

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

REPORT PREPARED BY COTTON & COMPANY LLP

NATIONAL SCIENCE FOUNDATION
OFFICE OF INSPECTOR GENERAL

August 2, 2021
OIG 21-1-018





AT A GLANCE

Performance Audit of the Implementation of OMB COVID-19 Flexibilities –
University of Michigan
Report No. OIG 21-1-018
August 2, 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 Michigan (UM) for the period March 1 to September 30, 2020. The auditors tested more than \$1 million of the \$61.8 million of costs incurred on NSF awards. The objective of the audit was to determine if UM used the administrative COVID-19 flexibilities authorized by OMB and, if so, whether UM 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 UM’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 the flexibilities, they did identify one area in which UM could improve its administration of flexibility-related expenses charged to NSF awards related to monitoring of travel credits. The auditors also identified concerns not related to the COVID-19 flexibilities about UM’s compliance with relevant federal regulations and NSF award terms and conditions that resulted in \$11,499 of questioned costs claimed by UM during the audit period. Specifically, the auditors identified \$11,499 in unallowable rebudgeted participant support costs. The auditors also identified one compliance related finding for which there were no questioned costs: insufficient controls over the application of indirect cost rates. C&C 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 C&C’s audit report.

RECOMMENDATIONS

The auditors included 2 findings in the report with associated recommendations for NSF to resolve the questioned costs and to ensure UM strengthens administrative and management controls.

AUDITEE RESPONSE

UM agreed with one finding and did not specify if it agreed or disagreed with the second finding. UM’s response is attached in its entirety to the report 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: August 2, 2021

TO: Dale Bell
Director
Division of Institution and Award Support

Jamie French
Director
Division of Grants and Agreements



FROM: Mark Bell
Assistant Inspector General
Office of Audits

SUBJECT: Audit Report No. 21-1-018, University of Michigan

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 Michigan (UM) for the period March 1 to September 30, 2020. The audit encompassed more than \$1 million of the \$61.8 million incurred on NSF awards during the period. The objective of the audit was to determine whether UM used the administrative COVID-19 flexibilities authorized by OMB and, if so, whether UM was complying 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 Keith Nackerud at 703.292.7100 or OIGpublicaffairs@nsf.gov.

Attachment

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

**NATIONAL SCIENCE FOUNDATION
OFFICE OF INSPECTOR GENERAL**

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**NATIONAL SCIENCE FOUNDATION
PERFORMANCE AUDIT OF THE UNIVERSITY OF MICHIGAN’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).

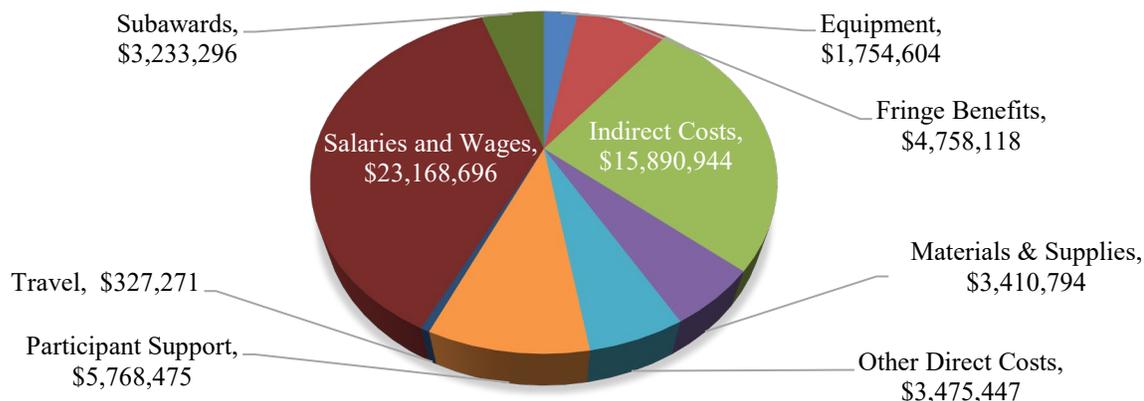
In response to the Coronavirus Disease 2019 (COVID-19) pandemic, the Office of Management and Budget (OMB) issued memoranda that provided temporary administrative flexibilities for federal financial assistance awards. Subsequently, NSF published a variety of additional guidance for NSF awardees regarding 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 Michigan (UM) implemented the administrative COVID-19 flexibilities and, if so, whether it complied with the associated guidelines.

