

# Performance Audit of Incurred Costs – University of Utah

REPORT PREPARED BY KEARNEY & COMPANY, P.C.

NATIONAL SCIENCE FOUNDATION  
OFFICE OF INSPECTOR GENERAL

April 17, 2019  
OIG 19-1-008





## AT A GLANCE

Performance Audit of Incurred Costs – University of Utah

Report No. OIG 19-1-008

April 17, 2019

### AUDIT OBJECTIVE

The National Science Foundation Office of Inspector General engaged Kearney & Company, P.C. (Kearney) to conduct a performance audit of incurred costs at the University of Utah (Utah) for the period July 1, 2013, to June 30, 2016, as well as costs associated with Award No. [REDACTED]

[REDACTED] and Award No. [REDACTED]. The auditors tested more than \$4.5 million of the approximately \$114 million of costs claimed to NSF. The objective of the audit was to determine if costs claimed by Utah on NSF awards were allowable, allocable, reasonable, and in compliance with NSF award terms and conditions and Federal financial assistance requirements.

### AUDIT RESULTS

The report highlights concerns about Utah's compliance with certain Federal, NSF, and/or Utah regulations and policies when allocating expenses to NSF awards. The auditors questioned \$42,157 of costs claimed by Utah during the audit period. Specifically, the auditors found \$21,286 in unsupported stipend costs, \$13,147 of indirect costs inappropriately applied to capital equipment on Integrative Graduate Education and Research Traineeship awards, and \$7,724 in unallocable and/or unreasonable expenses near award expiration. The auditors also identified \$47,650 in misclassified expenses and control deficiencies for which there were no questioned costs. Kearney is responsible for the attached report and the conclusions expressed in this report. NSF OIG does not express any opinion on the conclusions presented in Kearney's audit report.

### RECOMMENDATIONS

The auditors included seven findings in the report with associated recommendations for NSF to resolve the questioned costs and to ensure Utah strengthens administrative and management controls.

### AUDITEE RESPONSE

Utah agreed with most of the findings in the report. Utah's response is attached in its entirety to the report as Appendix C.

**FOR FURTHER INFORMATION, CONTACT US AT 703.292.7100 OR OIG@NSF.GOV.**



National Science Foundation • Office of Inspector General  
2415 Eisenhower Avenue, Alexandria, Virginia 22314

**MEMORANDUM**

**DATE:** April 17, 2019

**TO:** Dale Bell  
Director  
Division of Institution and Award Support

Jamie French  
Director  
Division of Grants and Agreements

**FROM:** Mark Bell [REDACTED]  
Assistant Inspector General  
Office of Audits

**SUBJECT:** Audit Report No. 19-1-008, University of Utah

This memo transmits the Kearney & Company, P.C. (Kearney) report for the audit of costs charged by the University of Utah (Utah) to its sponsored agreements with the National Science Foundation (NSF) during the period July 1, 2013, to June 30, 2016, as well as costs associated with Award No. [REDACTED] and Award No. [REDACTED]. The audit encompassed more than \$4.5 million of the approximately \$114 million claimed to NSF during the period. The objective of the audit was to determine if costs claimed by Utah on NSF awards were allowable, allocable, reasonable, and in compliance with NSF award terms and conditions and Federal financial assistance requirements.

Please coordinate with our office during the 6-month resolution period, as specified by Office of Management and Budget Circular A-50, to develop a mutually agreeable resolution of the audit findings. 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 the Audit**

Kearney is responsible for the attached auditors' report and the conclusions expressed in this report. We do not express any opinion on the conclusions presented in Kearney's audit report. To fulfill our responsibilities, we:

- reviewed Kearney’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 Kearney, as necessary, to discuss audit progress, findings, and recommendations;
- reviewed the audit report prepared by Kearney; and
- coordinated issuance of the audit report.

We thank your staff for the assistance that was extended to the auditors during this audit. If you have any questions regarding this report, please contact Billy McCain at 703.292.7100 or [oit@nsf.gov](mailto:oit@nsf.gov).

Attachment

cc:

Anneila Sargent  
John Veysey  
Ann Bushmiller  
Christina Sarris  
Fleming Crim

Fae Korsmo  
Teresa Grancorvitz  
Pamela Hawkins  
Alex Wynnyk  
Rochelle Ray

Carrie Davison  
Allison Lerner  
Lisa Vonder Haar  
Ken Chason  
Dan Buchtel

Ken Lish  
Billy McCain  
Jennifer Kendrick  
Louise Nelson  
Karen Scott

# **University of Utah**

**Performance Audit of Claimed Costs for  
National Science Foundation Awards  
For the Period July 1, 2013 through June 30, 2016**

**National Science Foundation  
Office of Inspector General**

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## INDEPENDENT ACCOUNTANT'S PERFORMANCE AUDIT REPORT

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Kearney & Company, P.C. (defined as "Kearney," "we," and "our" in this report) has conducted a performance audit of costs claimed by the University of Utah (referred to as "Utah" or "University" in this report) on National Science Foundation (NSF) awards made to the University for the period of July 1, 2013 through June 30, 2016, as well as Award No. [REDACTED] and Award No. [REDACTED]. This performance audit was conducted under Blanket Purchase Agreement (BPA) #D14PA00037, Order # D14PB00560.

The objective of the performance audit is to determine if costs claimed in the sample provided to us by the NSF Office of Inspector General (OIG) are allowable, allocable, reasonable, and in conformity with NSF award terms and conditions, as well as applicable Federal financial assistance requirements. Kearney conducted the performance audit by testing costs claimed by the University and reporting on only the samples provided to us by NSF OIG.

Kearney performed testing over NSF OIG's compiled judgmental sample, which consisted of a listing of an initial 250 transactions, based on NSF OIG's criteria and assessment of University costs claimed. These samples included, but were not limited to, transactions of unusual spending trends, inconsistencies, even dollar amounts, large dollar amounts, duplicate transactions, descriptions indicating potentially unallowable costs, frequency, and transactions near or after award expiration. Based on further review, NSF OIG chose to expand testing and selected an additional sample to include three cluster issue areas. Kearney reported the results and findings within the body of the performance audit report. Please see [Appendix A](#) of this report for more information regarding the scope and methodology of the audit.

Kearney determined that the University costs charged to its NSF-sponsored agreements did not always comply with applicable Federal requirements. Specifically, we determined that claimed costs totaling \$42,157 were questioned and determined to be unallowable, unallocable, unreasonable, and/or not in conformity with NSF award terms and conditions and Federal requirements. Further, Kearney determined that costs totaling \$47,650 were misclassified or had other internal control issues; these costs were not questioned. The [Findings](#) section of this report further describes the costs in question, the basis for our findings, and the recommended actions to be taken by the University. The results of our findings were not projected over the entire award population tested in our audit period.

Kearney conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS), 2011 Revision, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. NSF OIG assessed the risk and approach for the audit by conducting planning,



data mining, and analytical procedures over the universe of data provided by the University. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The purpose of this report is to communicate the results of Kearney's performance audit and our related findings and recommendations.

Thank you for providing us the opportunity to assist NSF OIG and conduct the performance audit of the University. Kearney appreciates the cooperation provided by NSF's and Utah's personnel during the audit.

A handwritten signature in blue ink that reads "Kearney &amp; Company". The signature is written in a cursive, flowing style.

