

Performance Audit of the Implementation of OMB COVID-19 Flexibilities – University of New Mexico

REPORT PREPARED BY COTTON & COMPANY LLP

NATIONAL SCIENCE FOUNDATION
OFFICE OF INSPECTOR GENERAL

May 13, 2021
OIG 21-1-009





AT A GLANCE

Performance Audit of the Implementation of OMB COVID-19 Flexibilities –
University of New Mexico

Report No. OIG 21-1-009

May 13, 2021

AUDIT OBJECTIVE

The National Science Foundation Office of Inspector General engaged Cotton & Company LLP (C&C) to conduct a performance audit of the implementation of Office of Management and Budget (OMB) Coronavirus Disease 2019 (COVID-19) flexibilities at the University of New Mexico (UNM) for the period March 1 to September 30, 2020. The auditors tested approximately \$187,000 of the more than \$15.6 million of costs claimed to NSF. The audit objective was to determine if UNM used the administrative COVID-19 flexibilities authorized by OMB and, if so, whether UNM complied with the associated guidelines. See Appendix E for the audit's objective, scope, and methodology.

AUDIT RESULTS

The report highlights that there were no exceptions identified with UNM's use of the administrative flexibilities granted through NSF's implementation of OMB Memoranda M-20-17, M-20-20, and M-20-26, as detailed in Appendix A. Although the auditors did not identify any exceptions related to UNM's use of the COVID-19 flexibilities, they did identify two areas in which UNM could improve its administration of flexibility-related expenses charged to NSF awards related to monitoring of travel credits and monitoring of idle employees. The auditors also identified concerns about UNM's compliance with certain Federal and NSF regulations, NSF award terms and conditions, and organizational policies not related to the COVID-19 flexibilities. The auditors questioned \$20,965 of costs claimed by UNM during the audit period. Specifically, the auditors identified \$17,269 in unreasonable travel expenses and \$3,696 in unallowable expenses. The auditors also identified one compliance-related finding for which there were no questioned costs: incorrect application of proposed indirect cost rates. C&C is responsible for the attached report and the conclusions expressed in it. NSF OIG does not express any opinion on the conclusions presented in C&C's audit report.

RECOMMENDATIONS

The auditors included two areas of improvement and three findings in the report with associated recommendations for NSF to resolve the questioned costs and to ensure UNM strengthens administrative and management controls.

AUDITEE RESPONSE

UNM expressed varying levels of agreement and disagreement with the findings throughout the report. UNM's response is attached in its entirety as Appendix D.

FOR FURTHER INFORMATION, CONTACT US AT OIGPUBLICAFFAIRS@NSF.GOV.



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

MEMORANDUM

DATE: May 13, 2021

TO: Dale Bell
Director
Division of Institution and Award Support

Jamie French
Director
Division of Grants and Agreements

Elizabeth Kearns

FROM: for Mark Bell
Assistant Inspector General
Office of Audits

SUBJECT: Audit Report No. 21-1-009, University of New Mexico (UNM)

This memorandum transmits the Cotton & Company LLP (C&C) report for the audit of the implementation of Office of Management and Budget (OMB) Coronavirus Disease 2019 (COVID-19) flexibilities at the University of New Mexico (UNM) for the period March 1 to September 30, 2020. The audit encompassed approximately \$187,000 of the more than \$15.6 million claimed to NSF during the period. The objective of the audit was to determine whether UNM used the administrative COVID-19 flexibilities authorized by OMB and, if so, whether UNM complied with the associated guidelines. A full description of the audit's objective, scope, and methodology is attached to the report as Appendix E.

Please coordinate with our office during the 6-month resolution period, as specified by OMB 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

C&C 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 C&C's audit report. To fulfill our responsibilities, we:

- reviewed C&C'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 C&C, as necessary, to discuss audit progress, findings, and recommendations;
- reviewed the audit report prepared by C&C; 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 OIGpublicaffairs@nsf.gov.

Attachment

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**PERFORMANCE AUDIT OF THE
UNIVERSITY OF NEW MEXICO'S
IMPLEMENTATION OF THE
OFFICE OF MANAGEMENT AND BUDGET
CORONAVIRUS DISEASE 2019 FLEXIBILITIES**

**NATIONAL SCIENCE FOUNDATION
OFFICE OF INSPECTOR GENERAL**

TABLE OF CONTENTS

I. BACKGROUND.....1

II. AUDIT RESULTS.....2

III. AREAS FOR IMPROVEMENT.....3

 AREA FOR IMPROVEMENT 1: MONITORING OF TRAVEL CREDITS3

 AREA FOR IMPROVEMENT 2: MONITORING OF IDLE EMPLOYEES.....4

IV. AUDIT FINDINGS.....5

 FINDING 1: UNREASONABLE TRAVEL EXPENSES.....6

 FINDING 2: UNALLOWABLE EXPENSES8

 FINDING 3: INCORRECT APPLICATION OF INDIRECT COST RATES10

APPENDIX A: UNIVERSITY OF NEW MEXICO’S IMPLEMENTATION OF OMB AND NSF’S COVID-19 FLEXIBILITIES13

APPENDIX B: UNIVERSITY OF NEW MEXICO’S OMB FLEXIBILITY SURVEY RESPONSE.....19

APPENDIX C: SCHEDULE OF QUESTIONED COSTS BY FINDING.....22

APPENDIX D: UNIVERSITY OF NEW MEXICO’S RESPONSE24

APPENDIX E: OBJECTIVES, SCOPE, AND METHODOLOGY.....27

**NATIONAL SCIENCE FOUNDATION
 PERFORMANCE AUDIT OF THE UNIVERSITY OF NEW MEXICO’S
 IMPLEMENTATION OF THE OFFICE OF MANAGEMENT AND BUDGET
 CORONAVIRUS DISEASE 2019 FLEXIBILITIES**

I. BACKGROUND

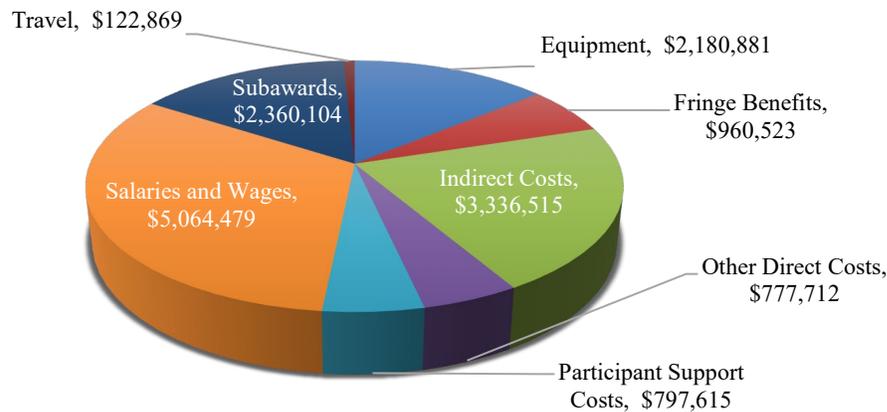
The National Science Foundation is an independent Federal agency created by Congress in 1950 “[t]o promote the progress of science; to advance the national health, prosperity, and welfare; to secure the national defense; and for other purposes” (Pub. L. No. 81-507).

In response to the Coronavirus Disease 2019 (COVID-19) pandemic, the Office of Management and Budget (OMB) issued memoranda that provided temporary administrative flexibilities for Federal financial assistance awards. Subsequently, NSF published a variety of additional guidance for NSF awardees regarding how to implement these flexibilities, as outlined in the Objectives, Scope, and Methodology section of this report (**Appendix E**).

Recognizing the need to ensure NSF award recipients properly implemented these flexibilities, the NSF Office of Inspector General engaged Cotton & Company LLP (referred to as “we”) to conduct a limited-scope performance audit to determine whether the University of New Mexico (UNM) implemented the administrative flexibilities and, if so, whether it complied with the associated guidelines.