UM claimed more than \$65.5 million in expenditures through NSF’s Award Cash Management Service (ACMS) across 767 awards during our audit period, or March 1 through September 30, 2020. Because UM did not identify which general ledger transactions supported these costs, our audit population included \$61.8 million that UM incurred on 855 NSF awards during the audit period,¹ as illustrated in Figure 1.

¹ Our audit population included all of the expenses recorded in UM’s accounting system that UM had assigned to NSF awards and that had transaction dates within the audit period, or March 1 through September 30, 2020. See the Objectives, Scope, and Methodology section of this report for further details.

Figure 1. Costs Charged by NSF Budget Category, March 1 through September 30, 2020²



Source: Auditor analysis of accounting data provided by UM.

This performance audit, conducted under Order No. 140D0420F0650, 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 UM and NSF OIG. We included UM’s response to this report in its entirety in **Appendix D**.

II. AUDIT RESULTS

We did not identify any exceptions with regard to UM’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 UM’s implementation of the flexibilities and did not identify any instances in which UM did not comply with the associated guidelines, as summarized below.

We gained an understanding of how UM implemented the COVID-19 flexibilities, including how the implementation process fit within UM’s overall grant management environment, by conducting a series of interviews with UM staff. Although UM did not specifically track non-salary expenses that it incurred under the COVID-19 flexibilities within its accounting system, it did track salaries for employees who were unable to work as a result of the COVID-19 pandemic using “COVID-19 paid time off” time codes. Although UM stated that it may have charged NSF awards for “COVID-19 paid time off” salary expenses,³ it also noted that it was in the process of removing most of these expenses from sponsored awards because it received Coronavirus Aid, Relief, and Economic Security (CARES) Act funding to cover these costs. Based on this

² The total award-related expenses reported in UM’s general ledger were less than the \$65,519,770 reported in ACMS; however, based on the revised audit scope (see the Objectives, Scope, and Methodology section of this report), we determined that the general ledger data was appropriate for the purposes of this engagement.

³ The transaction-level payroll detail UM provided for the audit did not appear to include any “COVID-19 paid time off” salary costs charged to COVID-19-specific time codes.

understanding and UM's responses to the OMB flexibilities survey included in **Appendix B**, we tailored our data analytics sampling approach to enable us to select 39 transactions that UM incurred in accordance with the COVID-19 flexibilities, or that we identified as high risk for other related reasons.

We tested the 39 transactions sampled, which represented \$1,006,989⁴ in costs that UM charged to NSF awards during the audit period, and identified four examples in which UM used the COVID-19 flexibilities that OMB granted and NSF implemented, as follows:

- UM charged NSF Award No. [REDACTED] for \$30,053 in equipment, materials, and supplies that UM has not yet used to benefit the award, as the Principal Investigator's (PI's) laboratory remained closed as of the completion of our audit fieldwork.
- UM charged NSF Award No. [REDACTED] for \$2,686 in airfare expenses purchased to enable student researchers to return home earlier than anticipated due to COVID-19.
- UM charged NSF Award No. [REDACTED] for \$2,830 in airfare expenses associated with a cancelled flight.
- UM charged NSF Award No. [REDACTED] for \$1,327 in hotel expenses associated with a cancelled trip.