Kearney & Company, P.C.  
Alexandria, Virginia  
April 15, 2019

## Table of Contents

	<u>Page #</u>
<b>INDEPENDENT ACCOUNTANT’S PERFORMANCE AUDIT REPORT .....</b>	<b>i</b>
<b>Background .....</b>	<b>1</b>
<b>Audit Results .....</b>	<b>2</b>
<b>Findings .....</b>	<b>4</b>
<b>Finding 1 – Unsupported Stipend Costs .....</b>	<b>4</b>
<b>Finding 2 – Integrative Graduate Education and Research Traineeship (IGERT) Award .....</b>	<b>9</b>
<b>Finding 3 – Unallocable and/or Unreasonable Expenses Near Award Expiration .....</b>	<b>11</b>
<b>Finding 4 – General Misclassifications .....</b>	<b>14</b>
<b>Finding 5 – Payroll Charges Misclassified to Participant Support Costs Project.....</b>	<b>16</b>
<b>Finding 6 – Petty Cash Policy Violation – Internal Control.....</b>	<b>18</b>
<b>Finding 7 – Incorrect NICRA Rate Usage – Internal Control .....</b>	<b>20</b>
<b>Appendix A: Objectives, Scope, and Methodology of the Audit .....</b>	<b>22</b>
<b>Objective .....</b>	<b>22</b>
<b>Scope and Limitations.....</b>	<b>22</b>
<b>Methodology and Work Performed.....</b>	<b>22</b>
<b>Work Related to Internal Controls.....</b>	<b>24</b>
<b>Appendix B: Schedule of Questioned Costs by Finding.....</b>	<b>25</b>
<b>Appendix C: University of Utah Response .....</b>	<b>26</b>

## Abbreviations

AAG	Award and Administration Guide
ACM\$	Award Cash Management Service
CFR	Code of Federal Regulations
F&A	Facilities and Administrative Costs
GAGAS	Generally Accepted Government Auditing Standards
GPG	Grant Proposal Guide
IGERT	Integrative Graduate Education and Research Traineeship
Kearney	Kearney & Company, P.C.
MRSEC	Materials Research Science & Engineering Centers
MRI	Major Research Instrumentation

MTDC	Modified Total Direct Costs
NICRA	Negotiated Indirect Cost Rate Agreement
NSF	National Science Foundation
OMB	Office of Management and Budget
OIG	Office of Inspector General
PAPPG	Proposal and Award Policies and Procedures Guide
PSC	Participant Support Cost
TDC	Total Direct Costs
University	University of Utah
Utah	University of Utah

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## Background

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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....”<sup>1</sup> Through grant awards, cooperative agreements, and contracts, NSF enters into relationships with non-Federal organizations to fund research and education initiatives and to assist in supporting its internal financial, administrative, and programmatic operations.

NSF has an Office of Inspector General (OIG) that provides independent oversight of the agency’s programs and operations. Part of NSF OIG’s mission is to conduct audits and investigations to prevent and detect fraud, waste, and abuse. In support of this mission, 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. NSF OIG may also hire an independent public accountant to provide these audit services.

NSF OIG engaged Kearney & Company, P.C. (defined as “Kearney,” “we,” and “our” in this report) to conduct a performance audit of costs incurred by the University of Utah (referred to as “Utah” or “University” in this report). The audit objective was to determine if costs claimed were allowable, allocable, reasonable, and in conformity with NSF award terms and conditions and applicable Federal financial assistance requirements. Additional information on the Objectives, Scope, and Methodology are included in [Appendix A](#) of this report. According to the University’s website, Utah “cultivates an academic environment in which the highest standards of intellectual integrity, teaching, research and scholarship are practiced.”<sup>2</sup> As illustrated in *Exhibit 1*, Utah claimed more than \$114 million in expenditures through the Award Cash Management Service (ACMS) across 478 NSF awards during our audit period.<sup>3</sup> *Exhibit 1* also shows costs claimed by budget category based on the accounting data provided by Utah.

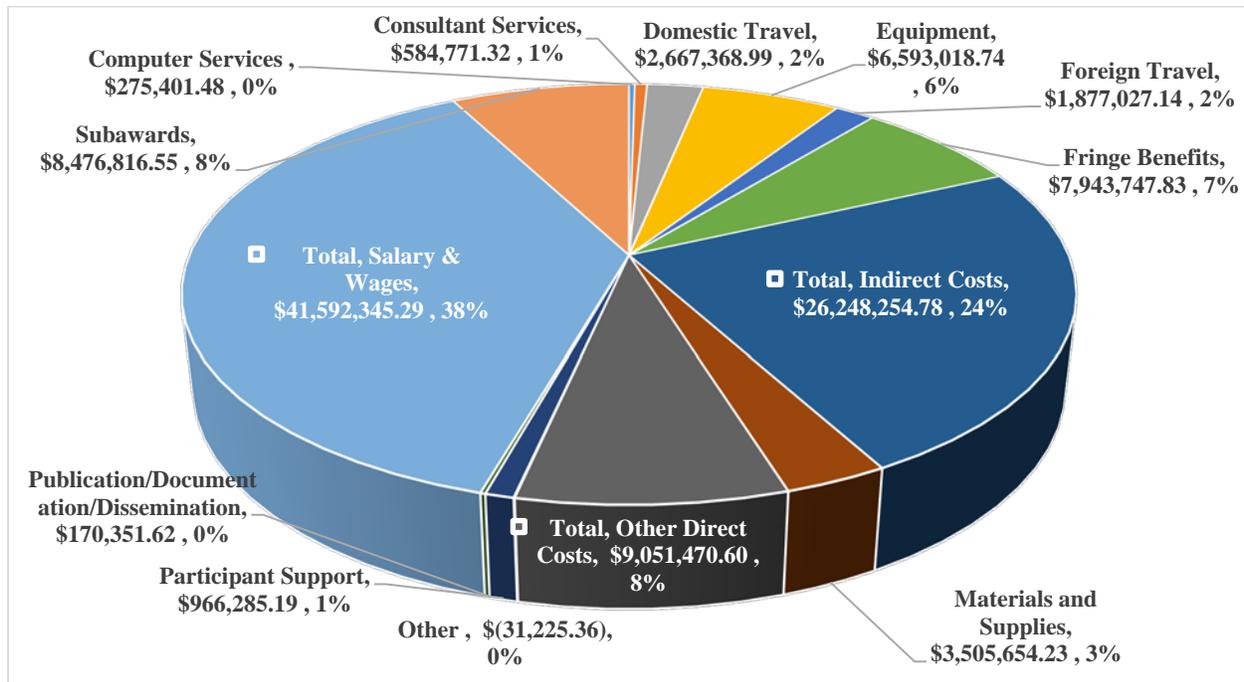
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<sup>1</sup> Public Law No. 81-507

<sup>2</sup> <https://academic-affairs.utah.edu/missionstatement/>

<sup>3</sup> The audit period is for the period of July 1, 2013 to June 30, 2016, as well as for award [REDACTED] and award [REDACTED].

*Exhibit 1: Costs Claimed by NSF Budget Category, July 1, 2013 through June 30, 2016<sup>4</sup>*



Source: Auditor summary of General Ledger (GL) of the University of Utah’s Cost Claimed from July 1, 2013 through June 30, 2016.

## Audit Results

As described in the [Appendix A](#) (i.e., Objectives, Scope, and Methodology section) of this report, this performance audit included obtaining transaction-level data for all costs that Utah claimed on NSF awards during the audit period. Kearney conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. NSF OIG assessed the risk and approach for the audit by conducting planning, data mining, and analytical procedures over the universe of data provided by the University. Based on procedures performed by NSF OIG, 250 samples (i.e., 199 General Ledger and 51 Payroll), totaling \$2,222,741, were judgmentally selected for testing. Additionally, based on further data analytic procedures, NSF OIG’s selection of 178 transactions, totaling \$2,299,910, was judgmentally selected for cluster area testing. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The results of our findings were not projected over the entire award population tested in our audit period.

<sup>4</sup> The total award budgetary amounts listed are only for grants during the audit period of July 1, 2013 to June 30, 2016.