In performing this audit, we gathered and reviewed general ledger (GL) detail that supported more than \$15.6 million in expenses that UNM claimed on 167 NSF awards during our audit period of performance of March 1 to September 30, 2020, as illustrated in Figure 1.

Figure 1. Costs Claimed by NSF Budget Category, March 1 through September 30, 2020¹



Source: Auditor analysis of accounting data provided by UNM.

¹ The total award-related expenses recorded in UNM’s GL exceeded the \$15,603,444 reported in NSF’s Award Cash Management Service (ACM\$); however, we were able to make adjustments to UNM’s GL data that enabled us to identify a \$15,600,698 population that materially reconciled to NSF’s ACM\$ records.

This performance audit, conducted under Order No. 140D0420F0651, was designed to meet the objectives identified in the Objectives, Scope, and Methodology section of this report (**Appendix E**) and was conducted in accordance with *Generally Accepted Government Auditing Standards* (GAGAS), 2018 Revision, issued by the Comptroller General of the United States. We communicated the results of our audit and the related findings and recommendations to UNM and NSF OIG. We included UNM’s response to this report in its entirety in **Appendix D**.

II. AUDIT RESULTS

We did not identify any exceptions with regard to UNM’s use of the administrative flexibilities granted through NSF’s implementation of OMB Memoranda M-20-17, M-20-20, and M-20-26 (referred to as “COVID-19 flexibilities”), as detailed in **Appendix A**. Within the limited scope of our testing, we were able to gain an understanding of UNM’s implementation of the COVID-19 flexibilities and did not identify any instances in which UNM did not comply with the associated guidelines, as summarized below.

Although UNM continued to track NSF award expenses within appropriate project codes in its accounting system, it did not specifically identify or segregate the expenses that it incurred under the COVID-19 flexibilities. However, we gained an understanding of how UNM implemented the COVID-19 flexibilities, including how the implementation process fit within UNM’s overall grant management environment, by conducting a series of interviews with UNM staff. Based on this understanding and UNM’s responses to the OMB flexibilities survey included in **Appendix B**, we tailored our data analytics sampling approach to enable us to select 40 transactions that UNM incurred in accordance with the COVID-19 flexibilities, or that we identified as high risk for other related reasons.

We tested the 40 transactions sampled, which represented \$187,367² in costs that UNM charged to NSF awards during the audit period, and identified one example in which UNM used the COVID-19 flexibilities that OMB granted and NSF implemented, as follows:

- UNM charged NSF Award No. [REDACTED] for \$33 in expenses incurred to purchase hand-sanitizing stations to enable employees to continue conducting research in a lab.

While these expenses are not typically allowable on NSF awards, because these costs relate to the activities necessary and reasonable for the performance of these awards due to the public health emergency, consistent with Flexibility 7 of OMB Memorandum M-20-17,³ we noted no exception with UNM’s use of this flexibility.

² The \$187,367 represents the total value of the 40 transactions selected for transaction based testing and does not represent the dollar base of the total costs reviewed during the audit.

³ OMB Memorandum M-20-17, Flexibility 7. *Allowability of Costs not Normally Chargeable to Awards* states that recipients who incur costs related to the cancellation of events, travel, or other activities that are necessary and reasonable for the performance of the award, or the pausing and restarting of grant-funded activities, due to the public health emergency are authorized to charge these costs to their award without regard to 2 Code of Federal Regulations (CFR) § 200.403, *Factors affecting allowability of costs*; 2 CFR § 200.404, *Reasonable costs*; and 2 CFR § 200.405, *Allocable costs*.

Although we did not identify any exceptions related to UNM’s use of the COVID-19 flexibilities, we identified two areas in which UNM could improve its administration of flexibility-related expenses charged to NSF awards:

- Monitoring of travel credits.
- Monitoring of idle employees.

We also determined that UNM needs improved oversight of expenses charged to NSF awards to ensure costs not related to the COVID-19 flexibilities are reasonable, allocable, and allowable in accordance with all relevant Federal and NSF regulations, NSF award terms and conditions, and organizational policies. Specifically, we identified and questioned \$20,965 of direct and indirect costs that UNM inappropriately claimed during the audit period, including:

- \$17,269 in unreasonable travel expenses.
- \$3,696 in unallowable expenses.

We also identified one compliance-related finding, for which we did not question any costs:

- Incorrect application of indirect cost rates.

We discuss the two areas for improvement and three findings in the *Areas for Improvement* and *Audit Findings* sections below.

III. AREAS FOR IMPROVEMENT

For the purposes of this report, an “area for improvement” is a condition that does not necessarily constitute a policy violation but that warrants UNM’s and NSF’s attention to ensure future costs claimed comply with all relevant regulations.

Area for Improvement 1: Monitoring of Travel Credits

Under its current monitoring procedures, UNM could use travel credits to pay for travel that does not benefit the project(s) to which it charged the original travel expenses.⁴ Specifically:

- Although UNM issued guidance to departments and travelers regarding how to handle cancelled travel charges, this guidance did not specifically address the need to identify expenses associated with cancelled travel charged to NSF award(s) or how to track travel credits received to ensure the credits are used to benefit the NSF award(s) charged. Specifically, because UNM does not have a centralized travel system, it relies on individual travelers and their department administrators to obtain refunds and to ensure credits are appropriately applied.

⁴ According to 2 Code of Federal Regulations (CFR) § 200.403 and § 200.405, absent the COVID-19 flexibilities granted by OMB, for costs to be allowable, grantees must charge costs to Federal awards in accordance with the relative benefits received.

If grantees do not receive travel credits or travel credits are not used, expenses associated with cancelled travel are allowable under Flexibility 7 of OMB Memorandum M-20-17.⁵ However, because UNM does not have sufficient monitoring procedures or internal controls in place to ensure that it uses travel credits to benefit the NSF award(s) to which it charged the original travel expense, it could potentially use those travel credits for travel that does not benefit the NSF award(s) charged.

Consideration

We suggest that NSF's Director of the Division of Institution and Award Support consider:

1. Directing UNM to implement additional monitoring procedures to ensure that UNM personnel use any travel credits received to benefit the NSF award to which UNM charged the original travel expense. For cases in which UNM uses a travel credit to benefit other project(s), it should monitor to ensure that the traveler transfers the original travel expense to the appropriate funding source(s).

University of New Mexico Response: UNM did not respond to this suggested area for improvement.

Auditors' Additional Comments: Our position regarding this area for improvement has not changed.

Area for Improvement 2: Monitoring of Idle Employees

Under its current monitoring procedures, UNM could have charged idle salary time to NSF awards that did not comply with OMB Memorandum M-20-26 Flexibility 1. Specifically:

- In response to the COVID-19 pandemic, UNM's Human Resources Department issued the *UNM Limited Operations Tier Policy*, dated March 16, 2020. This policy required each department to identify staff as Tier 1, Tier 2, or Tier 3 employees and report this designation to Human Resources.⁶ The Tier 1 and Tier 2 categories represented employees who were able to continue working on-campus, remotely, or both, while the Tier 3 category represented employees who were unable to work either on-campus or remotely and were therefore paid for time spent being idle. UNM stated that it did not believe any Tier 3 employees had charged idle salary costs to NSF awards but did not

⁵ OMB Memorandum M-20-17, Flexibility 7. *Allowability of Costs not Normally Chargeable to Awards* states that recipients who incur costs related to the cancellation of events, travel, or other activities that were necessary and reasonable for the performance of the award, as well as costs related to the pausing and restarting of grant-funded activities, as a result of the public health emergency are authorized to charge these costs to the relevant award without regard to 2 CFR § 200.403, *Factors affecting allowability of costs*; 2 CFR § 200.404, *Reasonable costs*; and 2 CFR § 200.405, *Allocable costs*.