Although these expenses are not typically allowable on NSF awards, because these costs relate to the cancellation of events and other activities necessary and reasonable for the performance of these awards, consistent with Flexibility 7 of OMB Memorandum M-20-17,⁵ we noted no exception with UM's use of this flexibility.

Although we did not identify any exceptions related to UM's use of the COVID-19 flexibilities, we did identify one area in which UM could improve its administration of flexibility-related expenses charged to NSF awards:

- Monitoring of travel credits.

We also determined that UM 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 regulations and NSF award terms and conditions. Specifically, we identified and questioned \$11,499 of direct costs that UM inappropriately claimed during the audit period, including:

⁴ The \$1,006,989 represents the total value of the 39 transactions selected for transaction-based testing. It does not represent the dollar base of the total costs reviewed during the audit.

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 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*.

- \$11,499 in unallowable rebudgeted participant support cost funding.

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

- Insufficient controls related to the application of indirect cost rates.

We discuss the area for improvement and two findings in the *Area for Improvement* and *Audit Findings* sections below.

III. AREA 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 UM’s and NSF’s attention to ensure future costs claimed comply with all relevant regulations.

Area for Improvement: Monitoring of Travel Credits

Under its current monitoring procedures, UM personnel or students could use travel credits to pay for travel that does not benefit the project(s) to which they charged the original travel expense.⁶ Specifically:

- In April 2020, UM students received \$2,830 in travel credits for cancelled airfare expenses charged to NSF Award No. [REDACTED]. Although UM issued guidance to the departments regarding how to handle cancelled travel charges, this guidance did not specifically address either the need to identify expenses associated with cancelled travel charged to NSF award(s) or the need to track travel credits received to ensure that travelers use the credits to benefit the NSF award(s) originally charged. Specifically, UM relies on the individual travelers and their department administrators to ensure that they use the credits to benefit the NSF award(s) originally charged, or that they remove the expenses associated with those credits from the NSF award(s).

If grantees do not receive or use travel credits, expenses associated with cancelled travel are allowable under Flexibility 7 of OMB Memorandum M-20-17.⁷ However, because UM 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 credits for travel that does not benefit the NSF award(s) charged.

⁶ According to 2 CFR § 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.

⁷ 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*.

Consideration

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

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

UM Response: UM did not specify whether it agreed with the suggested area for improvement. However, it did note that under its standard policy, travelers must credit expenses associated with cancelled travel to the sponsored award(s) to which the traveler charged the original travel expense, and that the expense in question had remained on the NSF award because of the flexibilities granted by OMB. Further, UM stated that the NSF award to which the traveler had charged the expense in question has been extended for the express purpose of allowing the cancelled travel to occur, and that UM will therefore use the travel credit to benefit the award.

Auditor's Additional Comments: Our position regarding this area for improvement has not changed. Although UM stated that its policy requires travelers to credit cancelled travel to the sponsored award(s) to which the traveler charged the original travel expense and noted that it is planning to use the sampled travel credits to benefit the original NSF award charged, UM did not specifically identify how it would strengthen its monitoring procedures to ensure it uses any other travel credits received to benefit the NSF award(s) to which it charged the original travel expense(s). As a result, travelers may not appropriately return unused travel credits to sponsored awards, as required by federal regulations.⁸ As such, we are still recommending that UM improve its monitoring of travel credits.

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.

⁸ According to 2 CFR § 200.406(a), absent the OMB flexibilities, non-federal entities receiving credits must return these amounts to the federal award, either as a cost reduction or a cash refund.