Utah did not always comply with all Federal, NSF, and University regulations and policies when submitting claimed costs to NSF awards. Specific recommendations follow each finding that will facilitate improvements to ensure costs claimed are reasonable, allocable, and allowable in accordance with those regulations and policies. As a result, we questioned \$42,157 in costs claimed by Utah during the audit period, as follows:

- \$21,286 of stipend costs
- \$13,147 of Integrative Graduate Education and Research Traineeship (IGERT) awards
- \$7,724 of unallocable and/or unreasonable expenses near award expiration

Further, we identified \$47,650 of misclassified expenses and control deficiencies for which there were no questioned costs.

We provide a breakdown of the questioned costs, misclassified costs, and control deficiencies by finding in [Appendix B](#) of this report.

## Findings

### Finding 1 – Unsupported Stipend Costs

Utah claimed costs as stipend expenses for purposes that are considered unsupported. The costs identified below were not in accordance with the following:

- NSF Award and Administration Guide (AAG), Chapter V, Section 8.B, *Stipends or Subsistence Allowances*<sup>5</sup>
- Office of Management and Budget (OMB) Circular A-21 (2 Code of Federal Regulations [CFR] 220), Appendix (App.) A, *Cost Principles for Educational Institutions*, Section C.3, “Reasonable Costs”<sup>6</sup>
- OMB Circular A-21 (2 CFR 220), Section A.2, *Policy guides*, Subsection e<sup>7</sup>

The proposal for Award No. [REDACTED] for stipend costs listed within Participant Support Costs (PSC) included a “Total request of \$78,200/year for 363 participants, which consist of undergraduate/graduate students assisting with the [REDACTED] (240 participants at \$100/day), [REDACTED] (67 participants at \$240/3-day event), [REDACTED] (50 participants at \$60/day), and [REDACTED] (6 participants at \$5,000/10-weeks).” For Award No. [REDACTED] there were no stipend costs budgeted within the PSCs. However, in the instances noted below, Utah recorded stipend payments to the University Services account code (64300) instead of the appropriate PSC account code (62300). Utah was unable to provide supporting documentation to corroborate that the expenses incurred as University Services were appropriately traced and allotted to individual participants. Additionally, the individual participants receiving stipend payments were not listed in the budget proposals or any formal (NSF-approved) documentation. As a result, Utah charged \$21,286 of unsupported expenses to two NSF awards. Additional details are as follows:

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<sup>5</sup> AAG, Chapter V, Section 8.B, *Stipends or Subsistence Allowances*, states: “Such allowances must be reasonable, in conformance with the usual policy of the grantee organization and limited to the days of attendance at the conference plus the actual travel time required to reach the conference location by the most direct route available.”

<sup>6</sup> OMB Circular A-21 (2 CFR 220), App. A, Section C.3, *Reasonable costs*, states: “A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefore, reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made.”

<sup>7</sup> OMB Circular A-21 (2 CFR 220) Section A.2, *Policy guides*, subsection e, states: “However, the accounting practices of individual colleges and universities must support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to sponsored agreements.”

**Stipend Costs:** Utah charged expenses, deemed unsupported, against PSCs as follows:

- *May 2013 Stipend Cost:* Award No. [REDACTED] 2 includes only stipends under the PSC budget category. On May 31, 2013, Utah charged \$128 to University Services for parking permits. Because the proposal budgeted for PSC funding as stipend payments, restricting funding to be paid as a stipend only, we questioned \$128 as unsupported participant expenses.
- *June 2013 Stipend Cost:* Award No. [REDACTED] includes only stipends under the PSC budget category. On June 5, 2013, Utah charged \$30 to University Services for parking permits. On June 12, 2013, Utah charged \$24 to University Services for a rush payment fee to expedite the payments of two scholarships for participants. On June 27, 2013, Utah charged \$780 to University Services for bus passes for visiting students. Because the proposal budgeted for PSC funding as stipend payments, restricting funding to be paid as a stipend only, we questioned \$834 as unsupported participant expenses.
- *September 2013 Stipend Cost:* Award No. [REDACTED] includes only stipends under the PSC budget category. On September 27, 2013, Utah charged \$5,811 to University Services for participant course fees. Because the proposal budgeted for PSC funding as stipend payments for several programs and restricts funding to be paid as a stipend only, we questioned \$5,811 as unsupported participant expenses.
- *June 2014 Stipend Cost:* Award No. [REDACTED] includes only stipends under the PSC budget category. On June 13, 2014, Utah charged \$783 to University Services for course fees. Because the proposal budgeted for PSC funding as stipend payments, restricting funding to be paid as a stipend only, we questioned \$783 as unsupported participant expenses.
- *July 2014 Stipend Cost:* Award No. [REDACTED] includes only stipends under the PSC budget category. On July 21, 2014, Utah charged \$3,365 to University Services for course fees. Because the proposal budgeted for PSC funding as stipend payments, restricting funding to be paid as a stipend only, we questioned \$3,365 as unsupported participant expenses.
- *September 2014 Stipend Cost:* Award No. [REDACTED] includes only stipends under the PSC budget category. On September 23, 2014, Utah charged \$2,520 to University Services for a “REU participant lab processing fee.” Because the proposal budgeted for PSC funding as stipend payments, restricting funding to be paid as a stipend only, we questioned \$2,520 as unsupported participant expenses.
- *June 2015 Stipend Cost:* Award No. [REDACTED] includes only stipends under the PSC budget category. On June 1, 2015, Utah charged \$455 to University Services for parking permits. On June 2, 2013, Utah charged \$1,536 to University Services for transportation passes. On June 25, 2013, Utah charged \$4,524 to University Services for course fees.

Because the proposal budgeted for PSC funding as stipend payments, restricting funding to be paid as a stipend only, we questioned \$6,515 as unsupported participant expenses.

- *May 2016 Stipend Cost:* Award No. [REDACTED] includes only stipends under the PSC budget category. On May 27, 2016, Utah charged \$210 to University Services for parking permits. Because the proposal budgeted for PSC funding as stipend payments, restricting funding to be paid as a stipend only, we questioned \$210 as unsupported participant expenses.
- *June 2016 Stipend Cost:* Award No. [REDACTED] includes only stipends under the PSC budget category. On June 7, 2016, Utah charged \$980 to University Services for transportation passes. On June 10, 2016, Utah charged \$140 to University Services for transportation passes and participant housing. Because the proposal budgeted for PSC funding as stipend payments, restricting funding to be paid as a stipend only, we questioned \$1,120 as unsupported participant expenses.

The University stated, “We are unable to identify any further breakdown of how each of the amounts above were derived or what costs were anticipated to be incurred to pay for and cover the costs of individuals who were participants on this award.” Thus, the University did not allow for adequate review and approval of the appropriate stipend and PSCs. Utah did not have sufficient policies and procedures to ensure the funds were provided as stipend payments rather than in the form of reimbursements with adequate supporting documentation. As a result, we questioned \$21,286 of expenses, as follows:

**Table 1: Finding 1 – Stipend Costs**

Description	NSF Award No.	Questioned Costs
Stipend Costs	[REDACTED]	\$ 18,766 2,520
<b>Total Questioned Costs</b>		<b>\$ 21,286</b>

Source: Auditor summary of questioned costs claimed.

**Recommendations:** We recommend that NSF’s Director of the Division of Institution and Award Support:

1. Resolve the \$21,286 in questioned costs, including \$21,286 in unsupported costs, and direct Utah to repay or otherwise remove the sustained questioned costs from its NSF awards.
2. Direct Utah to ensure that policies and procedures are in place for charging only appropriate expenses to PSCs. Utah should distribute the predetermined stipend amount in full to each participant to cover expenses.

**Utah’s Response:** The University of Utah believes that all \$21,286 of questioned costs (Award Nos. [REDACTED] and [REDACTED]) are reasonable, allowable, and allocable under OMB Circular A-21 and NSF’s Proposal and Award Policies and Procedures Guide (PAPPG).