⁶ According to the *UNM Limited Operations Tier Policy*, departments must assign each employee to a specific tier to determine how and where the employees are approved to work. Tier 1 employees must perform their work on campus. Tier 2 employees are able to work remotely. Tier 3 employees are unable to work but are available to do so. The policy notes that UNM will continue to pay Tier 3 employees at their normal rate.

implement any procedures for monitoring the charging of idle time directly to NSF awards.

Although salary expenses associated with Tier 3 idle time were allowable under Flexibility 6 of OMB M-20-17, because UNM did not identify alternative funding sources to cover idle salary costs and/or exhaust these sources before charging the idle salary costs to NSF awards, Tier 3 salary expenses were not allowable after June 18, 2020, when OMB Memorandum M-20-26 became effective.⁷ Because we did not identify any instances in which UNM employees charged idle salary costs to an NSF award, we did not identify an exception with regard to UNM's implementation of OMB Memorandum M-20-26. However, we are noting an area for improvement, as it is possible that UNM has charged or could have charged NSF awards for idle salary expenses that did not comply with this memorandum.

Considerations

We suggest that NSF's Director of the Division of Institution and Award Support consider:

1. Directing UNM to implement additional monitoring procedures to ensure it is able to identify and centrally monitor salary costs associated with idle employees.
2. Directing UNM to assess whether any Tier 3 employees charged salary expenses to NSF awards after June 18, 2020, and, if so, whether they did so in accordance with Office of Management and Budget Memorandum M-20-26, Flexibility 1.

University of New Mexico Response: UNM did not respond to this suggested area for improvement.

Auditors' Additional Comments: Our position regarding this area for improvement has not changed.

IV. AUDIT FINDINGS

For the purposes of this report, a finding is a condition that shows evidence of non-compliance with the regulations applicable to the sampled NSF awards.

We provide a breakdown of the questioned costs by finding in **Appendix C** of this report.

⁷ OMB Memorandum M-20-26, Flexibility 1. *Allowability of Salaries and Other Project Activities*, states that awarding agencies may allow recipients to continue to charge salaries and benefits to active Federal awards consistent with the recipients' policy of paying salaries from all funding sources, Federal and non-Federal, under unexpected or extraordinary circumstances. It further states that, due to the limited funding resources under each Federal award to achieve its specific public program goals, awarding agencies must require each recipient to exhaust other available funding sources to sustain its workforce and implement necessary steps to save overall operational costs (such as rent renegotiations) during the pandemic period to preserve Federal funds for the ramp-up effort. OMB Memorandum M-20-26 was effective from June 18, 2020 to September 30, 2020.

Finding 1: Unreasonable Travel Expenses

UNM charged one NSF award a total of \$17,269 in travel expenses that were unreasonable under Federal⁸ regulations and NSF's *Proposal and Award Policies and Procedures Guide* (PAPPG).⁹ Specifically:

- Between August and December 2019, UNM charged NSF Award No. [REDACTED] for \$17,269 in unreasonable travel costs associated with a Principal Investigator's (PI's) participation in a 5-month grant-related program at the University of [REDACTED] in [REDACTED], as well as with multiple trips to present at conferences in [REDACTED]. Because the original grant budget did not include funding to support the PI's participation in this program, and because the PI's participation in this program would prevent [REDACTED] from fulfilling his teaching responsibilities, UNM requested that the PI obtain NSF's approval before participating in this program and charging travel expenses to the award. Specifically, UNM requested that the PI receive approval from the NSF Grants Officer,¹⁰ consistent with the NSF PAPPG, which states that grantees should obtain approval from the NSF Grants Officer before charging an expense that might subsequently be disputed¹¹ or that would represent a change in an award's scope.¹²

Although UNM specifically requested that the PI receive NSF Grant Officer approval, the PI requested approval from the NSF Program Director. While the NSF Program Director had no objections to the PI's participation in the program, because the Grants Officer did not have the opportunity to review the travel expenses and determine whether they were reasonable, allocable, and allowable based on the current scope and objectives of the NSF award, UNM charged the NSF award for unreasonable travel expenses, including:

⁸ According to 2 CFR §200.404, a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

⁹ According to NSF PAPPG 18-1, Part I, Chapter II, Section C.2.g, a cost must be considered necessary, reasonable, allocable, and allowable under 2 CFR § 200, Subpart E; NSF policy; and/or the program solicitation.

¹⁰ According to NSF PAPPG 18-1, Introduction, Section E.3, Grants Officers are responsible for issuing all award amendments and certain post-award prior approvals.

¹¹ According to NSF PAPPG 18-1, Part I, Chapter X, Section A, *Basic Considerations*, in the event a grantee anticipates charging a direct cost item that might subsequently be disputed, an authorized official of the grantee organization should discuss the matter with the cognizant NSF Grants Officer and document the conditions or factors surrounding the item in order to avoid possible subsequent disallowance. It also states that the grantee is ultimately responsible for ensuring that all costs charged to NSF awards meet the requirements of the cost principles contained in 2 CFR § 200, Subpart E.

¹² According to NSF PAPPG 18-1, Part II, Chapter VII, Section B.1.a, the objectives or scope of the project may not be changed without prior NSF approval. The authorized organizational representative must sign and submit such change requests through NSF's electronic systems. If NSF approves the change request, the Grants Officer will amend the grant.

- UNM charged the award for \$15,497¹³ in per diem claimed by the PI to cover meals that were not budgeted or approved by NSF.¹⁴
- UNM charged the award for \$1,772¹⁵ in airfare and ground transportation expenses that were not reasonably charged to the NSF award.¹⁶

UNM directed the PI to request approval from the NSF Grants Officer; however, because the PI did not have a sufficient understanding of why NSF Grants Officer approval was required, the PI inappropriately requested approval from the NSF Program Director instead. Further, because UNM's travel policies do not limit the amount employees are allowed to claim for per diem during temporary relocations, employees can claim costs greater than the amount which would be incurred by a prudent person. As a result, we are questioning \$17,269 in unreasonable expenses charged to one NSF award, as illustrated in Table 1.

Table 1. Unreasonable Travel Expenses

Description	NSF Award No.	Fiscal Year	Questioned Costs			
			Direct	Indirect	Total	UNM Agreed to Reimburse
August through December 2019 Per Diem	██████	2020	\$10,229	\$5,268	\$15,497	\$0
August through December 2019 Airfare and Ground Transportation Costs	██████	2020	<u>1,169</u>	<u>603</u>	<u>1,772</u>	<u>0</u>
Total			<u>\$11,398</u>	<u>\$5,871</u>	<u>\$17,269</u>	<u>\$0</u>

Source: Auditor summary of identified exceptions.

¹³ The cost of the travel totaled \$12,398. UNM subsidized the travel with \$1,000. As such, the award incurred \$11,398. The per diem represented 89.7 percent ($\$11,126 / 12,398$) of the total cost. This accounted for \$10,229 of per diem direct costs and \$5,268 of indirect costs ($\$10,229 * 51.50$ percent) charged to the award, for a total of \$15,497 of questioned costs.

¹⁴ The PI received at least a portion of the daily per diem rate on 112 days of his 125-day trip, including on weekend days, for a total of \$11,126 (direct costs) in per diem. For the 13 days for which the PI did not receive per diem, ██████ University provided ██████ with a \$1,284 subsidy.

¹⁵ The cost of the travel totaled \$12,398. UNM subsidized the travel with \$1,000. As such, the award incurred \$11,398. The airfare represented 9.5 percent ($\$1,180 / 12,398$) of the total cost. This accounted for \$1,085 of airfare direct costs and \$559 of indirect costs ($\$1,085 * 51.50$ percent) charged to the award, for a total of \$1,644 of questioned airfare costs. Further, the ground transportation represented 0.7 percent ($\$92 / 12,398$) of the total cost. This accounted for \$84 of ground transportation direct costs and \$44 of indirect costs ($\$84 * 51.50$ percent) charged to the award, for a total of \$128 of questioned ground transportation costs.