Finding 1: Unallowable Rebudgeting of Participant Support Costs

UM inappropriately rebudgeted \$11,499 in funding provided for participant support costs without first obtaining the NSF Program Officer’s approval to do so, as required by NSF’s Proposal and Award Policies and Procedures Guide (PAPPG).⁹ Specifically:

- In April 2020, UM used \$11,499 in participant support cost funding awarded on NSF Award No. 1560096 to cover non-participant costs. Because UM did not request approval to rebudget these participant support costs, UM inappropriately used \$11,499 in participant support cost funding to cover non-participant support costs.
 - *UM agreed to reimburse NSF for these expenses.*

UM’s procedures did not always enable it to ensure personnel obtained NSF’s approval before using participant support cost funding to cover non-participant-related expenses. As a result, we are questioning \$11,499 of unallowable expenses that UM charged to one NSF award. UM agreed with the full \$11,499 in questioned costs, as illustrated in Table 1.

Table 1. Unallowable Rebudgeting of Participant Support Costs

Description	NSF Award No.	Fiscal Year	Questioned Costs			
			Direct	Indirect	Total	UM Agreed to Reimburse
April 2020 Rebudgeted Participant Support Costs	██████	2020	\$11,291	\$208 ¹⁰	\$11,499	\$11,499
Total			<u>\$11,291</u>	<u>\$208</u>	<u>\$11,499</u>	<u>\$11,499</u>

Source: Auditor summary of identified exceptions.

Recommendations

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

1. Direct UM to provide documentation supporting that it has repaid or otherwise credited the \$11,499 of questioned participant support costs for which it has agreed to reimburse NSF.
2. Direct UM to establish clear guidance regarding the rebudgeting of participant support cost funding. This guidance should address when and how to request approval to rebudget participant support cost funding, as well as how to document the approval.

⁹ NSF PAPPG 16-1, Part II, Chapter V, Section A.3.b states that grantees may not use funds provided for participant support for other categories of expense without specific written prior approval from the cognizant NSF Program Officer.

¹⁰ UM did not apply indirect costs to the account it established to track participant support costs; however, it did apply indirect costs to the non-participant support expenses that it paid using the inappropriately rebudgeted participant support funding.

UM Response: UM agreed with this finding, stating that it reimbursed NSF for the \$11,499 in questioned costs through ACM\$ on July 7, 2021. However, UM stated that it believes its current participant support cost policy is sufficient to meet the recommendation that UM establish clear guidance regarding the rebudgeting of participant support cost funding.

Auditors' Additional Comments: Our position regarding this finding has not changed. Although UM believes that its current policy is sufficient to ensure it appropriately rebudgets participant support costs, the current policy only states that personnel may not reallocate participant support cost funds to other budget categories.¹¹ It does not address when or how personnel should request approval from NSF to rebudget participant support cost funding, or how personnel should document that approval. Accordingly, we are still recommending that UM improve its participant support cost guidance.

Finding 2: Insufficient Controls Related to the Application of Indirect Cost Rates

UM did not have sufficient controls in place to ensure it consistently applied indirect costs using the NICRA rate(s) in effect when the NSF funding was awarded, as required by federal¹² and NSF guidance.¹³

Notice of Award Indirect Cost Rates Not Adjusted

UM applied a 55 percent indirect cost rate to at least two grants proposed during UM's provisional rate period of July 1 to November 4, 2016, that was not adjusted to reflect the rate(s) in effect when the NSF awards were issued.¹⁴ UM stated that it used the 55 percent rate because that was the rate included in the NSF Notice of Award documents. However, because UM's NICRA dated November 4, 2016, was in effect at the time NSF awarded these grants, UM should have applied an indirect cost rate of 56 percent to applicable costs incurred on these awards on or after July 1, 2018,¹⁵ as illustrated in Table 2.

¹¹ With regard to the rebudgeting of participant support costs, UM's Participant Support Costs policy states only that because the participant support cost budget category is restricted and may not be reallocated to other budget categories, any unexpended participant support cost funding remaining at the end of a project cannot be used to offset non-participant-support-related expenses.

¹² According to 2 CFR Part 200, Appendix III, Section C.7, when identifying and computing indirect costs at Institutions of Higher Education, federal agencies must use the negotiated rates in effect at the time of the initial award throughout the life of the award.