Specifically, the University stated the expenditures in question were not claimed as stipend expenses but claimed as expenses within other Participant Support Costs (PSC) subcategories. The University disagreed that PSC funding could “be paid as a stipend only” although the proposal budget worksheet only listed a budget line for stipend payments. The NSF Grant Proposal Guide refers to PSC as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of the participants or trainees in connection with NSF-sponsored conferences or training projects. Additionally, the funds provided for participant support may not be used for other expense categories (non-PSC expenses) without written prior approval from NSF. The University noted that funding provided as PSC is distributed to one-line item, not four separate and individual restricted subcategory line items within participant support.

The University believes the NSF-awarded PSC funding could be used interchangeably among the four PSC subcategories without restriction or additional approval from NSF, if no change in scope has occurred. The University provided documentation to the auditors for each of the questioned expenditures. The documentation consisted of invoices and identified the associated participants with the expenses. The University stated that the expenses incurred were documented, reasonable in nature and cost, and reflected the actions that a prudent person would have taken under the circumstances at that time.

The University believes the costs in question meet the OMB Circular A-21 requirements for expenses to be reasonable in nature and cost, and easily recognizable as necessary to carry out the PSC activities. The budget proposal provides the number of participants; however, it is not required by the NSF to provide the names of all 363 participants. The University is not aware of any requirements for a grant awardee to provide a list of all participants’ names. Additionally, the University believes the request of the auditors to provide formal contractual documentation of each participant is excessive and beyond what is considered adequate documentation.

See [Appendix C](#) for the University of Utah’s complete response, which includes further detail and explanation.

**Auditor’s Additional Comments:** Our position regarding this finding remains the same.

Specifically, for Award Nos. [REDACTED] and [REDACTED], the stipend costs in question were recorded in the Utah financial system to the University Services account code (64300), rather than the Participant Support Costs account code (62300). Additionally, the NSF Budget Category associated with the account code 64300 is labeled as “Other Direct Costs,” opposed to the “Participant Support” budget category for all PSC-related expenses to be charged.

The support provided by the University does not confirm that the receipts/documentation (e.g., bus passes, commuter services, monthly billing statements) were associated with the participants of the Materials Research MRSEC program. The list of names provided could not be traced to a formal listing that corroborated that the individuals were, in fact, participants. Additionally, the University was unable to provide documentation to support how each participant was selected for the MRSEC program (e.g., signed contract, completed applications). Further, the budgeted

stipend payments should only be utilized as stipend payments because the University did not charge the Participant Support category for any of the participants' expenses. Therefore, the four PSC subcategories could not be charged.

As a result, the lack of appropriate documentation, in addition to the incorrectly charged account code, does not provide adequate support over the claimed expenses. Therefore, the report finding and recommendations remain as stated.

**Finding 2 – Integrative Graduate Education and Research Traineeship (IGERT) Award**

Utah was permitted by NSF to use an 8% Facilities and Administrative Costs (F&A) rate on Total Direct Cost (TDC), excluding capital equipment and cost of education allowances, and not excluding PSC for allocation of indirect costs. The costs identified below were not in accordance with the following:

- NSF IGERT, Program Solicitation, [REDACTED]
- OMB Circular A-21 (2 CFR 220), App A, Section J.18.b (5), *Equipment and other capital expenditures*<sup>9</sup>

Utah inappropriately applied indirect costs on capital equipment on Award No. [REDACTED], totaling \$13,147, as follows:

**Indirect Costs Inappropriately Applied to Capital Equipment:** Utah inappropriately recovered \$13,147 of indirect costs applied to transactions that were coded to the incorrect project code (i.e., 58501279) and were not in accordance with OMB Circular A-21 and the solicitation. The charge to capital equipment should have been made to a different project code (i.e., 58501283) set up on the award where indirect costs would not be charged. Specifically, Utah charged indirect cost expenses related to the computer supplies, robotics equipment, and cameras, totaling \$13,147 on NSF Award No. [REDACTED], rather than the Capital Equipment project code (i.e., 58501283), which resulted in indirect costs being inappropriately applied to costs excluded from being allocated indirect costs, as follows:

**Table 2: Finding 2 – IGERT Award**

Description	NSF Award No.	Questioned Costs
IGERT Award	[REDACTED]	\$ 13,147
<b>Total Questioned Costs</b>		<b>\$ 13,147</b>

Source: Auditor summary of questioned costs claimed.

Utah did not have adequate oversight and controls to ensure indirect cost errors were detected and corrected when expenses were posted. As a result, Utah inappropriately charged NSF for \$13,147 of indirect cost expenses.

<sup>8</sup> NSF [REDACTED], Program Solicitation, [REDACTED], states: “Purchase of shared research equipment, special-purpose research materials, software and databases that cost more than \$5,000 per item may be requested within the first-year special allocation, and should be listed under Equipment... Awards will carry an 8% allowance for indirect costs based on the total direct cost, excluding equipment and cost-of-education allowances, but not excluding participant support.”

<sup>9</sup> OMB Circular A-21 (2 CFR 220), App. A, Section J.18.b (5), *Equipment and other capital expenditures*, states: “Equipment and other capital expenditures are unallowable as indirect costs.”

**Recommendations:** We recommend that NSF's Director of the Division of Institution and Award Support:

1. Resolve the \$13,147 in questioned costs and direct Utah to repay or otherwise remove the sustained questioned costs from its NSF awards.
2. Direct Utah to develop new policies and procedures to ensure the application of indirect costs on capital equipment is properly recorded by appropriately classifying and reviewing the nature of expenses that exceed Utah's \$5,000 capitalization threshold.
3. Direct Utah to develop new policies and procedures that require Utah to periodically review expenses, and other budget categories. The new policies and procedures should address the appropriate setup of an award with a main project ID and a secondary project ID to ensure transactions over Utah's equipment capitalization threshold are charged appropriately.

**Utah's Response:** The University of Utah concurs with all \$13,147 of questioned costs related to Award No. [REDACTED]. The University emphasized that this was a unique situation as the award was issued as a Total Direct Costs (TDC) award as opposed to a Modified Total Direct Costs (MTDC) award, noting that TDC awards are very uncommon.

See [Appendix C](#) for the University of Utah's complete response, which includes further detail and explanation.

**Auditor's Additional Comments:** Our position regarding this finding remains the same.

### **Finding 3 – Unallocable and/or Unreasonable Expenses Near Award Expiration**

Utah charged NSF awards for purchases near the end of the award expiration date. The costs identified below were not in accordance with the following:

- OMB Circular A-21 (2 CFR 220), App. A, Section C.3, “Reasonable costs”<sup>10</sup>
- OMB Circular A-21 (2 CFR 220), App. A, Section C.4.a, “Allocable costs”<sup>11</sup>

Specifically, Utah charged expenses deemed unreasonable/unallocable to three NSF awards, totaling \$7,724. Expenses claimed near the award expiration had little or no time left to benefit the award. Additional details are as follows:

***Unreasonable and/or Unallocable Expenses Charged near Award Expiration:*** Utah charged expenses deemed unreasonable and/or unallocable against expiring NSF awards, as follows:

- *April 2013 Charge against Expired Award:* In April 2013, the Principal Investigator of NSF Award No. [REDACTED] purchased equipment (i.e., vacuum equipment) on the last day of the award (i.e., April 30, 2013). The equipment was received on May 5, 2013, after the award expired on April 30, 2013. The University stated that the purchase consisted of multiple parts that were for replacement and addition to original equipment to allow for coating of metal electrodes on substrates. The equipment was not budgeted for, nor was it an expected expense when the original budget was submitted. Further, the timing of the purchase indicates the equipment did not benefit the expired award; therefore, we questioned \$3,311 of costs associated with the equipment purchase.
- *May 2015 Charge against Expiring Award:* In May 2015, the Principal Investigator of NSF Award No. [REDACTED] purchased materials and supplies (i.e., laboratory and technical supplies) on May 21, 2015. The supplies were received on approximately May 25, 2015; however, the award expired on May 31, 2015. The entire purchase was allocated to the NSF award; however, the University did not have ample time left for the materials and supplies to be utilized in the actual conduct of the award. Thus, the timing of the purchase indicates that the technical supplies did not benefit Award No. [REDACTED]; therefore, we questioned \$2,167 of costs associated with the purchase.
- *August 2015 Charge against Expiring Award:* In August 2015, the Principal Investigator of NSF Award No. [REDACTED] purchased materials and supplies (i.e., supplies and tools) on August 26, 2015. However, the award expired on September 30, 2015. The entire purchase was allocated to the NSF award; however, the University did not have ample

<sup>10</sup> OMB Circular A-21 (2 CFR 220), App. A, Section C.3, *Reasonable costs*, states: “A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefore, reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made.”

