certifications within 120 days of the end of the reporting period. We found that for 50 of our 93 sampled salary transactions, employees had not certified the effort reports within the specified time period.

According to 2 CFR 220 Appendix A, Section J.10.b, salaries and wages charged to NSF awards must reasonably reflect the actual labor effort that the employee contributed to meeting the objectives of the award. While a university can initially charge NSF awards based on estimates of expected labor effort, it is required to subsequently confirm that the level of effort reported was consistent with the actual effort expended. Accordingly, the system must provide for an after-the-fact confirmation of employee activity by a responsible person with "suitable means of verification that the work was performed." The Circular also requires that the university provide for periodic independent internal evaluations to ensure the system's effectiveness and compliance with federal standards.

The University of California Office of the President Contract and Grant Manual, Chapter 7, Section 330 discusses the university's effort certification and reporting system, which requires those employees that are committed to work on federal contracts to certify the amount of their total work effort applicable to sponsored research. Sponsored research efforts must be certified on an after-the-fact basis, within 120 days of the end of the reporting period. While each salary transaction we tested was supported by a signed effort certification, we noted that most were not signed within 120 days of the end of the reporting period. We also noted that the effort reports provided to support six of the sampled transactions had not been certified until after April 15, 2013, when we requested the supporting documentation.

As many PIs have multiple grant awards, as well as many employees for whom they are responsible, the PI's memory of the amount and type of activities performed will be less reliable over time. Certifying officials generally rely on these memories when approving reported work

activities for themselves and for other individuals who work for them, making it essential that all effort reports are certified on a timely basis. Based on the documents we reviewed, however, UCLA personnel only recently certified effort they expended on NSF grants over 3 years ago.

Without procedures in place to verify faculty effort on a timely basis, it is possible that inaccurate effort reports will be certified. As a result, labor costs could be inappropriately allocated and charged to NSF grants. Limiting the window for review and certification of effort reports to the shortest time period possible helps ensure a more reliable certification of labor costs associated with activities on federal awards.

Recommendations

We recommend that NSF's Director of the Division of Institution and Award Support address and resolve our recommendation that UCLA strengthen the administrative and management controls and processes over allocating salaries to its federal awards. Processes could include requiring departments to ensure that effort report certifications are completed within 120 days of the end of each reporting period, as required by university policies and procedures.

University of California, Los Angeles Response: UCLA agreed to share this finding with senior management, faculty, and staff to provide additional support for focus on improved timeliness of certifications.

Auditors' Additional Comments: Our position regarding the finding does not change.

APPENDIX A: SCHEDULE OF QUESTIONED COSTS BY FINDING

**NATIONAL SCIENCE FOUNDATION
ORDER # D12PS00465
PERFORMANCE AUDIT OF COSTS CLAIMED ON NSF AWARDS
UNIVERSITY OF CALIFORNIA, LOS ANGELES**

SCHEDULE OF QUESTIONED COSTS BY FINDING

Finding	Description	Cost Breakdown		Total Questioned Costs	
		Direct Costs	Related Indirect Costs	Unsupported	Unallowable
1	Overcharged Summer Salaries ¹				
2	Unsupported Per Diem Costs				
3	Unallowable Visa Application Fees				
4	Unreasonable Equipment Purchases Made at the End of the Grant Period				
5	Unreasonable Salary Expense Charged to an Award ²				
6	Unallocable Domestic Travel				
7	Unallocable Conference Expenses				
8	Unallowable Technology Infrastructure Fees				
9	Late Effort Report Certifications				
	Total				<u>\$2,227,241</u>

¹Direct costs consist of salaries, as well as the associated benefits and TIFs applied to the overcharged salaries.

²Direct costs consist of salaries, as well as the associated benefits applied to the unreasonable salary expense.