¹³ 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 17-1, 18-1, and 19-1, Part I, Chapter II, Section C.2.g.(viii).

¹⁴ The provisional period included within UM's NICRA dated May 10, 2013, began on July 1, 2016. This provisional period ended on November 4, 2016, or the date UM received its amended NICRA that included the approved negotiated rates for July 1, 2016, through June 30, 2020.

¹⁵ UM's NICRA dated November 4, 2016, established a predetermined indirect cost rate of 55 percent for the period from July 1, 2016, through June 30, 2018, and a 56 percent rate for the period from July 1, 2018, through June 30, 2020.

Table 2. Notice of Award Indirect Cost Rates Not Adjusted

NSF Award No.	Award Date	Applied Rate	Appropriate Rate
	6/28/2017	55.00%	56.00%
	6/9/2017	55.00%	56.00%

Source: Auditor summary of identified exceptions.

Indirect Cost Rates Not Updated

UM relies on a manual process to identify and update the indirect cost rate(s) it applies to federal awards and supplements. Although this manual process is designed to help UM ensure that it applies the rates included in the applicable NICRAs, errors in the process caused UM to not update the rates it applied to direct expenses accumulated on two NSF awards, as illustrated in Table 3.

Table 3. Indirect Cost Rates Not Updated

NSF Award No.	Award Date	Applied Rate	Appropriate Rate
	12/27/2012	55.00%	55.50%
	8/15/2017	55.00%	56.00%

Source: Auditor summary of identified exceptions.

Because UM 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 UM’s current practices do not comply with federal regulations and, without additional controls in place to ensure it applies the appropriate rate, UM could overcharge NSF for indirect costs.

Recommendation

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

1. Direct UM to update its current award set-up practices to require that, when setting up accounts established for NSF awards and/or funding supplements, personnel ensure that the accounts apply indirect costs using the rate(s) that were established in the Negotiated Indirect Cost Rate Agreement in effect as of the date of the NSF award, rather than using the rate(s) included in the original Notice of Award.

UM Response: UM did not specify whether it agreed with this finding. However, UM did note that it charges indirect costs based on the indirect cost rate included in the NSF Notice of Award and stated that it systematically reduces the rate on all federal awards when the NICRA rate decreases to ensure it does not overcharge NSF for indirect costs.

Auditors’ Additional Comments: Our position regarding this finding has not changed. Although UM stated that it systematically reduces the indirect cost rate it applies to its federal

awards when its NICRA rate decreases, it does not appear to have sufficient controls in place to identify differences between the rates included in the Notice of Award and the rates applicable on the date NSF actually awards the funds, which could cause it to charge unallowable costs to NSF awards.

COTTON & COMPANY LLP



Megan Mesko, CPA, CFE
Partner
July 29, 2021

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

UNIVERSITY OF MICHIGAN’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	No	Not Applicable. As the University of Michigan’s (UM’s) System for Award Management (SAM) registration does not expire until February 18, 2022, it did not need to use this flexibility.
	2. Flexibility with application deadlines	No	No Exceptions Noted. UM stated that its Office of Research and Sponsored Projects and Medical School Office of Research, Grant Services & Analysis unit did not make any changes to their processes as a result of COVID-19, including to the application deadline policy. However, UM did prioritize COVID-19-related proposals.
	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	No	No Exceptions Noted. UM stated that, although it allowed no-cost extension requests and followed Office of Management and Budget (OMB) guidance, the no-cost extensions were subject to the same submission, review, approval, and monitoring policies and procedures UM had in place prior to the pandemic.
	5. Abbreviated non-competitive continuation requests	No	Not Applicable. UM stated that it did not implement this flexibility, and we did not identify any exceptions specific to continuation requests during our sample testing.
	6. Allowability of salaries and other project activities	Yes	<p>No Exceptions Noted. UM stated that it added additional timekeeping codes to enable it to track employees who charged their salaries to NSF grants while they were unable to work on grant-related activities. Specifically, UM added the code “Pandemic Tracking,” or “PAN,” in response to OMB M-20-17. UM used this code to record time associated with pandemic-related lack of work or absences. However, because OMB M-20-26 changed the salary flexibility by requiring the institution to first use all other sources of funding available to cover salary expenses before charging these expenses to sponsored awards, UM added the code “Lack of Work,” or “LOW,” effective June 17, 2020. This code enabled UM to track time that UM was unable to charge to grant-related activities.</p> <p>UM noted that it provided employees with the opportunity to take various voluntary temporary furloughs or follow reduced hours programs rather than charging awards for hours the employees were unable to work on grant-related activities; however, personnel did charge salary expenses for nonproductive time to federal awards using this flexibility. UM also stated that it implemented an Emergency COVID-19 Paid Time Off option, which included an 80-hour time bank for full-time employees, before it received funding under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Moreover, UM stated that the CARES Act included Emergency Paid Sick Leave Act funding, which added another 80 hours of leave, and Emergency Family and Medical Leave Act funding, which</p>