<sup>11</sup> OMB Circular A-21 (2 CFR 220), App. A, Section C.4.a, *Allocable costs*, states: “A cost is allocable to a particular cost objective (i.e., a specific function, project, sponsored agreement, department, or the like) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship.”

time left for the materials and supplies to be utilized in the actual conduct of research. Further, the tools are for exploratory research and are available to support equipment loans to others; thus, the timing of the purchase indicates the materials and supplies did not benefit Award No. [REDACTED]. Therefore, we questioned \$2,246 of costs associated with the purchase.

Utah did not properly plan for the purchase of items or equipment within the allotted period awarded to be operational for regular research. Further, Utah did not have sufficient policies and procedures to ensure that funds were not expended near the award expiration date. As a result, we questioned \$7,724 of expenses as follows:

**Table 3: Finding 3 – Unallocable and/or Unreasonable Expenses Near Award Expiration**

Description	NSF Award No.	Questioned Costs
Unallocable and/or Unreasonable Expenses Near Award Expiration	[REDACTED]	\$ 2,167 3,311 2,246
<b>Total Questioned Costs</b>		<b>\$ 7,724</b>

*Source: Auditor summary of questioned costs claimed.*

**Recommendations:** We recommend that NSF’s Director of the Division of Institution and Award Support:

1. Resolve the \$7,724 in questioned costs, and direct Utah to repay or otherwise remove the sustained questioned costs from its NSF awards.
2. Direct Utah to develop policies and procedures to ensure purchases are made timely within the award period of performance to allow the purchases to be utilized in support of the award. For items that are needed at the end of the award, Utah should ensure justification is documented within the NSF proposal.

**Utah’s Response:** The University of Utah partially concurs with \$2,167 of questioned costs related to Award No. [REDACTED]. The University does not concur with \$3,311 of questioned costs related to Award No. [REDACTED]. The University concurs with all \$2,246 of questioned costs related to Award No. [REDACTED].

Specifically, for Award No. [REDACTED] the University acknowledged the purchase of non-capital equipment items after the award end date. However, the University stated that this was an NSF Career Award, The intent and purpose of the award was being achieved through this purchase.

Specifically, for Award No. [REDACTED], the University believes the questioned expenses are reasonable. According to the PI, the items were used prior to the award end date. However, the University did not have adequate time to provide additional documentation to validate the PI’s statement.

Additionally, the University concurs with \$2,246 charged to Award No. [REDACTED]. The University has taken steps to improve processes to ensure purchases at the end of an award are appropriate and legitimate.

See [Appendix C](#) for the University of Utah's complete response, which includes further detail and explanation.

**Auditor's Additional Comments:** Our position regarding this finding remains the same.

Specifically, for Award No. [REDACTED], the equipment was purchased on the last day of the award and the equipment was received after the award expired. The equipment was comprised of several parts for replacement as well as additional new items. Further, the equipment was not budgeted for in the grant proposal and the expense was unexpected. The timing of the purchase indicates the equipment did not benefit the award during the grant period of performance.

Regarding Award No. [REDACTED], the materials and supplies were received within a week of the award expiration date. The purchase was allocated to the award; however, the University did not have ample time for the materials and supplies to benefit the award.

Lastly, for Award No. [REDACTED], our position regarding this finding remains the same.

Therefore, the report findings and recommendations remain as stated.

**Finding 4 – General Misclassifications**

Utah personnel misclassified PSCs and subaward expenses to the incorrect accounts. No financial impact was recognized, other than the misclassification (i.e., costs claimed were allowable and valid; however, expenses were recorded under an incorrect account/budget category within the University financial system of record). The costs identified below were not in accordance with the following:

- NSF Grant Proposal Guide (GPG), Chapter II, Section C. 2.g (v), *Participant Support*<sup>12</sup>
- University of Utah, Policy 3-001: *Financial Information Policy*, Section 3.d, “Policy”<sup>13</sup>
- University of Utah, Policy 3-030: *Travel Policy*, Section 2.a.2, “Foreign Travel”<sup>14</sup>

The misclassified costs are as follows:

**Misclassified PSC expenses:** Utah personnel charged \$5,040 of PSCs to NSF Award No. [REDACTED] that were charged to the incorrect account on the award. Expenses were posted to PSC; however, the charge should have been posted to “Other Expenses.”

**Misclassified Subaward Expenses:** Utah misclassified \$25,000 of valid travel expenses as subaward expenses to NSF Award No. [REDACTED]. Utah made a correcting journal entry in June 2018 to reclassify the costs after the error was brought to their attention.

Utah did not accurately classify expenses and did not perform a review to determine whether expenses were classified and recorded appropriately to accurately determine spending against the budget categories in the proposals. As a result, we identified \$30,040 of misclassified expenses charged to NSF awards, as follows:

**Table 4: Finding 4 – General Misclassifications**

Description	NSF Award No.	Non-Questioned Costs
Misclassified Subaward Expenses	[REDACTED]	\$ 25,000
PSC Misclassification	[REDACTED]	5,040
<b>Total Non-Questioned Costs</b>		<b>\$ 30,040</b>

Source: Auditor summary of questioned costs claimed.

<sup>12</sup>GPG, Chapter II, Section C.2.g (v), *Participant Support*, states: “This budget category refers to costs of transportation, per diem, stipends and other related costs for participants or trainees (but not employees) in connection with NSF-sponsored conferences, meetings, symposia, training activities and workshops. (See GPG Chapter II.D.8).”

<sup>13</sup> University of Utah, Policy 3-001: *Financial Information Policy*, Section 3.d, “Policy,” states: “It is the responsibility of any department releasing financial information to ensure that such information agrees with or is reconcilable to the university’s official accounting records and published reports.”

<https://regulations.utah.edu/administration/3-001.php>

<sup>14</sup> University of Utah, Policy 3-030: *Travel Policy*, Section 2.a.2, “Foreign Travel,” states: “Foreign Travel – travel outside the United States, its territories and possessions, or as specifically defined by contracting or granting agencies.” <https://regulations.utah.edu/administration/3-030.php>

**Recommendation:** We recommend that NSF's Director of the Division of Institution and Award Support:

1. Direct Utah to develop new policies and procedures to strengthen controls over expense classifications and require Utah to periodically review expenses to ensure transactions are classified appropriately.

**Utah's Response:** The University of Utah does not contest this finding. Specifically, in January 2018 (unrelated to this finding), detailed guidance for charging and accounting for Participant Support Costs was distributed at the University to monitor costs more closely. Additionally, for Award No. [REDACTED], the University noted the \$25,000 charge had been identified by the department, but due to staff turnover, was never moved to the correct account code.

See [Appendix C](#) for the University of Utah's complete response, which includes further detail and explanation.

