



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

**MEMORANDUM**

**DATE:** January 29, 2016

**TO:** Jeffery M. Lupis  
Director, Division of Acquisition and Cooperative Support (DACCS)

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

**SUBJECT: NSF OIG Audit Report No. OIG-16-6-003: *Inadequate Incurred Cost Submissions for Fiscal Years 2010 and 2011, National Ecological Observatory Network, Inc., (NEON)***

The Defense Contract Audit Agency (DCAA) performed an adequacy review of NEON's incurred cost submissions for fiscal years (FY) 2010 and 2011 to determine if they included all of the information necessary to facilitate timely completion of an audit (in the event an audit was requested). DCAA used the guidance contained in the NSF Indirect Cost Rate Proposal Submission Procedures (and various additional references cited in the memo) as a basis for its adequacy review. DCAA's inadequacy memo, dated November 25, 2015, is attached.

The adequacy review identified a number of problems, which require corrective action before an audit can be initiated. These problems included: incomplete sub-recipient documentation, lack of identification of direct/indirect functional areas, unexplained top-level adjustments made to reconcile the incurred costs proposals to the A-133 financial reports, and many other inadequacies. See the attached letter for specifics.

It is significant that a high-dollar, high-risk NSF awardee's<sup>1</sup> proposed cost submissions are missing important information needed to facilitate an audit. In OIG's alert memo on NSF's management of cooperative agreements,<sup>2</sup> we recommended that NSF obtain annual incurred cost submissions from its awardees with large cooperative agreements to determine the reasonableness, allocability and allowability of costs claimed to NSF. Adequate incurred cost submissions, including all important schedules and data, are critical for NSF to properly discharge its administrative and fiduciary responsibilities as stewards of federal funds.

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<sup>1</sup> NEON's most significant NSF award is the \$434 million NEON construction cooperative agreement.

<sup>2</sup> NSF OIG Alert Memo 12-6-001, *NSF's Management of Cooperative Agreements*, dated September 28, 2012.

Accordingly, we recommend that NSF require NEON to provide the missing schedules and information noted in the DCAA memo for its incurred cost submissions for FYs 2010 and 2011. To prevent this problem from recurring, we also recommend that NSF take steps to ensure that all NEON's incurred cost submissions for future years contain adequate data.

This OIG memo is related to the above cited OIG alert memo no. 12-6-001 and brings to NSF's attention issues identified during that work that warrant corrective action.

DCAA is responsible for the attached inadequacy memo and the conclusions expressed in that memo.

In accordance with OMB Circular A-50, Audit Follow-up, please provide our office with a written corrective action plan to address the report's recommendations. In addressing the recommendations, this corrective action plan should detail specific actions and associated milestone dates. Please provide the action plan within 60 calendar days of the date of this report.

If you have any questions about this report, please contact Sherrye McGregor at (703) 292-5003 or Jannifer Jenkins at (703) 292-4996.

Attachment: DCAA memo dated November 25, 2015, Subject: *National Ecological Observatory Network, Inc., (NEON) Adequacy Review of Fiscal Years 2010 and 2011 Incurred Cost Proposals, Dated February 25, 2011 and March 29, 2012*

cc: Richard Buckius  
Martha Rubenstein  
Dale Bell  
Ruth David  
Michael Van Woert  
Christina Sarris  
Allison Lerner



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IN REPLY REFER TO

3151-2016J10190001

November 25, 2015

Ms. Sherrye McGregor  
National Science Foundation (NSF) Office of Inspector General  
4201 Wilson Boulevard  
Arlington, Virginia 22230

SUBJECT: National Ecological Observatory Network, Inc. (NEON) Adequacy Review of Fiscal Years 2010 and 2011 Incurred Cost Proposals, Dated February 25, 2011 and March 29, 2012.

Dear Ms. McGregor:

During our review of NEON's Fiscal Years (FY) 2010 and 2011 incurred cost proposals, we identified the inadequacies described below. The proposals were reviewed using the guidance identified in NSF's Incurred Cost Rate Proposal Submission Procedures, along with the guidance found in NSF Cooperative Agreement Financial & Administrative Terms and Conditions (CA-FATC), and 2 CFR, PART 230. The purpose of our adequacy review was to determine whether all necessary information has been included in the proposal to facilitate DCAA's audit. The adequacy review identified the following inadequacies, which require corrective action before an audit can be initiated.