¹⁶ The PI incurred \$3,544 in airfare and ground transportation costs to travel to/from ██████ and charged 50 percent of these costs to the NSF award without documenting the reasonability of the allocation methodology.

Recommendations

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

1. Resolve the \$17,269 in questioned unreasonable per diem, airfare, and ground transportation costs for which UNM has not agreed to reimburse NSF and direct UNM to repay or otherwise remove the sustained questioned costs from its NSF awards.
2. Direct UNM to strengthen its administrative and management procedures for reviewing travel expenses incurred on sponsored projects. Updated procedures could include periodic training for Principal Investigators to ensure they understand when NSF Grant Officer approval should be requested and how to appropriately document that only reasonable costs were charged to NSF awards.
3. Direct UNM to strengthen its policies and procedures regarding the reasonableness of per diem expenses incurred when employees are temporarily relocated for a period longer than 30 days.

University of New Mexico Response: UNM partially concurred with this finding, stating that it believes NSF and UNM should share responsibility for the questioned costs, as the responses the PI received from the NSF Program Director and NSF Grants Management Specialist led UNM and the PI to believe that the expenditures were reasonable and did not require further NSF approval.

Auditors' Additional Comments: Our position regarding this finding has not changed. Specifically, because the travel costs that UNM charged to the NSF award are unreasonable and the PI did not discuss the costs with the NSF Grants Officer in advance to ensure that the costs would not be disputed and/or disallowed, as recommended by NSF policy, these costs are not allowable.

Finding 2: Unallowable Expenses

UNM charged two NSF awards a total of \$3,696 in expenses that were unallowable under Federal regulations.¹⁷ Specifically:

- In March 2020, UNM charged NSF Award No. [REDACTED] for \$83 in unallowable per diem as a result of a traveler claiming 6 days of per diem using the per diem rate for [REDACTED], rather than the rate for [REDACTED], as would have been appropriate.¹⁸
 - *UNM agreed to reimburse NSF for these expenses.*

¹⁷ According to 2 CFR § 200.403, absent the COVID-19 flexibilities granted by OMB, for costs to be allowable, they must be reasonable and necessary to achieve the objectives of the award.

¹⁸ UNM used the [REDACTED] General Services Administration Meals & Incidental Expenses per diem rate of \$76 per day (\$57 per day on travel days) instead of the appropriate [REDACTED], [REDACTED], and [REDACTED] area per diem rate of \$66 per day (\$49.50 per day on travel days). As a result, the traveler overcharged the NSF award by \$7.50 for each of the 2 travel days and by \$10 for each of the 4 standard days. We calculated the total questioned costs as follows: $[(\$7.50 * 2) + (\$10 * 4)] = \$55$ in direct costs * 51.50 percent indirect cost rate = \$28. $\$55 + \$28 = \$83$.

- In August 2020, UNM charged NSF Award No. [REDACTED] for \$3,613 in tuition remission for two students with 12-credit course loads. Although the two students both reduced their course loads from 12 credit hours to 9 credit hours, because the reductions did not occur until after UNM’s deadline for tuition refunds, UNM did not reduce the amount of tuition remission it charged to the NSF award to reflect the revised 9-credit hour course load. Because UNM paid the tuition expenses out of the award’s participant support funding and the expenses associated with the dropped credit hours did not benefit the award, the expenses related to the dropped credit hours are unallowable.¹⁹

UNM did not have appropriate policies and procedures or sufficient internal controls in place to ensure that it always charged reasonable, allowable costs to NSF awards. Specifically, UNM’s internal controls were not always sufficient to ensure that personnel appropriately selected the correct per diem rate when completing reimbursement requests in UNM’s payment reimbursement system, or that reviewers appropriately verified that personnel had selected the correct rate. Further, UNM’s current tuition remission policies and procedures did not ensure that it only used participant support costs to cover allowable participant expenses. We are therefore questioning \$3,696 in unallowable expenses charged to two NSF awards. UNM concurred with \$83 of the questioned costs but disagreed with the remaining \$3,613, as illustrated in Table 2.

Table 2. Unallowable Expenses

Description	NSF Award No.	Fiscal Year	Questioned Costs			
			Direct	Indirect	Total	UNM Agreed to Reimburse
March 2020 Unallowable Per Diem	[REDACTED]	2020	\$55	\$28	\$83	\$83
August 2020 Unallowable Tuition	[REDACTED]	2021	<u>3,613</u>	<u>0</u>	<u>3,613</u>	<u>0</u>
Total			<u>\$3,668</u>	<u>\$28</u>	<u>\$3,696</u>	<u>\$83</u>

Source: Auditor summary of identified exceptions.

Recommendations

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

1. Resolve the \$3,613 in questioned tuition costs for which UNM has not agreed to reimburse NSF and direct UNM to repay or otherwise remove the sustained questioned costs from its NSF awards.

¹⁹ According to 2 CFR § 200.75 and NSF PAPPG 19-1, Part I, Chapter II, Section C.2.g.v, participant support costs refer to direct costs such as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with conferences or training projects.

2. Direct UNM to provide documentation supporting that it has repaid or otherwise credited the \$83 of questioned travel costs for which it has agreed to reimburse NSF.
3. Direct UNM to strengthen its controls surrounding the approval of expense reimbursements to ensure approvers appropriately verify that travelers are reimbursed at the appropriate U.S. General Services Administration per diem rate(s).
4. Direct UNM to strengthen its policies and procedures surrounding the use of participant support cost funding to cover tuition remission expenses. Specifically, UNM should update its current tuition remission policies and procedures to ensure that it does not use participant support costs to cover costs associated with credit hours that do not benefit student participants.

University of New Mexico Response: UNM partially concurred with this finding, as it agreed to reimburse NSF for the \$83 in questioned per diem but disagreed with the remaining \$3,613 in questioned costs. Specifically, UNM stated that, because it did not issue any refunds or credits to the students who reduced their credit hours and because it would be overly burdensome to require UNM to monitor for credit-hour reductions that occur after its tuition refund deadline, it does not agree that these expenses should be unallowable.

Auditors' Additional Comments: Our position regarding this finding has not changed. Specifically, although UNM did not refund the tuition to the students, because the \$3,613 in questioned costs represents participant support cost funds that UNM did not use to benefit NSF award participants, these expenses are unallowable.

Finding 3: Incorrect Application of Indirect Cost Rates

UNM applied, and allowed its subawardees to apply, incorrect indirect cost rates to direct expenses accumulated on four NSF awards. For each of these awards, UNM, or the subawardee, applied the Negotiated Indirect Cost Rate Agreement (NICRA) rate that was in effect at the time it submitted the award proposal, rather than the rate included in the NICRA that was in effect as of the date of award, as required by Federal²⁰ and NSF guidance.²¹

Although it is not UNM's standard practice to apply proposed indirect cost rates, it allowed the PIs for each of these awards to apply the indirect cost rates included in the NSF-approved proposals because it had made a "business decision" to not allow the NICRA rates to increase between the proposal submission date and the grant award date. For the subaward invoices, UNM stated that either the subawardees' rates were based on the rates negotiated at the time of the agreement, as was the case with the [REDACTED] University invoices, or the applied rates were lower than the negotiated rates, as was the case with the other two exceptions. Because these rate changes did not cause UNM to incur any additional costs on the NSF award, UNM allowed

²⁰ According to 2 CFR 200, Appendix III, Section C.7, Federal agencies must use the negotiated rates for indirect (F&A) costs in effect at the time of the initial award throughout the life of the sponsored agreement.

