



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

MEMORANDUM

DATE:

SEP 16 2016

TO:

Jeffery M. Lupis
Director, Division of Acquisition and Cooperative Support (DACS)

FROM:

Marie A. Maguire *Marie A. Maguire*
Assistant Inspector General for Audit (Acting)

SUBJECT: NSF OIG Report No. OIG-16-6-007, *Application of Associated Universities, Inc.'s (AUI) Fiscal Years (FY) 2008, 2009, and 2010 NSF Negotiated Rates to Audited Direct Costs*

We recently issued NSF OIG Audit Report No. 16-1-018, *Independent Audit Report on Associated Universities, Inc.'s Proposed Direct Amounts on Unsettled Flexibly-Priced Contracts, Grants, and Cooperative Agreements for Fiscal Years 2008, 2009, and 2010*, dated March 31, 2016. As part of our request for that audit, we requested the Defense Contract Audit Agency (DCAA) to ensure the proper application of negotiated indirect cost rates to AUI's FY 2008, 2009, and 2010 audited direct costs. To meet this request, DCAA issued the subject letter and applied final NSF-negotiated rates to audited direct costs for FYs 2008, 2009, and 2010 using the rates specified in AUI's NSF rate agreement letters.¹ The DCAA-calculated amounts are presented for each of the three FYs within DCAA's letter dated December 15, 2015, which is attached. DCAA only applied the final negotiated rates to AUI's audited direct costs. DCAA did not audit the negotiated rates or the rate methodology used.

We noted, however, that the DCAA letter states that AUI's FY 2008, 2009, and 2010 incurred cost submissions were not updated to incorporate the NSF-negotiated rates. Therefore, we requested that DCAA provide the differences between the amounts AUI proposed in its submissions and the amounts DCAA calculated using the NSF-negotiated final indirect cost rates. In response, DCAA provided spreadsheets that monetize submission overstatements in the combined amount of \$1,412,600 (\$718,758 + \$207,161 + \$486,681 for FYs 2008, 2009, and 2010 respectively) applicable to NSF awards with AUI. See the schedules included in this document for summary-level details.

The incurred cost submission is a certified representation of costs claimed for each award. There is a risk of overpayment when the official incurred cost submissions are not updated to incorporate the negotiated final indirect cost rates. It is important for NSF to be aware of the overstatements in AUI's submissions and to ensure that NSF-negotiated rates are properly applied when resolving the AUI incurred cost audit and in settling final award prices with AUI.

¹ Reference the two Enclosures to DCAA's letter dated December 15, 2015, for *Nonprofit Rate Agreement Letters* (dated November 13, 2008 for FY 2008 and October 2, 2014 for FYs 2009 and 2010).

Accordingly, we recommend that NSF:

1. Resolve the \$1,412,600 in overstated questioned costs applicable to NSF; and
2. To prevent this situation from recurring, require AUI to update all its incurred cost submissions and accounting records to incorporate final negotiated indirect cost rates.

Also, our review of DCAA's letter and spreadsheets reveals that AUI did not apply [REDACTED] rate to [REDACTED] ([REDACTED]); and that AUI's [REDACTED] rate (shown as negotiated at [REDACTED] of [REDACTED]) was not addressed in the NSF rate agreement letters. Since DCAA did not address either of these concerns, we suggest that NSF address them in its resolution process.

This memo is related to the above referenced DCAA audit of AUI's proposed direct amounts for FYs 2008, 2009, and 2010 (NSF OIG Audit Report No. 16-1-018), and brings to NSF's attention an issue identified during that work that warrants corrective action. DCAA is responsible for the attached letter, spreadsheets, and the conclusions and calculations presented therein.

We previously provided a copy of the complete DCAA spreadsheets that show calculated submission overstatements to appropriate NSF officials. We also provided a draft copy of this report to NSF officials for their review and response. NSF chose to provide an informal response via email instead of a formal response; therefore no formal response is attached to this report. NSF agreed in part with the recommendations, pending review and response from AUI. We took NSF's response into consideration when finalizing this report.

In accordance with OMB Circular A-50, NSF and OIG should agree on a corrective action plan for resolution of reported findings and recommendations. Please provide us with your proposed corrective action plan within 60 days.

We thank you and your staff for your cooperation. If you have any further questions, please contact David Willems at 703-292-4979 or Jannifer Jenkins at 703-292-4996.