**Auditor's Additional Comments:** Our position regarding this finding remains the same.

## **Finding 5 – Payroll Charges Misclassified to Participant Support Costs Project**

Utah personnel charged \$15,875 of payroll expenses incorrectly to three NSF award subprojects based on the costs authorized to that project. For indirect costs purposes, a companion project was set up with the main project for PSCs on the award. However, the University incorrectly charged Utah employees and/or students to the PSC project instead of the main project. No financial impact was recognized, other than the misclassification of the expenses (i.e., costs claimed were allowable and valid; however, expenses were recorded under an incorrect account/budget category within the University financial system of record). The costs identified below were not in accordance with the following:

- GPG, Chapter II, Section C.2.g (v) *Participant Support*<sup>15</sup>
- University of Utah, Participant Support Costs Guidance, *Allowable and Unallowable Participant Support Costs Expenses*<sup>16</sup>

The misclassified costs are as follows:

- *Misclassified Payroll Charges:* Utah misclassified \$710 of payroll expenses to NSF Award No. [REDACTED]. The Professor on the award should have been charged to the main project on the award; however, the Professor was charged to the companion project that was set up for PSC charges.
- *Misclassified Payroll Charges:* Utah misclassified \$1,150 of payroll expenses to NSF Award No. [REDACTED]. The undergraduate student on the award should have been charged to the main project on the award; however, the student was charged to the companion project that was set up for PSC charges.
- *Misclassified Payroll Charges:* Utah misclassified \$13,856 of payroll expenses to NSF Award No. [REDACTED]. The Associate Professor on the award should have been charged to the main project on the award; however, the Professor was charged to the companion project that was set up for PSC charges.
- *Misclassified Payroll Charges:* Utah misclassified \$159 of payroll expenses to NSF Award No. [REDACTED]. The student researcher on the award should have been charged to the main project on the award; however, the student was charged to the companion project that was set up for PSC charges.

<sup>15</sup> GPG, Chapter II, Section C.2.g (v), *Participant Support*, states: “This budget category refers to costs of transportation, per diem, stipends and other related costs for participants or trainees (but not employees) in connection with NSF-sponsored conferences, meetings, symposia, training activities and workshops. (See GPG Chapter II.D.8).”

<sup>16</sup> University of Utah, Participant Support Costs Guidance, *Allowable and Unallowable Participant Support Costs Expenses*, states: “Salaries and wages (and associated taxes and benefits) of university personnel who are paid directly by the sponsored award/project; charge these expenses to the main project.”

Utah did not have adequate controls and oversight to ensure that necessary payroll corrections were detected when expenses were posted to the wrong subproject code. As a result, Utah recorded \$15,875 of payroll expenses, as follows:

**Table 5: Finding 5 – Unallowable Payroll Chargers to PSCs**

Description	NSF Award No.	Non-Questioned Costs
Unallowable Payroll Charges to PSCs		\$ 710 15,006 159
<b>Total Non-Questioned Costs</b>		<b>\$ 15,875</b>

Source: Auditor summary of questioned costs claimed.

**Recommendations:** We recommend that NSF’s Director of the Division of Institution and Award Support:

1. Direct Utah to review the its 2017 guidance on PSCs and determine if further development of policies and procedures to strengthen controls over payroll and PSC expense classifications are necessary.
2. Direct Utah to enhance enforcement of policies and procedures that require Utah to periodically review payroll expenses to ensure transactions are posted accurately.

**Utah’s Response:** The University of Utah does not contest this finding. The University noted that in January 2018, detailed guidance for charging and accounting for Participant Support Costs was distributed at the University to monitor costs more closely. The new review processes ensure charges to PSC companion projects are required to be transferred when identified.

See [Appendix C](#) for the University of Utah’s complete response, which includes further detail and explanation.

**Auditor’s Additional Comments:** Our position regarding this finding remains the same.

**Finding 6 – Petty Cash Policy Violation – Internal Control**

Utah exceeded the dollar value limitation of the petty cash fund while paying valid expenses. No financial impact was recognized; however, this resulted in an internal control issue (i.e., costs claimed were allowable and valid, but the expenses should not have occurred according to University policy). The costs identified below were not in accordance with the following:

- University of Utah Policy 3-011: Petty Cash Funds, *Prohibited Users*<sup>17</sup>

**Petty Cash Policy Violation:** We identified cash payments that were made to participants under NSF Award No. [REDACTED] that are in violation of the University’s petty cash policy. According to the University petty cash policy, purchases of more than \$100 should not be made with petty cash based on a total authorized petty cash allowance of \$100. The petty cash holder exceeded the authorized petty cash limits based on individual transaction amounts.

Utah personnel did not accurately abide by the petty cash policy in place at the time. As a result, we identified a total of \$1,735 of petty cash expenses charged to NSF awards in violation of the policy, as follows:

**Table 6: Finding 6 – Unallowable General Expense – Internal Control**

Description	NSF Award No.	Non-Questioned Costs
Unallowable General Expense	[REDACTED]	\$ 1,735
<b>Total Non-Questioned Costs</b>		<b>\$ 1,735</b>

Source: Auditor summary of questioned costs claimed.

**Recommendation:** We recommend that NSF’s Director of the Division of Institution and Award Support:

1. Direct Utah to develop new policies and procedures to strengthen controls over the petty cash policy and ensure cash does not exceed the total authorized amount. If amounts over the standard petty cash amount are necessary, develop policies and procedures to allow for exceptions with appropriate documentation and explanation.

**Utah’s Response:** The University of Utah partially concurs with \$1,735 of misclassified expenses to Award No. [REDACTED].

Specifically, the University’s Petty Cash Policy restricts the total authorized amount of the petty cash fund to not exceed the amount of expenditures required within a 45-day period; not to a \$100 limit as indicated in the audit. The full amount questioned of \$1,735, is comprised of 32 payments issued by the petty cash holder, the PI. In the 32 payments issued, only two payments exceeded the University policy of \$100 threshold.

<sup>17</sup> University of Utah, Policy 3-011: Petty Cash Funds, *Prohibited Users*, states: “Purchases of goods and services for more than \$100 should not be made with petty cash. Purchases over \$100 should be made using other procurement methods such as the purchasing card.” <https://regulations.utah.edu/administration/3-011.php>

Additionally, the risks associated with the violation of the policy are minimal. The PI has agreed to not allow payments to participants to exceed \$100. Therefore, Utah will consider the policy recommendation.

See [Appendix C](#) for the University of Utah's complete response, which includes further detail and explanation.

**Auditor's Additional Comments:** Our position regarding this finding remains the same.

Specifically, for Award No. [REDACTED], the University exceeded the dollar value limitation of the petty cash fund. Although there was not financial impact recognized with the expense, the instance resulted in an internal control issue. According to University policy, purchases greater than \$100 should not be completed using petty cash. Therefore, the report finding and recommendation remain as stated.

**Finding 7 – Incorrect NICRA Rate Usage – Internal Control**

Utah personnel applied the incorrect Negotiated Indirect Cost Rate Agreement (NICRA) rate on five projects for two NSF awards; however, no financial impact was recognized. The rates identified below were not in accordance with the following:

- GPG, Chapter II, Section C. 2.g (viii), *Indirect Costs*<sup>18</sup>

**Incorrect NICRA Rate Usage:** Utah used an incorrect predetermined NICRA rate under NSF Award Nos. [REDACTED] and [REDACTED]. Utah was using the 49.5% predetermined NICRA rate that was not effective as of the award effective date; instead, Utah used the rate based on the most recently received NICRA rate letter. The University made no reconciling entries to adjust the F&A rate to the correct rate of 50.5%. As a result, more direct costs could have been claimed to the award; therefore a financial impact for questioned costs did not occur, and this finding is noted only as an internal control issue. Utah personnel charged the incorrect NICRA rate, as follows:

**Table 7: Finding 7 – Incorrect NICRA Rate Usage – Internal Control**

Description	NSF Award No.	Non-Questioned Costs
NICRA Rates	[REDACTED]	N/A
<b>Total Non-Questioned Costs</b>		<b>N/A</b>

Source: Auditor summary of questioned costs claimed.