APPENDIX B: UNIVERSITY OF CALIFORNIA, LOS ANGELES RESPONSE

UCLA AUDIT & ADVISORY SERVICES



CONFIDENTIAL

10920 Wilshire Boulevard, Suite 700
Los Angeles, California 90024-1366

Fax: [REDACTED]

May 12, 2014

[REDACTED]
Cotton & Company LLP
635 Slaters Lane, 4th Floor
Alexandria, VA 22314

Re: Response to the Cotton and Company LLP Draft Audit Report of the University of California, Los Angeles for the National Science Foundation (NSF) Office of Inspector General (OIG)

Dear [REDACTED]

In response to your request, the University of California, Los Angeles (UCLA) provides the following comments to the draft audit report entitled, "*Performance Audit of Incurred Costs for National Science Foundation Awards for the Period July 1, 2009, to June 30, 2012 National Science Foundation Office of Inspector General.*"

Finding 1: Overcharged Summer Salaries

The NSF was not overcharged for summer salaries, related benefits and technology infrastructure fees, and indirect costs. UCLA and University of California (UC) policies and procedures for calculating and paying summer salary are compliant with 2 CFR Part 220 (formerly OMB Circular A-21) Appendix A (*Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements With Educational Institutions*) requirements.

There are internal controls to ensure that faculty receive summer compensation only at the appropriate rates. The summer salary rate is determined by dividing the academic year base salary (rate) by the number of months covered by the academic year appointment, which is in compliance with 2 CFR Part 220 Appendix A, Section J.10.d.(2) and *NSF Proposal and Award Policies and Procedures Guide*, Part II, Chapter V, Section B.1.a (ii) (a).

The regulatory guidance provided in 2 CFR Part 220 Appendix A, Section J.10.d. (1) does not define the academic year "continuous period" and states that it is determined by "the policy of the institution concerned." UCLA academic year compensation calculations use a baseline period of [REDACTED] This is applied consistently throughout the UC system and referenced within compensation policy (APM

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600 series). The summer service period is not based on calendar months, but runs from approximately mid-June through mid-September and, for consistency, is designed to replicate the academic year service periods. Any ■ working days within the summer service period may be claimed for full summer compensation, regardless of the number of days within the month. The use of the ■ table only ensures that faculty summer service is accurately compensated and recorded over the service period.

It is not correct to draw comparisons between monthly or daily compensated employees and summer service compensated academics. It is important to note that while 9 month faculty receive their negotiated salary in 12 monthly installments; it does not make them monthly compensated employees. The payroll distribution records and effort reports provided for the audit demonstrated UCLA's compliance with the two month (UC 2/9) NSF compensation guideline.

UCLA believes that the auditors' conclusion was inappropriately based on the use of a model that focused on the number of days in a month and ignored UC policy which is based on a ■ day summer service period. Therefore, UCLA does not believe that the \$2,126,912 of costs should be questioned or repaid, and disagrees with the recommendations of the auditors.

Finding 2: Unsupported Per Diem Costs

UC Policy was followed regarding the questioned costs related to foreign travel per diem. A traveler is allowed to claim a per diem for foreign travel (including long term foreign travel) without providing receipts. UC Policy G-28 states the following: **Per Diem --** the daily subsistence allowance authorized under the federal per diem rates for a location of travel. **The payment of a per diem does not require supporting receipts. Per diems are authorized for all foreign travel;** (page 8 of BFB G-28 effective May 7, 2010).

UCLA's procedure for paying foreign per diems is consistent with 2 CFR 220 Appendix A, Section J.53, which states "costs incurred by employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses, shall be considered reasonable and allowable only to the extent such costs do not exceed charges normally allowed by the institution in its regular operations as the result of the institution's written travel policy." These costs are normally reimbursed by UCLA regardless of funding source and are in compliance with UC policy G-28; therefore, the federal standard was met.