²¹ NSF also requires Institutions of Higher Education to use the negotiated indirect cost rate in effect as of the date of the award throughout the life of the award. See NSF PAPPGs 16-1, 18-1, and 19-1, Part I, Chapter II, Section C.2.g.(viii).

them. As a result, UNM and its subawardees applied inappropriate indirect cost rates to direct expenses accumulated on four NSF awards, as illustrated in Tables 3.a. and 3.b.

Table 3.a. UNM’s Incorrect Application of Indirect Cost Rates

NSF Award No.	Award Date	Applied Rate	Appropriate Rate
[REDACTED]	3/7/2014	51.00%	51.50%
[REDACTED]	5/2/2016	51.00%	51.50%

Source: Auditor summary of identified exceptions.

Table 3.b. UNM Subawardees’ Incorrect Application of Indirect Cost Rates

NSF Award No.	Subawardee	Applied Rate	Appropriate Rate
[REDACTED]	University of [REDACTED]	49.91%	50.00%
[REDACTED]	[REDACTED]	5.12%	10.00%
[REDACTED]	[REDACTED] University	51.00%	53.00%

Source: Auditor summary of identified exceptions.

Because UNM did not overcharge NSF for indirect costs during the audit period, we did not question any costs associated with this finding. However, we did note a compliance finding, as UNM’s current practices do not comply with Federal regulations and could cause UNM to overcharge NSF for indirect costs in the future.

Recommendations

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

1. Direct UNM to update its award set-up practices to require that, when setting up accounts established for NSF awards, personnel ensure that the accounts apply indirect costs using the rates that were established in the Negotiated Indirect Cost Rate Agreement in effect as of the date of the NSF grant award, rather than using the rates included within the original grant proposal.
2. Direct UNM to require subawardees to apply indirect costs using the rates that were established in the Negotiated Indirect Cost Rate Agreement in effect as of the date of the subaward agreement, rather than using the rates included within the subaward budget and proposal.

University of New Mexico Response: UNM partially concurred with this finding. Specifically, UNM agreed it has an opportunity to implement additional training and stronger procedures to help ensure that it effectively applies the most current indirect cost rates. However, UNM stated that, when appropriate, it should be able to make a business decision to allow an exception for cases in which it and its subawardees prefer to charge an indirect cost rate that is lower than the indirect cost rate that was in effect at the time the grant was awarded.

Auditor's Additional Comments: Our position regarding this finding has not changed. Specifically, because Federal regulations and NSF policies state that grantees must use the indirect cost rate in effect at the time of the initial award, a business decision to apply a lower rate is not allowable. Further, if UNM makes a business decision to continue to charge the proposed rates, there is a risk that, if the indirect cost rate decreases, UNM could overcharge NSF for indirect costs.

COTTON & COMPANY LLP



Megan Mesko, CPA, CFE
Partner
May 11, 2021

**APPENDIX A: UNIVERSITY OF NEW MEXICO'S IMPLEMENTATION OF OMB AND NSF'S
COVID-19 FLEXIBILITIES**

UNIVERSITY OF NEW MEXICO’S IMPLEMENTATION OF OMB AND NSF’S COVID-19 FLEXIBILITIES

OMB Memo	Flexibility Granted	Flexibility Implemented per Awardee?	Exception(s) Identified with the Awardee s Implementation of the Flexibilities?
M-20-17	1. Flexibility with SAM registration	Yes	No Exceptions Noted. The University of New Mexico's (UNM’s) System for Award Management (SAM) registration was originally due in April 2020, but UNM implemented the automatic 60-day extension to change the due date to June 2020. UNM has since updated its SAM registration, which currently does not expire until July 13, 2021.
	2. Flexibility with application deadlines	Yes	No Exceptions Noted. UNM implemented this flexibility specific to NSF Program Solicitation [REDACTED]. One UNM Principal Investigator (PI) had submitted a proposal ahead of the deadline, but then used this flexibility to retract the proposal, so they could amend and resubmit it.
	3. Waiver for Notice of Funding Opportunities (NOFOs) publication	No	Not Applicable. This flexibility is not applicable to NSF awards.
	4. No-cost extensions on expiring awards	Yes	No Exceptions Noted. UNM executed a second no-cost extension on expiring awards, only after receiving NSF approval to do so. Following a number of requests to allow students to return to perform on-campus work under NSF awards, which UNM denied at the University and Department levels, UNM received an uptick in no-cost extension requests for projects ending in May, June, and July 2020. Although UNM did not change its policy regarding the use of no-cost extensions, the Vice President of Research issued a memorandum to promote the use of the flexibility. The Vice President of Research also encouraged extension requests early in the pandemic, after UNM denied the requests to have students return to campus. UNM specifically received a no-cost extension on an award to host an international conference that UNM was forced to adapt to a virtual format.
	5. Abbreviated non-competitive continuation requests	No	Not Applicable. UNM indicated that it did not implement this flexibility, and we did not identify any instances in which UNM personnel used the flexibility.
	6. Allowability of salaries and other project activities	Yes	No Exceptions Noted. UNM’s Human Resources department issued guidelines that designated all employees as one of three tiers. Tier 1 employees were essential workers who needed to continue working on campus. Tier 2 employees were workers who needed to continue working but could do so remotely. Tier 3 employees were workers who were non-essential or idle, or who did not need to work. UNM rarely used the Tier 3 category, and it allowed salary charges for these employees based on COVID-19 flexibilities and individual agency guidance. UNM did not believe that any grant personnel were designated as Tier 3, as these employees were able to continue working in some capacity; however,

OMB Memo	Flexibility Granted	Flexibility Implemented per Awardee?	Exception(s) Identified with the Awardee s Implementation of the Flexibilities?
			<p>only Human Resources maintained a centralized listing of tier designations for all employees, and UNM did not monitor the tier designation at the sponsored project level. UNM primarily used the tier system to determine which employees it would allow on campus. Because the State of New Mexico considers research to be an essential activity, UNM continued to perform research either remotely or onsite after taking precautions. This resulted in limited idle time for research personnel. Our testing of salaries and wages included identifying each employee’s tier designation, and we did not identify any salary charges for Tier three employees and/or other idle time. Further, we did not identify any instances in which UNM appeared to have inappropriately categorized an employee based on their work performed. However, as noted above, UNM did not centrally monitor the listing of Tier 3 employees, nor did it track whether those employees charged time to NSF awards. As such, we are noting an area for improvement with regard to the monitoring of Tier 3 employees and whether they or other idle employees charged time to NSF awards. With regard to the allowability of other project costs, UNM directed its departments to acquire items related to sanitation and social distancing but instructed them not to incur those costs on sponsored projects. UNM provided similar directions to those individuals responsible for acquiring materials or supplies to either maintain in-person working conditions or to enable personnel to work remotely, instructing the individuals to acquire these purchases using unrestricted funding sources. However, we noted one instance in which UNM personnel charged sanitation supplies to a sponsored award, in accordance with the flexibility but not in accordance with University directives.</p>
	<p>7. Allowability of costs not normally chargeable to awards</p>	<p>Yes</p>	<p>No Exceptions Noted. UNM allowed expenses related to cancelled travel on all sponsored funding, if the travel would have benefited the project and the cancellation resulted from COVID-19 restrictions. UNM reviewed cancellation costs on a case-by-case basis to determine whether it was appropriate to charge the sponsored award. Although UNM provided grant personnel with guidance on how to handle pandemic-related travel cancellations, this guidance only stated that personnel should request refunds if possible; if it was not possible to obtain a refund, UNM personnel would review the allowability of each change fee or cancelled flight on a case-by-case basis. Because UNM does not have a centralized travel system for tracking travel costs incurred, the onus of seeking refunds or credits from vendors fell on the departments and employees. UNM’s policy does not instruct personnel as to how they should handle credits obtained on awards, nor did it issue a separate policy regarding credits. UNM indicated that its personnel discussed the use of credits as part of a questions and answers session; however, it did not provide any documentation of how personnel should apply credits to awards.</p>