**Recommendation:** Kearney recommends that NSF’s Director of the Division of Institution and Award Support:

1. Direct Utah to review its updated policies and procedures subsequent to this finding to ensure that the University has adequate controls over the NICRA rates used on NSF awards and uses the rates in effect at the time of the initial award throughout the life of the award.

**Utah’s Response:** The University of Utah concurs with the internal control issue over Award Nos. [REDACTED] and [REDACTED]. The University noted that the error occurred in 2011, prior to Utah’s implementation of the PeopleSoft Grants Suite module. The error associated with the following awards are no longer likely to occur due to the internal control procedures and reviews at award issuance and award closeout.

See [Appendix C](#) for the University of Utah’s complete response, which includes further detail and explanation.

<sup>18</sup> GPG, Chapter II, Section C.2.g (viii), *Indirect Costs*, states: “The Circular stipulates in Section G.7.a. that Federal agencies are required to use the negotiated F&A rates that are in effect at the time of the initial award throughout the life of the sponsored agreement....”

**Auditor's Additional Comments:** Our position regarding this finding remains the same.

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## Appendix A: Objectives, Scope, and Methodology of the Audit

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### Objective

As requested by the National Science Foundation (NSF) Office of Inspector General (OIG), Kearney & Company, P.C. (defined as “Kearney,” “we,” and “our” in this report) audited a sample of the University of Utah’s (defined as “Utah” or “University” in this report) claimed costs on NSF awards. Kearney conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS), issued by the Comptroller General of the United States.

NSF OIG initiated an audit of costs claimed by the University on NSF awards made to the University. The audit objective was to determine whether costs claimed were allowable, allocable, reasonable, and in conformity with NSF award terms and conditions and applicable Federal financial assistance requirements. Kearney conducted the performance audit by testing costs claimed by the University and reporting on only the transactions and cluster areas provided.

### Scope and Limitations

NSF OIG engaged Kearney to conduct a performance audit of an NSF OIG-selected sample of costs incurred by Utah on NSF awards for the period of July 1, 2013 to June 30, 2016, as well as for Award No. [REDACTED] and Award No. [REDACTED]. Our audit included assessing the allowability, allocability, and reasonableness of the sample of 250 transactions initially selected by NSF OIG from a population of more than 152,000 transactions provided by Utah at the request of NSF OIG. As of June 30, 2016, Utah received 478 NSF awards with expenditures totaling \$114,416,965 during the scope of the audit.<sup>19</sup> Additionally, based on further data analytic procedures, NSF OIG’s selection of 178 transactions were judgmentally selected for cluster area testing.<sup>20</sup> Our work required reliance on computer-processed data obtained from Utah and NSF OIG.

### Methodology and Work Performed

Kearney conducted this performance audit in accordance with GAGAS for performance audits, as prescribed in the 2011 Revision of *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that Kearney plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives. As a basis for our

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<sup>19</sup> The audit period is for the period of July 1, 2013 to June 30, 2016, as well as the period of [REDACTED] for Award No. [REDACTED] and the period [REDACTED] for Award No. [REDACTED].

<sup>20</sup> Cluster area testing involves groups, or clusters, of transactions and/or awards which can be effectively and efficiently scrutinized together.

performance audit, the Audit Team used the NSF award documentation; NSF policies; Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*; and OMB Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, to determine whether costs were in compliance and were allowable, allocable, and reasonable.

To meet the performance audit objectives, Kearney specifically:

- reviewed NSF policy and OMB guidance;
- tested a sample of 250 expenditures selected by NSF OIG for compliance with grant terms and conditions;
- tested an additional 178 transactions selected by NSF OIG upon further data analytic procedures for cluster area testing; and
- requested and reviewed supporting documentation from Utah for each sample item to ensure validity and compliance with grant requirements.

To ensure completeness of the Utah data provided for the audit period, NSF OIG analyzed schedules and reconciliations prepared by Utah and agreed them to the accounting records. After ensuring completeness, NSF OIG conducted data mining and analytical procedures over the universe of data provided by Utah. NSF OIG compiled a judgmental sample list of an initial 250 transactions based on criteria, including, but not limited to, transactions of unusual spending trends, inconsistencies, even dollar amounts, large dollar amounts, duplicate transactions, descriptions indicating potentially unallowable costs, frequency, and transactions near or after award expiration. Further, NSF OIG expanded on the prior criteria to select additional transactions for cluster area testing. NSF OIG grouped the cluster area testing into sets of related transactions, or by NSF award, into the following expanded testing areas:

- Allowability of expenses charged made to a specific award
- Allowability of expenses charged to participant supports cost project identification numbers
- Allocation of indirect cost rates

Kearney requested supporting documentation for the 250 transactions, as well as the 178 cluster area transactions from Utah, and reviewed the support provided by the University to determine the allowability, allocability, and reasonableness of expenditures. When necessary, we obtained additional support or explanations from Utah to determine whether the transactions were valid. Kearney reported the results and findings within the body of this performance audit report. The results of our findings were not projected over the entire award population tested in our audit period.

## **Work Related to Internal Controls**

Utah 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 Utah's internal control over awards related to financial reporting solely to understand the policies and procedures relevant to the financial reporting and administration of NSF awards to evaluate Utah's compliance with laws, regulations, and award terms applicable to the items selected by NSF OIG for testing—not to express an opinion on the effectiveness of Utah's internal control over award financial reporting and administration. Accordingly, we do not express an opinion on the effectiveness of Utah's internal control.

**Appendix B: Schedule of Questioned Costs by Finding**

**NATIONAL SCIENCE FOUNDATION  
ORDER # D14PB00560  
PERFORMANCE AUDIT OF COSTS CLAIMED ON NSF AWARDS  
UNIVERSITY OF UTAH**

**SCHEDULE OF QUESTIONED COSTS BY FINDING**

Finding	Description	Questioned Costs		Total
		Unsupported	Unallowable	
1	Unsupported Stipend Costs	\$21,286	\$0	\$21,286
2	Integrative Graduate Education and Research Traineeship (IGERT) Award	0	13,147	13,147
3	Unallocable and/or Unreasonable Expenses Near Award Expiration	0	7,724	7,724
<b>Total</b>		<b>\$21,286</b>	<b>\$20,871</b>	<b>\$42,157</b>
4	General Misclassifications	N/A	N/A	\$30,040
5	Payroll Charges Misclassified to PSC Project	N/A	N/A	15,875
6	Petty Cash Policy Violation – Internal Control	N/A	N/A	1,735
7	Incorrect NICRA Rate Usage – Internal Control	N/A	N/A	N/A
<b>Total</b>				<b>\$47,650</b>

Source: Auditor summary of findings over NSF-provided data from Utah during the period of July 1, 2013 to June 30, 2016<sup>21</sup>

<sup>21</sup> The audit period is for the period of July 1, 2013 to June 30, 2016, as well as the period of [REDACTED], for Award No. [REDACTED] and the period of [REDACTED] for Award No. [REDACTED].

## Appendix C: University of Utah Response



Research Management & Compliance  
201 Presidents Circle, Rm 416  
SLC, UT 84112

Craig Merritt  
Manager, Compliance Oversight & Reporting

April 3, 2019

Nupur Moondra  
Kearney & Company  
1701 Duke Street, Suite 500  
Alexandria, VA 22314

The University of Utah submits the following comments in response to Kearney & Company's draft audit report "Performance Audit of Claimed Costs for National Science Foundation Awards For the Period July 1, 2013, through June 30, 2016". Comments on each audit finding are detailed below.

### **Audit Finding 1 – Unsupported Stipend Costs**

Utah does not concur with this audit finding. Utah disagrees that \$21,286 should be returned to NSF.

The expenditures in question were not claimed as stipend expenses by Utah, but as expenses within other subcategories of participant support. In this finding, the auditors infer that Utah only included budget for "stipend payments" under the participant support subcategories in the original budget proposal. In each questioned item, the auditors state, "Because the proposal budgeted for PSC funding as stipend payments, restricting funding to be paid as a stipend only, we questioned [\$\$\$\$] as unsupported participant expenses." Utah strongly disagrees with the auditors' restrictive interpretation that PSC funding could "be paid as a stipend only" (after PSC funding was awarded) because the proposal budget worksheet only listed a budget line for stipend payments.