<b>ICR Required Documentation</b>	<b>Inadequacy</b>
1. Cover Letter	<ul style="list-style-type: none"><li>FYs 10/11 cover letters did not address the type of rate(s) and allocation base.</li></ul>
2. Changes to Organizational Profile and Cost Policy Statement	<ul style="list-style-type: none"><li>FYs 10/11 organizational profile that includes a statement of major activities performed and organizational charts are required.</li><li>FY 11 ICR proposal did not include the cost policy statement.</li><li>FY 10 ICR policy identifies a facilities rate; however the ICR proposal includes one overhead rate that includes cost of facilities. NEON needs to provide an explanation.</li></ul>
3. Financial Reports	<ul style="list-style-type: none"><li>FYs 10/11 financial reports identified sub-recipient awards. NEON needs to provide the following information for sub-recipient: award number, name and address, award value, award costs incurred in FYs 10/11, award type, and period of performance.</li></ul>

SUBJECT: National Ecological Observatory Network, Inc. (NEON) Adequacy Review of Fiscal Years 2010 and 2011 Incurred Cost Proposals, Dated February 25, 2011 and March 29, 2012.

<b>ICR Required Documentation</b>	<b>Inadequacy</b>
4. ICR Proposal	<ul style="list-style-type: none"> <li>• FYs 10/11 ICR proposals need to include identification of direct/indirect functional areas.</li> <li>• FY 10 ICR proposal requires identification of non-direct member funded activities and identification of unallowable costs per cost element.</li> <li>• FYs 10/11 reconciliation of ICR proposal to the A-133 financial reports requires explanations for the top-level adjustments to the trial balance. Reconciliation and explanation of adjustments at cost element level is also required.</li> <li>• FYs 10/11 NSF approved provisional indirect rate letters</li> <li>• FY 11 ICR proposal does not include applied indirect rates per cooperative agreement, grant, or contract.</li> </ul>
5. Identification and description of unusual factors which affect proposed actual rates.	<ul style="list-style-type: none"> <li>• FYs 10/11 ICR proposals are missing identification of any unusual factors affecting actual rates.</li> </ul>
6. Listing of all grants, agreements, and contracts (by federal agency) that were active during the fiscal year.	<ul style="list-style-type: none"> <li>• FY 10 listing needs to include: total award amount, period of performance, any applicable indirect cost limitations (i.e., ceiling rates), total prior year(s) claimed costs, cumulative billed amounts, and whether grants, agreements, or contracts were considered physically complete by end of FY.</li> <li>• FY 11 listing needs to include any applicable indirect cost limitations (ie, ceiling rates), total prior year(s) claimed costs, cumulative billed amounts, and whether grants, agreements, or contracts were considered physically complete by end of FY.</li> </ul>
7. Reconciliation of Total Payroll per accounting records to IRS form 941	<ul style="list-style-type: none"> <li>• FYs 10/11 ICR proposals need to provide this reconciliation.</li> </ul>

November 25, 2015

SUBJECT: National Ecological Observatory Network, Inc. (NEON) Adequacy Review of Fiscal Years 2010 and 2011 Incurred Cost Proposals, Dated February 25, 2011 and March 29, 2012.

Please have NEON make all corrections by December 31, 2015. Any supplemental schedules in support of the proposal should be submitted formally with a notification to DCAA and NSF. An adequate proposal will reduce the time required to perform the audit, which will result in timelier contract closeout activities. If NEON is unable to meet the date identified above, please provide a date when the corrections will be submitted.

Any questions regarding this letter should be directed to [REDACTED], or [REDACTED] Supervisory Auditor, [REDACTED]. Our e-mail address is [REDACTED].

Sincerely,

/s/ [REDACTED]  
/for/ [REDACTED]  
Branch Manager  
Rocky Mountain Branch Office

Copy furnished:  
[REDACTED], NEON Inc. Chief Financial Officer  
E-Mail: [REDACTED]