Attachments: Schedule of Questioned Costs FY 2008
Schedule of Questioned Costs FY 2009
Schedule of Questioned Costs FY 2010
DCAA letter, *Application of Associated Universities, Inc.'s (AUI) Fiscal Years (FY) 2008, 2009, and 2010 National Science Foundation Negotiated Rates to Audited Direct Costs*, dated December 15, 2015

cc: Richard Buckius
Martha Rubenstein
Teresa Grancorvitz
Dale Bell
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Michael Van Woert
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Schedule of Questioned Costs - FY 2008
Associated Universities, Inc. (AUI)

<u>Award Description #</u>	<u>Award Number</u>	<u>Total Claimed Expenses using Claimed Rates</u>	<u>Total Adjusted Expenses using Negotiated Rates</u>	<u>Difference/ Questioned Costs</u>
NSF - National Virtual Obsv	8203-53665			
NSF - SPO-1	AST-0223851/AST-0226933			
NSF - SPO-2	AST-0223851/AST-0244577			
NSF - SPO-3	AST-0223851/AST-0331358			
NSF - SPO-4	AST-0223851/ATM-0320967			
NSF - SPO-5	AST-0223851/AST-0452760			
NSF - SPO-6	AST-0223851/ATM-0532973			
NSF - SPO-7	AST-0223851/AST-0653330			
NSF - SPO-8	AST-0223851/AST-0705244			
NSF - UC Berkeley PAPER	AST-0804508			
NSF - Misc BYU RFI Mitigation	AST-9987339			
NSF - Pulsar Search Collaboratory SA	DRL-0737641			
Other NRAO Direct Costs				
Other NRAO Direct Costs				
NSF Total		\$141,161,154	\$140,442,394	\$718,758
Non-NSF Total				
Totals for FY 2008:		\$	\$	\$

Note: Minor differences are due to rounding.

Schedule of Questioned Costs – FY 2009
Associated Universities, Inc. (AUI)

<u>Award Description</u>	<u>Award Number</u>	<u>Total Claimed Expenses using Claimed Rates</u>	<u>Total Adjusted Expenses using Negotiated Rates</u>	<u>Difference/ Questioned Costs</u>
NSF - National Virtual Obsv	8203-53665	\$ [REDACTED]	\$ [REDACTED]	[REDACTED]
NSF - US/China Bi-Lateral Workshop	OISE-0819073	[REDACTED]	[REDACTED]	
NSF - SPO-1	AST-0223851/AST-0226933	[REDACTED]	[REDACTED] ²	
NSF - SPO-2	AST-0223851/AST-0244577	[REDACTED]	[REDACTED]	
NSF - SPO-3	AST-0223851/AST-0331358	[REDACTED]	[REDACTED]	
NSF - SPO-4	AST-0223851/ATM-0320967			
NSF - SPO-5	AST-0223851/AST-0452760			
NSF - SPO-6	AST-0223851/ATM-0532973			
NSF - SPO-7	AST-0223851/AST-0653330			
NSF - SPO-8	AST-0223851/AST-0705244			
NSF - CSA 1	AST-0956545/CSA 1	[REDACTED]	[REDACTED]	[REDACTED]
NSF - CSA 2	AST-0956545/CSA 2			
NSF - Pulsar Search Collaboratory SA	DRL-0737641			
NRAO Direct Costs				
NSF Total		\$146,536,000	\$146,328,840	\$207,161
Non-NSF Total		[REDACTED]	[REDACTED]	
Totals for FY 2009		\$ [REDACTED]	\$ [REDACTED]	\$207,161

Note: Minor differences are due to rounding.

² We noted that a different number (i.e., \$ [REDACTED] a difference of \$ [REDACTED]) was listed in DCAA's letter for this cell. We verified the Excel calculation above by applying the cited formula stated in DCAA's letter and in its subsequent spreadsheets.

Schedule of Questioned Costs - FY 2010
Associated Universities, Inc. (AUI)

<u>Award Description</u>	<u>Award Number</u>	<u>Total Claimed Expenses using Claimed Rates</u>	<u>Total Adjusted Expenses using Negotiated Rates</u>	<u>Difference/ Questioned Costs</u>
NSF - SPO-1	AST-0223851/AST-0226933			
NSF - SPO-2	AST-0223851/AST-0244577			
NSF - SPO-3	AST-0223851/AST-0331358			
NSF - SPO-4	AST-0223851/ATM-0320967			
NSF - SPO-6	AST-0223851/ATM-0532973			
NSF - SPO-7	AST-0223851/AST-0653330			
NSF - SPO-8	AST-0223851/AST-0705244			
NSF - SPO-9	AST-0223851/AST-0948120			
NSF - CSA-1	AST-0836064/CSA-1			
NSF - CSA-2	AST-0836064/CSA-2			
NSF - CSA-3	AST-0836064/CSA-3			
NSF - Intergovernmental Personnel Act Award	AST-1027064			
NSF - Pulsar Search Collaboratory SA	DRL-0737641			
NSF-University of NC	5-54873			
NSF - US/China Bi-Lateral Workshop	OISE-0819073			
NSF Direct	OISE-0929121			
NRAO Direct Costs				
NSF Total		\$127,245,653	\$126,758,972	\$486,681
Non-NSF Total				
Totals for FY 2010				

Note: Minor differences are due to rounding.