OMB Memo	Flexibility Granted	Flexibility Implemented per Awardee?	Exception(s) Identified with the Awardee’s Implementation of the Flexibilities?
			<p>allowed UM to provide employees with up to 10 weeks of time off. As a result, UM was unable to use Flexibility 6 under OMB M-20-26 after June 16, 2020, as UM had additional funding that it was required to use before charging salary expenses for nonproductive time to NSF awards. UM noted that its payroll department was therefore reviewing and removing salary expenses for nonproductive time charged to federal projects after June 16, 2020, and moving those hours to a central pool that UM will cover using other funding sources.</p> <p>Our limited testing did not identify any instances in which sampled salary expenses related to salary earned while an employee was unable to perform research under an NSF award, and we therefore did not note any exceptions with regard to UM’s implementation of this flexibility.</p>
	7. Allowability of costs not normally chargeable to awards	Yes	<p>No Exceptions Noted. UM stated that it relied on individual teams to request refunds/credits when possible, and that travel expenses associated with cancelled trips should still follow UM’s standard policies for the cancellation of events or travel. UM stated that it has suspended all non-essential expenditures, including travel, since April 20, 2020, and that it has particularly restricted airfare expenditures; the only exceptions relate to essential and externally funded travel. In addition, UM noted that personnel were required to charge expenses incurred to purchase personal protective equipment (PPE) in accordance with UM policy, meaning that personnel could directly charge PPE to an award if they would have been allowed to do so prior to the pandemic (e.g. the expense was reasonable, allocable, allowable, approved by NSF, and benefited the award charged).</p> <p>We determined that UM charged NSF for costs associated with cancelled travel expenses that would not typically be chargeable to NSF awards, but that appeared to be reasonable under this OMB flexibility. Although our sample testing did not identify any instances in which UM’s use of this flexibility appeared to be unreasonable, we did note an area for improvement regarding UM’s current procedures for tracking travel credits, as they could result in UM not appropriately allocating, or crediting, travel costs to NSF awards.</p>
	8. Prior approval requirement waivers	No	<p>No Exceptions Noted. UM stated that it did not make any changes to its pre-approval policies and procedures for expenses that require sponsor approval, and we did not identify any exceptions specific to flexibility-related prior approval requests during our sample testing.¹⁶</p>

¹⁶ Although UM did not appropriately request prior approval from NSF to rebudget participant support cost funding as noted in Finding 1 above, the exception identified does not relate to UM’s use of this flexibility.