The auditors have noted "UCLA representatives stated that despite the University of California's travel policy, the UCLA Travel Accounting Office's standard procedure is to reimburse all foreign travel at the maximum per diem rate." This is not accurate. Travelers are told to submit **up to 100%** of the per diem rate with the understanding that they will adjust the rate down if less is spent. We can provide examples of when a traveler has adjusted per diems down.

The auditors conclude the following: "The intent of the University of California travel policy is to require travelers to seek long-term accommodations in order to reduce travel costs. UCLA failed to obtain supporting documentation for long-term travel or to calculate daily expense rates. Accordingly, we are questioning the following costs:..."

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Regarding the calculation of daily lodging rates, the policy referenced above states that this is “expected” with long-term travel. However, it is not required. The term “expected” does not equate to mandatory. Rather, it indicates a best practice. When the travel policy intends to make something mandatory, it clearly states it with the terms “must” or “required.” There are multiple examples of the terms “must” or “required” being used in UC Policy G-28.

Therefore, UCLA does not believe that these costs should be questioned costs or repaid. UCLA will review and consider revisions to the current travel policy and monitoring enhancements.

Finding 3: Unallowable Visa Application Fees

UCLA agrees that immigration visa costs and related legal fees should have been distributed across projects in proportion to each employee’s effort. UCLA noted calculation errors in the “% of Effort Allocated to the Grant in Month of Expense” and “% of Effort Allocated to the Grant During the Effective Grant Period” depicted in chart 1. Additionally, UCLA believes that “% of Effort Allocated to the Grant in the Month of the Expense” is not relevant, and the “% of Effort Allocated to the Grant During the Effective Grant Period” is understated.

UCLA acknowledges that the “*Immigration Visa Applications, the Cost of Outside Legal Assistance, and Internal Processing Recharges*,” guidance (that was updated in 2006) should be revised. UCLA agrees to the questioned costs of \$73,135.

Finding 4: Unreasonable Equipment Purchases Made at the End of the Grant Period

While computers were purchased at the end of the award period for each identified project, UCLA contends that each purchase was reasonable, allowable, and allocable to the respective projects. Therefore, costs should be deemed reasonable and not questioned or repaid.

- NSF Award No. [REDACTED]: The PI stated, “The [new] computer was purchased towards the end of the granting period because [the computer] I was using to store all the sequence data, to write all the articles, and to keep track of all the collaborations & correspondence regarding the grant started acting very erratically and there were several times where I couldn’t get it to turn on. So I purchased the [new] computer, transferred all the grant-related data, and [REDACTED] with the other sequences from the grant during the last month of the grant.” Additionally, the PI provided information regarding talks and planned publications directly related to work in the last month of the grant period. She also provided support for the two events at the [REDACTED] meetings that were organized and prepared by her, which were included in the NSF Final Report. UCLA contends that dissemination of the final project results are required by the NSF and provides benefit to the scientific community. This frequently occurs after the project period has ended.
- NSF Award No. [REDACTED]: The PI stated, “The NSF experiment also involved Computational Fluid Dynamics (CFD) Simulations of the flow. Running the CRD simulations on serial machines took about 72 hours for each case. Since we had over [REDACTED] cases to run, we bought these items to convert our serial machines to parallel machines. The

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Processors. The time taken for each case was reduced to about 6-8 hours.” UCLA contends that cutting the case processing hours was relevant and necessary to ensure the timely completion of the project.

- NSF Award No [REDACTED]: The PI stated that “At that particular time, we were working on developing [REDACTED], which was a central part of the project funded by NSF. In particular, we were developing a [REDACTED] model that required [REDACTED] Monte Carlo simulations in the learning process. The computation was very heavy and we desperately needed powerful computers with GPU. That was the reason we bought it. To save the cost, we bought different pieces and assembled them by ourselves. That computer we bought was desperately needed and fully devoted to the project funded by the NSF.” Additionally, this project was competitively renewed by NSF from 2010 - 2013. Therefore, the equipment purchased at the end of the first project period continued to benefit the NSF funded project through the three year renewal period.