OMB Memo	Flexibility Granted	Flexibility Implemented per Awardee?	Exception(s) Identified with the Awardee's Implementation of the Flexibilities?
			<p>In addition to its travel guidance, UNM issued guidance regarding other COVID-19 flexibilities to provide departments with a clearer understanding of when normally unallowable costs could be charged to awards. UNM attended webinars provided by the National Council of University Research Administrators (NCURA), Society of Research Administrators (SRA), Federal Demonstration Partnership (FDP), and Council on Governmental Relations (COGR) to learn about the COVID-19 flexibilities and implementation, then communicated this knowledge to UNM research stakeholders, primarily through the continued research site. Our testing identified 14 instances in which a transaction or award was affected by COVID-19 restrictions; however, we did not identify any exceptions specific to the use of the flexibility. We did identify one award under which personnel continued to conduct field research, but saw significant increases in travel and housing costs because research groups that would normally have charged one vehicle and one residence were required to take individual vehicles and lodge in separate housing instead. Further, we identified two instances in which personnel ordered materials during the award period but experienced significant shipping delays to COVID-19; in one of these instances, the researcher did not receive the supplies until after the award had expired.</p> <p>We are noting an area for improvement with regard to the tracking of travel credits, as UNM issued guidance related to obtaining refunds and how personnel should proceed if they are unable to receive a refund but did not issue any guidance with regard to how personnel should proceed if the airline did issue a credit. Although we did not identify any instances in which UNM personnel received credits related to booked travel, it is possible that employees could use such credits in a way that did not benefit the award charged.</p>
	8. Prior approval requirement waivers	Yes	<p>No Exceptions Noted. UNM followed the Expanded Authority Prior Approval Matrix. UNM obtained prior approvals for requests for second no-cost extensions; however, it noted that it did not make any other requests that related to the Prior Approval Matrix. Further, UNM did not change any of its policies with regard to obtaining prior approval from a sponsor before requesting changes to participant support cost budgets or adding subawards. UNM did receive NSF Program Officer permission to transition an award's in-person conference into an abbreviated virtual conference and future virtual conference. We did not note any exceptions with regard to prior approval requirements in our testing of participant support costs or subawards. We did identify one instance in which UNM used rebudgeting authority to purchase upgraded computing laboratory equipment; however, the sponsored project has not yet realized the benefits of the purchase, as students have not been able to access the lab.</p>
	9. Exemption of certain procurement requirements	No	<p>Not Applicable. UNM indicated that it did not implement this flexibility, and we did not identify any instances in which UNM personnel used the flexibility.</p>

OMB Memo	Flexibility Granted	Flexibility Implemented per Awardee?	Exception(s) Identified with the Awardee's Implementation of the Flexibilities?
	10. Extension of financial, performance, and other reporting	No	Not Applicable. UNM indicated that it did not implement this flexibility, and we did not identify any instances in which UNM personnel used the flexibility.
	11. Extension of currently approved indirect cost rates	No	Not Applicable. UNM indicated that it did not implement this flexibility, and we did not identify any instances in which UNM personnel used the flexibility.
	12. Extension of closeout	No	Not Applicable. UNM indicated that it did not implement this flexibility, and we did not identify any instances in which UNM personnel used the flexibility.
	13. Extension of Single Audit submission	No	No Exceptions Noted. UNM stated that the New Mexico State Auditor had originally indicated that it would not provide any flexibilities with regard to the Single Audit due date. However, the New Mexico State Auditor's Office issued a memorandum in October 2020 to allow for an extension to the due date for the submission of UNM's audited financial statements.
M-20-20	1. Donations of medical equipment and other resources purchased/ funded under Federal financial assistance in support of the COVID-19 response	No	Not Applicable. UNM indicated that it did not implement this flexibility, and we did not identify any instances in which UNM personnel used the flexibility.
M-20-26	1. Extension of allowability of salaries and other project activities through September 30, 2020	Yes	No Exceptions Noted. UNM extended the salary flexibilities through September 30, 2020, following the COVID-19 flexibilities and agency guidelines. UNM noted that its personnel did not widely take advantage of this flexibility, as research continued either remotely or onsite. However, UNM communicated the flexibility through email and offered a questions and answers session for research administrators to explain UNM's expectations and its intended use of the flexibility. UNM's only expectation with regard to the requirement that personnel exhaust other sources of funding before charging idle time to an award related to charging department overhead accounts for idle time. UNM originally stated that only personnel who charged 100 percent of their time to one award were allowed to use this option; however, UNM noted that very few of its personnel would have been eligible based on this restriction. UNM therefore updated its effort certification language to stipulate that personnel could use this option if they performed work on an award, appropriately allocated any emergency absences to the award, and had sufficient information and knowledge to support and certify the time spent on the award. However, UNM did not centrally track employees who charged idle time. We did not note an exception with regard to UNM's implementation of the flexibility, as UNM did not have procedures in place for tracking and monitoring Tier 3 employees who charged time to sponsored programs, our testing of salary transaction did not identify any exceptions specific to the flexibility, and we did not identify any Tier 3 employee salary expenses in our sample. However, we are

OMB Memo	Flexibility Granted	Flexibility Implemented per Awardee?	Exception(s) Identified with the Awardee s Implementation of the Flexibilities?
			noting an area for improvement with regard to UNM’s monitoring of Tier 3 employees and whether those employees charged time to NSF awards.
	2. Extension of Single Audit submission and COVID-19 emergency acts fund reporting through December 31, 2020	No	No Exceptions Noted. UNM stated that the New Mexico State Auditor had originally indicated that it would not provide any flexibilities with regard to the Single Audit due date. However, the New Mexico State Auditor’s Office issued a memorandum in October 2020 to allow for an extension to the due date for the submission of UNM’s audited financial statements.