In the NSF Grant Proposal Guide, participant support refers to costs for items such as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees in connection with NSF-sponsored conferences or training projects. The Proposal Guide also states that funds provided for participant support may not be used for other categories of expense (non-PSC expenses) without prior NSF written approval.

The NSF budget worksheet (Line F) lists four (4) subcategory expense line items that are included within the NSF definition of PSC. When NSF awards participant support, the funding is awarded as one line item, not as four separate and individually restricted subcategory line items. NSF regulations restrict PSC funding from being spent on non-PSC expenses, but NSF

regulations do not restrict PSC funding to be spent only on the PSC subcategory line where it was proposed (and at the dollar amount proposed).

Utah believes that the NSF-awarded PSC funding could be used interchangeably within any of the four PSC subcategories (as determined necessary by the recipient), without restriction or additional NSF approval, regardless of how PSC estimates were originally proposed, as long as there was no change in the scope of the project (which there was not).

The auditors state, "*Utah was unable to provide supporting documentation to corroborate that the expenses incurred as University Services were appropriately traced and allotted to individual participants*". Utah provided detailed documentation to the auditors for each of the questioned expenses. Several of the documentation invoices included the participant names for whom the expenses were specifically incurred. For those invoices that did not identify the participants' names, the participants were identified and their names provided to the auditors per their request. The expenses incurred by Utah were well documented, reasonable in nature and cost, and reflected the actions that a prudent person would have taken under the circumstances prevailing at the time. In addition, the invoices and costs were of a type "*generally recognized as necessary for the operation of the institution*" and "*the performance of the sponsored agreement*" (see A-21 definition of "reasonable costs").

Utah believes that the questioned expenses meet the OMB Circular A-21 requirements for expenses to be reasonable in nature, cost, and that they were generally (and easily) recognizable as necessary for carrying out the PSC activities of the sponsored awards.

The auditors state, "*Additionally, the individual participants receiving stipend payments were not listed in the budget proposals or any formal (NSF approved) documentation*". The auditors identified (from the Utah submitted proposal) that the PSC activities planned on this award were to include 363 participants. These participants were to include high school students, college students who would be attending the University of Utah, and college students attending other universities. NSF only requires a total count of expected participants, not the individual names of all participants when a proposal is submitted. Utah is not aware of any NSF requirements for a grant awardee to submit a list of all participants' names, after-the-fact, for NSF to approve or include as formal contract documentation.

Utah believes the auditors' expectation that hundreds of high school and undergraduate college participants should have been identified and named in the proposal or in the contract award documentation (1 – 5 years before the activities were to take place) is unrealistic. Utah also believes the auditors' requirement for formal contractual documentation of participant names is excessive and beyond what should be considered "*adequate documentation*". Questioning PSC expenses because the participants' names were not contractually documented has no basis in any Federal or NSF regulations.

Utah notes that there are other audit methods that could have been employed to verify the legitimacy of the participants' names (if that was a required audit step to validate PSC expenses as allowable). Utah is not aware if such alternative methods of validation were used in the performance of this audit.

**Audit Finding 2 – Integrative Graduate Education and Research Traineeship (IGERT) Award**

The University concurs with this audit finding and agrees that \$13,147 of F&A costs charged on capital equipment should be returned to NSF.

Utah emphasizes the point that this award was issued as a Total Direct Cost (TDC) award, not a Modified Total Direct Cost (MTDC) award. TDC awards are very uncommon. Because of the F&A exemption requirement on capital equipment and the cost of education on this award, a companion project (with a zero F&A rate) was set up with the main project for this award. Companion projects at Utah are normally setup for participant support costs with zero F&A.

Due to the nature of a companion account, and how it is normally used in the course of University business, there were a number of participant support costs that were charged to the companion project (which were not identified by the audit). These costs were not burdened with F&A but should have been. Utah will seek to offset the \$13,147 over-collected on capital equipment with \$3,902 of F&A not collected on participant support costs as part of this settlement.

**Audit Finding 3 – Unallocable and/or Unreasonable Expenses Near Award Expiration**

Questioned Item 1. Utah partially concurs with this audit finding. Utah acknowledges the late purchase of the non-capital items identified and receipt of the parts after the award end date. However, this was an NSF Career Award where the PI pursued the integration of research and education. At the end of this award, the PI was working with a graduate student to publish the students' research work that had begun during this award. Additional data was needed for this student's research and could only be obtained through the purchase of these items. Even though these items were purchased at the end of the award, the intent and purpose of this award (which did not stop with the ending of this award) was being achieved through this purchase.

Questioned Item 2. Utah does not concur with this audit finding. As stated by the PI for this award, these items were used before the award end date. Due to this item being added to the list of questioned costs at the last minute, Utah did not have an opportunity to find and provide additional backup documentation that could validate the PI's statement.

Questioned Item 3. Utah concurs with this audit finding and agrees that \$2,246 should be returned to NSF. Per NSF PAPPG Chapter V. 2. c., restocking of materials and supplies in anticipation of grant expiration are not allowable.

Utah notes that steps were already taken (unrelated to this audit) to tighten the purchasing review processes and to verify the legitimacy of purchased materials and supplies occurring near the end

of an award. Purchase requests (such as these identified in this finding) are closely scrutinized before the purchase is allowed.

**Audit Finding 4 – General Misclassifications**

Utah concurs with this audit finding.

Item 1. Utah notes that in January 2018 (unrelated to this audit), detailed guidance for charging and accounting for participant support costs was distributed at the University. Charges to participant support account codes are more closely monitored as allocable and allowable costs.

Item 2. Utah notes that the \$25,000 charge had been identified by the department and a request made to move the expense to the correct account code. However, due to staff turnover, the correcting entry was not completed.

**Audit Finding 5 – Payroll Charges Misclassified to Participant Support Costs Project**

Utah concurs with this audit finding.

Utah notes that in January 2018 (unrelated to this audit), detailed guidance for charging and accounting for participant support costs was created and distributed at the University. Charges to participant support account codes are closely monitored for allocable and allowable charges. Incorrect payroll charges to a companion participant support project are required to be moved off (transferred) when identified in our review processes.

**Audit Finding 6 – Petty Cash Policy Violation – Internal Control**

Utah partially concurs with this audit finding.

Utah notes that Petty Cash Policy 3-011 III. A. restricts the total authorized amount of the petty cash fund to *“not exceed the amount of expenditures ordinarily required in a 45 day period”*; not to a \$100 limit as indicated in this audit finding. The \$1,735 identified in this audit finding was made up of 32 payments issued by the petty cash fund holder (the PI). Of the 32 payments issued, only two (2) payments exceeded the stated policy’s \$100 payment threshold. These two payments were for: (1) \$101; and (2) \$103.

While this was technically a violation of University policy, the risks associated with the violation of the policy are minimal in this instance. The PI has already committed to not allowing payments to participants to exceed \$100. Utah will consider whether or not the Petty Cash Policy needs to be updated to increase the authorized dollar amount per transaction.

**Audit Finding 7 – Incorrect NICRA Rate Usage – Internal Control**

Utah concurs with this audit finding.

This error occurred in FY 2011 (resulting in Utah's under-collection of approximately \$180 of F&A). Fiscal year 2011 was prior to Utah's implementation of the PeopleSoft Grants Suite module. Errors of this nature are no longer likely to occur due to the internal processes and reviews at the time of award setup and award closeout (which have now been in place for more than six (6) years).

Thank you for the opportunity to respond to these audit findings.



Craig Merritt  
Manager, Compliance Oversight & Reporting  
Research Management & Compliance



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