UCLA will, however, increase its campus training efforts and consider implementing additional controls to highlight equipment purchases made in the last 90 days of a federal award.

Finding 5: Unreasonable Salary Expense Charged to an Award

While the summer salary payment was charged to the NSF grant late in the award period (retroactively), it was not an incident of “cost shifting.” The approved budget for NSF Grant # [REDACTED] compensation during the award period.

The PI stated, “This summer [REDACTED] on producing a high-resolution [REDACTED] product, which was conducted in summer 2010 but completed in 2011. USGS, in 2009, released the [REDACTED] to the scientific community, and the [REDACTED] became freely available. Seeing the need of a high-resolution [REDACTED] in the scientific community and the high relevance to this project, the PI decided to use this [REDACTED] in the third year (2010), which was not in the original proposal. The PI did not notify the NSF project manager with the additional task since no additional funding support was requested. This additional task involved acquiring and processing a large number of [REDACTED] and produced a high-resolution [REDACTED] of Alaska, containing [REDACTED]. This high-resolution ~~Alaska lake database~~ was released through the project in late 2011 at <http://data.col.uclar.edu/codiac/dss/id=106.346>. PI designed the [REDACTED] and the QA/QC product, and spent more than [REDACTED] of his time on this task. The majority of task was conducted in summer 2010, but the database was not completed until May 2011, right before the ending of the project. If the additional task was not completed before the end of the project, it would not make sense to claim this effort through this project. Thus, the PI requested the additional summer [REDACTED] after the completion of this effort (in June 2011) for August 2010. This additional effort was reported in the final project report.”

The UCLA Effort Reporting System (ERS) has always included a procedure for the certification of updated effort reports. Retroactive transactions that affect a prior reporting period trigger “late pay”

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updates to ERS. The update re-opens the effort report impacted by a late-pay transaction. If there was no report generated for the prior period (as in this case), then the system does not produce an updated report version.

However, campus units are required to review the ERS, at least monthly, to identify reports that are uncertified or have not been automatically generated. Staff are trained to create a report manually when they identify that one is missing and requires recertification. In addition, the Office of Research Administration (ORA) - Extramural Fund Management (EFM) generates [REDACTED] that identifies [REDACTED] with [REDACTED] effort reports. EFM sends reminder notifications to these campus units to contact the PIs to have them certified.

UCLA contends that the salary expense is reasonable to the extent that the task was within the scope of the project and the compensation was included in the approved budget; therefore, does not agree that the costs should be questioned or repaid. However, UCLA agrees that the payment and effort certification should have been completed in a timely manner. While this was a very unique incident, UCLA will consider strengthening the administrative and management controls that relate to this type of transaction.

Finding 6: Unallocable Conference Expenses

The draft audit report did not include all relevant portions of the statement provided by the campus unit to justify the cost transfer to NSF Award No. [REDACTED]. The following was also provided:

- “With these funds we held a Broadening Participation and Retaining Underutilized Populations in Computing Day on November 9, 2007, at UCLA. This day long event had two parts: 1) 200 Los Angeles Unified School District high school students and teachers came to UCLA and were introduced to a broader image of what computer science is all about, hearing presentations from Spelman College Spelbots and computer scientists from Broadening the Participation in Computing community, 2) Dr. [REDACTED] from Rice University give a talk on diversity in computer science and engineering to the students and faculty at the UCLA Henry Samueli School of Applied Sciences and Engineering (HSSEAS).”
- “This conference supplemented the Computer Science Day with [REDACTED]. We were able to provide additional professional development for computer science teachers in collaboration with the Into the Loop project in order to enhance the goals of this project.”

UCLA recently received a written statement from the NSF Program Officer, documenting the verbal approval she gave the PI to reallocate the funds. The Program Officer stated on April 10, 2014: “I have been notified by the PI that UCLA has asked for documentation about funds that were reallocated under this award [0643318]. The funds were moved from creating a video to providing additional PD for teachers. I was aware of the difficulties that had been encountered in producing the video effort and had verbally approved the reallocation of funds. Unfortunately neither [REDACTED] nor I documented that approval.” The approval is documented in Attachment A.