APPENDIX B: UNIVERSITY OF NEW MEXICO'S OMB FLEXIBILITY SURVEY RESPONSE

UNIVERSITY OF NEW MEXICO'S OMB FLEXIBILITY SURVEY RESPONSE

Question No.	During the COVID 19 Pandemic, has your organization...	Awardee Response
1	Issued any subawards to grantees with expired SAM.gov registrations?	No
2	Rescinded and resubmitted grant proposals as a result of extended proposal deadlines?	No
3	Made any changes to its ACMS\$ draw-down methodology?	No
4	Submitted more no-cost extension requests than it typically does in an average 6-month period?	Yes
5	Established a new policy for charging salaries to projects during unexpected or extraordinary circumstances?	Yes
6	Allowed salaries, stipends, and benefits to continue to be charged even if the personnel were unable to conduct the research?	Yes
7	Allowed researchers to continue to perform on-campus research?	Yes
8	Allowed researchers to perform sponsored research off-campus?	Yes
9	Allowed personnel to perform research during the academic year that would typically be performed during a summer month?	Yes
10	Issued any additional guidance regarding how employees should track or certify effort while the campus was closed?	Yes
11	Issued any guidance limiting an employee's ability to book NSF sponsored travel?	Yes
12	Required students and/or employees to cancel previously planned trips?	Yes
13	Established a new policy for charging costs associated with the cancellation of events or travel?	Yes
14	Received any travel credits that related to airfare, lodging, or other travel expenses charged to NSF funding sources?	Yes
15	Hosted any on-campus NSF Research Experience for Undergraduate (REU) programs/activities?	Yes
16	Been required to cancel or re-schedule any NSF REU programs/activities?	Yes
17	Been required to adapt previously planned NSF REU programs/activities to a virtual format?	Yes
18	Been required to quarantine any students scheduled to participate in an NSF REU program?	No
19	Been required to cancel or re-schedule any non-REU NSF sponsored on-campus events?	No
20	Used NSF funding to sponsor virtual conferences or other virtual events/programs?	Yes
21	Been required to incur any unusual travel costs to ensure students/employees were able to return to the U.S. after performing NSF sponsored travel (such as extended travel times due to lack of flight availability/quarantine requirements, or costs incurred to charter an aircraft)?	No
22	Used NSF funding to purchase COVID-19 related goods/services (such as PPE, cleaning services, etc.) to allow students/employees to continue performing research?	No
23	Changed the scope or objectives of any of the research being performed on any of your NSF Awards?	No
24	Rebudgeted any NSF award participant support cost funding?	Yes
25	Issued any additional subaward agreements to perform NSF Award research?	Yes
26	Allowed employees to incur costs greater than 90 days before an NSF grant became effective?	No
27	Issued any guidance regarding authority to rebudget funding during the Pandemic?	Yes
28	Made any changes to its procurement policies or procedures?	No
29	Used NSF funding to purchase equipment?	Yes
30	Continued to perform annual inventory reporting?	Yes
31	Applied indirect costs using a provisional negotiated indirect cost rate?	No
32	Made any changes to the manner in which it identifies and classifies direct/indirect costs?	No
33	Implemented any additional flexibilities related to submitting final project reports or other grant close-out procedures as a result of COVID?	No
34	Issued any subawards to grantees performing research on NSF sponsored awards who did not have a Single Audit Report published for the most recent audit year?	No
35	Used NSF funding to purchase COVID-19 related goods/services (such as PPE, cleaning services, etc.) that were donated to hospitals, medical centers, and/or other local entities serving the public for COVID-19 response?	No
36	Donated any medical equipment purchased with NSF funds prior to March 2020 to hospitals, medical centers, and/or other local entities serving the public for COVID-19 response?	No

Question No.	During the COVID 19 Pandemic, has your organization...	Awardee Response
37	Received a Paycheck Protection Program loan or any Coronavirus Aid, Relief, and Economic Security (CARES) Act program funding?	Yes
38	Provided any guidance to subawardees regarding how personnel costs can/should be billed during the Pandemic?	No
39	Identified and exhausted all non-Federal funding sources to sustain your workforce before claiming costs for salaries that did not directly benefit NSF awards?	Yes
40	Implemented any steps to save overall operational costs (such as rent renegotiations)?	Yes
41	Implemented any changes in response to the updated solicitation guidance included in NSF 18-515, 18-584, 20-545, 20-546, or 20-562?	Yes
42	Received any NSF awards to perform research that involves human-subjects prior to receiving Institutional Review Board (IRB) approval?	No
43	Received any NSF awards to perform research that involves vertebrate animals prior to receiving approval from an Institutional Animal Care and Use Committee (IACUC)?	No
44	Operated an NSF sponsored Major Facility?	No
45	Allowed any Principal Investigators to disengage from an NSF Award for more than 3 months?	No
46	Changed the cost-sharing requirements previously established for any NSF awards?	No
47	Encumbered any real property with Federal funds?	No
48	Provided resources or oversight of any NSF Small Business Innovation Research Program (SBIR) or Small Business Technology Transfer (STTR) Awards?	No

Question No.	During the COVID 19 Pandemic, has your organization used NSF Funding to cover...	Response
49	Expenses associated with fines, penalties, or other damages?	No
50	Fund-raising expenses?	No
51	Costs of housing (e.g. depreciation, maintenance, utilities, furnishings, rent), housing allowances or personal living expenses?	No
52	Insurance or indemnification expenses?	No
53	Costs of memberships in civic or community organizations?	No
54	Costs associated with selling and marketing (other than costs allowed under 2 CFR §200.421 Advertising and public relations)?	No
55	Dependent care costs for trips greater than 6 months?	No
56	Costs of entertainment, amusement, diversion or social activities (with programmatic purpose)?	No
57	Severance payments to foreign nationals that exceed the amounts customary in the US?	No
58	Salary earned at a rate higher than an employee's established institutional base salary?	No
59	Unbudgeted administrative salary costs?	No
60	Costs incurred to purchase real property or to perform construction activities related to improving capital assets?	No
61	Costs incurred to allow employees to perform research or otherwise work from home?	No

APPENDIX C: SCHEDULE OF QUESTIONED COSTS BY FINDING

NATIONAL SCIENCE FOUNDATION
ORDER # 140D0420F0651
PERFORMANCE AUDIT OF COSTS CLAIMED ON NSF AWARDS
UNIVERSITY OF NEW MEXICO

SCHEDULE OF QUESTIONED COSTS BY FINDING

Finding	Description	Questioned Costs		Total
		<i>Unsupported</i>	<i>Unallowable</i>	
1	Unreasonable Travel Expenses	\$0	\$17,269	\$17,269
2	Unallowable Expenses	0	3,696	3,696
3	Incorrect Application of Indirect Cost Rates	<u>0</u>	<u>0</u>	<u>0</u>
Total		<u>\$0</u>	<u>\$20,965</u>	<u>\$20,965</u>

APPENDIX D: UNIVERSITY OF NEW MEXICO'S RESPONSE



April 21, 2021

Megan Mesko, CPA, CFE
Partner
333 John Carlyle Street, Suite 500
Alexandria, VA 22314

RE: Performance Audit of the University of New Mexico's Implementation of the Office of Management and Budget Coronavirus Disease 2019 Flexibilities

Dear Ms. Mesko,

The University of New Mexico (UNM) has reviewed the draft audit report issued by Cotton & Company LLP (C&C) on behalf of the National Science Foundation (NSF).

UNM's formal response addressing each audit finding follows. Although the Audit Report contains findings, UNM does not believe these findings reflect systemic issues in its award management systems. UNM believes existing sponsored program award management internal controls and monitoring of sponsored project spending is consistent with Federal and NSF rules and regulations, NSF award terms and conditions, and UNM policy.

UNM Response to Finding 1: Unreasonable Travel Expenses

The University of New Mexico (UNM) partially concurs with the questioned costs of \$17,269 related to unreasonable travel expenses. The UNM Contract and Grant Accounting office correctly examined these expenses upon their initial review and requested that the PI receive approval from the NSF Grants Officer, consistent with NSF policy. The PI requested approval from the NSF Program Director and not the NSF Grants Officer. Despite this oversight, two separate inquiries with NSF personnel provided implied approval to proceed with the travel expenditures. In particular, the NSF Program Director stated that, "I believe the request is reasonable and do not have any objections." In addition, the Grants Management Specialist from NSF provided final approval to proceed noted in email correspondence that, "Moving salaries to travel is allowable without approval." At no point did either of these individuals at NSF indicate that these costs were unreasonable and did not benefit the project. We believe that there should be shared responsibility with this finding in approving the University and PI to proceed under the premise that these expenditures were reasonable and didn't present a need for further approval from NSF, as implied by the Grants Management Specialist's statement. The PI was never informed that the request was unreasonable nor that approval from another NSF office would be necessary.

UNM Response to Finding 2: Unallowable Expenses

UNM agrees with the finding for \$83 in unallowable per diem as a result of a traveler claiming 6 days of per diem using the incorrect per diem rate for [REDACTED] rather than the appropriate rate for [REDACTED]. Although human error led to the selection of the incorrect county in UNM's automated travel reimbursement system and thus resulting in the incorrect per diem rate, a reasonable person could see why the rate selected was used, as the traveler flew in and out of the closest major city, [REDACTED]. The official travel destination and hotel was just outside of [REDACTED]. Despite the error made on this particular travel expense report, we believe that UNM's existing internal controls are effective surrounding per

diem rates and proper application to travel expense reports. UNM utilizes an integrated automated travel and expense system to process travel expense reports, and the system is designed to pull up-to-date GSA per diem rates based on the location entered.