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UCLA does not agree that the cost transfers occurred solely to expend the balance of funds on the award, or that UCLA engaged in cost shifting. The PI reallocated the funds to provide additional professional development (PD) opportunities for teachers, based on the NSF Program Officer's verbal approval. UCLA acknowledges that costs were transferred from an account that did not assess indirect costs to an account that did assess indirect costs. UCLA agrees only to the questioned indirect costs related to the conference expenses. UCLA will reaffirm the process for managing participant support costs to the campus and consider implementing better cost transfer controls. Additionally, UCLA will encourage improved documentation of PI and NSF Program Officer communications.

Finding 7: Unallocable Domestic Travel

The following relevant statements were made by the PI, but were not included in the draft audit report:

- "I [redacted] with University of Maine to look at the [redacted] and the [redacted] for our NSF project. The goal was [to perform] a comparative study of our urban tree project data and try to quantify if different climate can impact the effect of trees on urban heat island. However, the collaborations at the University of Maine were collecting data on the biomass of trees, which was useful for UCLA's research as the forest structure and for them. It helped to quantify the tree fuel load for any urban tree fire hazards during the summer."
- "The NSF grant allowed us to address several research questions using intensive data gathering analysis over [redacted] outside of the study domain. The NSF final report highlights the most significant results and does not necessarily include all the details of the project including measurements, lab work, house-hold data gathering, and student training and participations. Unfortunately, we did not include the experience gained during the field campaign and the subsequent free data [redacted] in the final report. However, this is not unusual. Within each research grant and projects, often, part of the data analysis and publications will be done after the grant is completed. The fact that the details of (the) trip were not included in the report does not mean it was not important and relevant to the project or beneficial to the students who were working on the NSF research grant."

The department also noted that this NSF grant was awarded under the Federal Demonstration Partnership (FDP) Terms and Conditions, which allowed the PI for rebudgeting. UCLA contends that the explanations provided document the PI's determination that the travel was relevant and allocable to the project. Therefore, the costs should not be questioned or repaid. UCLA will consider enhancing controls over travel charged to federal awards.

Finding 8: Unallowable Technology Infrastructure Fees (TIF)

UCLA agrees that TIF was not allowable on NSF Award Nos. [redacted] and [redacted]. The auditors calculated unallowable TIF fees for the period under review only. Therefore, for:

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- Award [REDACTED]: TIF related expenses charged to the award total \$1,322.92 [REDACTED] related F&A costs of \$ [REDACTED]. UCLA will repay the NSF the total amount charged to the award.
- Award [REDACTED]: As indicated in the report, UCLA removed all TIF related expenses (\$ [REDACTED]) on October 11, 2013. No repayment is due, as the Letter of Credit was adjusted to reflect the correction.

UCLA agrees to strengthen controls over the charging of TIF to federal awards. UCLA's standard process identifies grant-specific restrictions on the "Award Snapshot," which is used to communicate award information to PIs and staff. UCLA's new Post Award Management System automatically flags all TIF charges for justification or transfer.

Finding 9: Unallocable Cost Transfer

The vendor invoice for the publication costs was dated October 20, 2009. UCLA informed the auditors that the invoice was not released for payment until December 2010, due to a vendor code error which caused the invoice to be placed on the "Hold and Incomplete" list for resolution by the department. Once the department resolved the coding error, the cost was then transferred three months later to the NSF award as directed by the PI.

The Basic Plasma Science Facility (BaPSF) is co-funded by the NSF and the Department of Energy (DoE) under a cooperative agreement. As such, the PI contends that the article related to the publication costs entitled, "*Correlation Analysis of Waves above a Capacitive Plasma Applicator*," published on July 22, 2009, acknowledges (on page 4) that the BaPSF is funded by a cooperative agreement between the DoE and the NSF. Therefore, UCLA believes that the publication costs are allocable to the NSF award and does not agree that costs should be questioned or repaid. However, UCLA acknowledges that many errors were made in the processing of the vendor invoice causing unnecessary delays. UCLA will consider strengthening controls over the cost transfer process.

Finding 10: Late Effort Report Certifications

UCLA initiated a campus Effort Reporting Workgroup in November 2009 to review in detail all [REDACTED] certification. Since its inception, the Workgroup has pursued improvements in the ERS functionality, campus policy, campus training, and best practices.

System functionality issues were a major obstacle at the start, and the group worked effectively to drive changes to the system in calendar year 2010 and 2011. System bugs created problems in generating reports in a timely manner; system upgrades were slow and sometimes introduced new system bugs; requirements to account for furlough periods and ARRA awards added complexity. Tremendous system improvements were made over time, and timeliness of certifications began to improve.

At the same time, the workgroup recommended improvements to campus policies and procedures in order to streamline the reporting process. The group also developed and led a series of campus-wide training programs to ensure in-depth understanding of the federal policy, the ERS, campus

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policy and best practices. Finally, the group developed monitoring tools and reports to enable early identification of problems. EFM uses these tools and reports to target visits to campus units, to troubleshoot problems, to fill gaps in training, and to encourage timely certification. Through these ongoing activities, effort reporting compliance has steadily improved. This finding will be shared with senior management, faculty and staff to provide additional support for focus on improved timeliness of certifications.



Enclosure

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ATTACHMENT A



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APPENDIX C: OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES, SCOPE, AND METHODOLOGY

The NSF OIG Office of Audits engaged Cotton & Company LLP (referred to as “we” in this report) to conduct a performance audit of costs that UCLA incurred on NSF awards for the period from July 1, 2009, through June 30, 2012. The objectives of the audit were to identify and report on instances of unallowable, unallocable, and unreasonable costs, as well as instances of noncompliance with regulations, federal financial assistance requirements, and provisions of the NSF award agreements as they relate to the transactions tested.

At the NSF OIG’s request, UCLA provided [REDACTED] data for [REDACTED] [REDACTED] NSF awards.

UCLA management is responsible for establishing and maintaining effective internal control to help ensure that federal award funds are used in compliance with laws, regulations, and award terms. In planning and performing our audit, we considered UCLA’s internal control solely for the purpose of understanding the policies and procedures relevant to the financial reporting and administration of NSF awards in order to evaluate UCLA’s compliance with laws, regulations, and award terms applicable to the items selected for testing, but not for the purpose of expressing an opinion on the effectiveness of UCLA’s internal control over award financial reporting and administration. Accordingly, we do not express an opinion on the effectiveness of UCLA’s internal control over its award financial reporting and administration.

Our work required reliance on computer-processed data obtained from UCLA and NSF. The [REDACTED] with data from [REDACTED] systems. To select sample transactions for further review, NSF OIG [REDACTED] to compile a sample list of transactions that [REDACTED]. NSF OIG reviewed available award [REDACTED] and relevant documented [REDACTED] as well as previously issued external audit reports and desk review reports. NSF [REDACTED] and [REDACTED] [REDACTED] for purposes of review and analysis. NSF OIG [REDACTED] NSF OIG [REDACTED].

The NSF OIG identified and provided to us a list of [REDACTED] [REDACTED]

transactions in those [REDACTED] for which we requested support.

We reviewed the supporting documentation provided by UCLA and evaluated the allowability, allocability, and reasonableness of each transaction. When necessary, we requested and reviewed additional supporting documentation and obtained explanations and justifications from UCLA principal investigators.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). These standards require us to obtain reasonable assurance that the evidence provided is sufficient and appropriate to support the auditors' findings and conclusions in relation to the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.