UNM recognizes the additional scrutiny that is placed on participant support expenditures and their benefit to the project, however, UNM does not agree with the \$3,613 in unallowable expenses included in Finding 2 related to tuition remission. Although the audit found that two students reduced their course loads from 12 credit hours to 9 credit hours, the reductions occurred after UNM's internal deadline for tuition refunds, and thus no refunds or credits were issued. UNM believes that additional monitoring beyond the internal refund deadline is overly burdensome, both centrally and at the department level.

UNM Response to Finding 3: Incorrect Application of Proposed Indirect Cost Rates

UNM partially concurs with the auditor's findings and recommendations regarding incorrect application of proposed indirect cost rates. Although UNM believes the policies, procedures, and internal controls are effectively designed to maintain and manage UNM's charging of costs to certain accounts, UNM agrees that there is opportunity to strengthen current procedures and training to maintain an effective application of indirect costs using the most current indirect cost rates. However, we also believe that UNM should have the flexibility to make business decisions when appropriate to allow exceptions for charging a lower F&A rate when it is appropriate, so long as we are not over-charging the negotiated indirect cost rate and incurring rates in excess of what is negotiated and allowed. This also applies to UNM's review of subaward indirect cost rates.

UNM believes that the report issued by Cotton & Company demonstrates our continued commitment and ability to be effective stewards of Federal and NSF funds. We would like to thank you and your staff for the professionalism exhibited throughout the audit, and for your clear communications and updates throughout the process. The recommendations made provide us with an opportunity to strengthen and improve upon existing processes and controls to ensure UNM continues with the highest level of management and oversight of Federal and NSF sponsored projects.

Sincerely,



Elizabeth Metzger
University Controller
The University of New Mexico
1700 Lomas Blvd NE
Albuquerque, NM 87131

APPENDIX E: OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES, SCOPE, AND METHODOLOGY

The NSF OIG Office of Audits engaged Cotton & Company LLP (referred to as “we”) to conduct a limited-scope performance audit, the objective of which was to determine whether UNM used the administrative COVID-19 flexibilities authorized by OMB and, if so, whether UNM was complying with the associated guidelines.

To complete this limited-scope performance audit, we performed the following steps, as outlined within our NSF OIG-approved audit plan:

- Gained an understanding of the audit requirements, which included developing an audit program that ensured the audit team would complete all the steps outlined in the approved audit plan.
 - This included determining whether internal controls and/or information systems were significant to the audit objectives.
- Gained an understanding of applicable Federal²² and NSF criteria,²³ including the following guidance that OMB and NSF published in response to the COVID-19 pandemic:
 - [M-20-17 Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus \(COVID-19\) due to Loss of Operations](#)
 - [NSF Implementation of OMB Memorandum M-20-17](#)
 - [M-20-20 Repurposing Existing Federal Financial Assistance Programs and Awards to Support the Emergency Response to the Novel Coronavirus \(COVID-19\)](#)
 - [NSF Implementation of OMB Memorandum M-20-20](#)
 - [M-20-26 Extension of Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus \(COVID-19\) due to Loss of Operations](#)
 - [NSF Implementation of OMB Memorandum M-20-26](#)
 - [Important Notice No. 146 - NSF Letter to Community Regarding COVID-19](#)
 - [Impact on Existing Deadline Dates](#)
 - [Impact on Solicitations](#)
 - [NSF Guidance on the Effects of COVID-19 on Human Subjects Research](#)
 - [NSF Guidance on the Effects of COVID-19 on Vertebrate Animal Research](#)
 - [NSF Guidance for Major Facilities and Contracts Regarding COVID-19](#)
 - [FAQs About the Coronavirus Disease 2019 \(COVID-19\) for NSF Proposers and Awardees](#)

²² We assessed UNM’s compliance with 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*; 2 CFR Part 220, *Cost Principles for Educational Institutions* (OMB Circular A-21); and 2 CFR Part 215, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations* (OMB Circular A-110), as appropriate.

²³ We assessed UNM’s compliance with *NSF PAPPGs* 14-1, 15-1, 16-1, 17-1, 18-1, 19-1, and 20-1 and with NSF award-specific terms and conditions, as appropriate.

- [FAQs About the Coronavirus Disease 2019 \(COVID-19\) for NSF SBIR and STTR Grantees](#)
- [FAQs About the Coronavirus Disease 2019 \(COVID-19\) for NSF Major Facility Cooperative Agreement Recipients](#)
- [FAQs About the Coronavirus Disease 2019 \(COVID-19\) for REU Sites, RET Sites, IRES Sites, and Similar Activities](#)
- [FAQs About the Coronavirus Disease 2019 \(COVID-19\) for NSF Panelists](#)
 - In planning and performing this audit, we considered UNM’s internal controls, within the audit’s scope, solely to understand whether the directives/policies and procedures UNM has in place ensure charges against NSF awards comply with relevant Federal regulations and NSF award terms.
- Requested, obtained, and reviewed UNM documentation to ensure we had sufficient, appropriate documentation to allow us to schedule applicable interviews and to select our audit sample.
 - Our work required us to rely on computer-processed data obtained from UNM and NSF OIG. NSF OIG provided award data that UNM reported through ACM\$ during our audit period.
 - We assessed the reliability of the general ledger data that UNM provided by (a) comparing the costs charged to NSF awards per UNM’s accounting records to the reported net expenditures reflected in the ACM\$ drawdown requests that UNM submitted to NSF during the audit period of performance; and (b) reviewing the parameters that UNM used to extract transaction data from its accounting systems. As we did not identify any discrepancies between the amounts supported by UNM’s general ledger and the amounts that UNM claimed per NSF’s ACM\$ system, we found UNM’s computer-processed data to be sufficiently reliable for the purposes of the audit.
 - We found NSF’s computer-processed data to be sufficiently reliable for the purposes of this audit. We did not review or test whether the data contained in, or the controls over, NSF’s databases were accurate or reliable; however, the independent auditor’s report on NSF’s financial statements for FY 2020 found no reportable instances in which NSF’s financial management systems did not substantially comply with applicable requirements.
 - UNM provided detailed transaction-level data to support all costs charged to NSF awards during the period. This data resulted in a total audit universe of \$15,600,698 in costs claimed on 167 NSF awards.

- Gained an understanding of whether and how UNM implemented the COVID-19 flexibilities granted by OMB and implemented by NSF by:
 - Analyzing UNM’s responses to the COVID-19 flexibility surveys included in **Appendix A** and **Appendix B**.
 - Summarizing all guidance, policies, and procedures that UNM issued in response to the COVID-19 pandemic.
 - Conducting walkthroughs and interviews with UNM staff to evaluate how UNM implemented the COVID-19 flexibilities and how that implementation fit within UNM’s overall grant management environment.
- Brainstormed and executed a series of data analytic tests aimed at identifying expenses that UNM incurred in accordance with the COVID-19 flexibilities, or that we identified as high risk for other related reasons.
- Judgmentally selected 40 transactions to test based on the results of our data analytic tests, as approved by NSF OIG.
- Reviewed the supporting documentation that UNM provided and requested additional documentation as necessary to ensure that we obtained sufficient, appropriate evidence to enable us to assess the allowability of each sampled transaction.
 - The goals of this testing included evaluating whether the sampled transactions related to UNM’s implementation of the COVID-19 flexibilities and whether the transactions were allowable, allocable, reasonable, and in conformity with applicable Federal guidance, NSF terms and conditions, and OMB/NSF flexibility guidelines.

At the conclusion of our fieldwork, we provided a summary of our results to NSF OIG personnel for review. We also provided a discussion draft report to UNM personnel to ensure UNM was aware of each potential finding and to provide UNM with an opportunity to submit any additional documentation available to support the questioned costs.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards*, 2018 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



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