OMB Memo	Flexibility Granted	Flexibility Implemented per Awardee?	Exception(s) Identified with the Awardee’s Implementation of the Flexibilities?
	9. Exemption of certain procurement requirements	No	Not Applicable. UM did not make any changes to its internal procurement requirements.
	10. Extension of financial, performance, and other reporting	No	Not Applicable. UM stated that it did not implement this flexibility. Our testing did not identify any exceptions specific to late/missing reports.
	11. Extension of currently approved indirect cost rates	No	Not Applicable. UM stated that it did not request or receive an extension for its currently approved indirect cost rates, as its latest Negotiated Indirect Cost Rate Agreement was effective May 14, 2020.
	12. Extension of closeout	No	Not Applicable. UM stated that it did not make any changes to its award closeout policies and procedures, nor did it request that NSF extend the due dates for any of its final project reports. Our sample testing did not identify any instances in which UM used this flexibility.
	13. Extension of Single Audit submission	No	Not Applicable. UM did not request or receive an extension related to the submission of its Single Audit report.
M-20-20	1. Donations of medical equipment and other resources purchased/ funded under federal financial assistance in support the COVID-19 response	No	No Exceptions Noted. UM stated that it did not implement this flexibility. Specifically, although UM’s medical provider (University of Michigan Hospital) performed community outreach with regard to medical equipment and other resources, this outreach was not at the university level, and UM was not aware of any COVID-19 supplies that it would have charged to sponsored projects and then donated elsewhere. Our sample testing of other direct costs and materials and supplies did not identify any instances in which UM repurposed federal funding to support the COVID-19 pandemic.
M-20-26	1. Extension of allowability of salaries and other project activities through September 30, 2020	No	<p>No Exceptions Noted. UM stated that it added additional timekeeping codes to enable it to track employees who charged their salaries to NSF grants while they were unable to work on grant-related activities. Specifically, UM added the code “Pandemic Tracking,” or “PAN,” in response to OMB M-20-17. UM used this code to record time associated with pandemic-related lack of work or absences. However, because OMB M-20-26 changed the salary flexibility by requiring the institution to first use all other sources of funding available to cover salary expenses before charging these expenses to sponsored awards, UM added the code “Lack of Work,” or “LOW,” effective June 17, 2020. This code enabled UM to track time that UM was unable to charge to grant-related activities.</p> <p>UM noted that it provided employees with the opportunity to take various voluntary temporary furloughs or follow reduced hours programs rather than charging awards for hours the employees were unable to work on grant-related activities; however, personnel did charge salary expenses for nonproductive time to federal awards using this flexibility. UM also stated that it implemented an Emergency COVID-19 Paid Time Off option, which included an 80-hour time bank for full-time employees, before it received funding under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Moreover, UM stated</p>

OMB Memo	Flexibility Granted	Flexibility Implemented per Awardee?	Exception(s) Identified with the Awardee's Implementation of the Flexibilities?
			<p>that the CARES Act included Emergency Paid Sick Leave Act funding, which added another 80 hours of leave, and Emergency Family and Medical Leave Act funding, which allowed UM to provide employees with up to 10 weeks of time off. As a result, UM was unable to use Flexibility 6 under OMB M-20-26 after June 16, 2020, as UM had additional funding that it was required to use before charging salary expenses for nonproductive time to NSF awards. UM noted that its payroll department was therefore reviewing and removing salary expenses for nonproductive time charged to federal projects after June 16, 2020, and moving those hours to a central pool that UM will cover using other funding sources.</p> <p>Our limited testing did not identify any instances in which sampled salary expenses related to salary earned while an employee was unable to perform research under an NSF award, and we therefore did not note any exceptions with regard to UM's implementation of this flexibility.</p>
	2. Extension of Single Audit submission and COVID-19 emergency acts fund reporting through December 31, 2020	No	Not Applicable. UM did not request or receive an extension related to the submission of its Single Audit report.

APPENDIX B: UNIVERSITY OF MICHIGAN’S OMB FLEXIBILITY SURVEY RESPONSE

UNIVERSITY OF MICHIGAN'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?	No
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?	Yes*
19	Been required to cancel or re-schedule any non-REU NSF sponsored on-campus events?	Yes*
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)?	Yes
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?	Yes*
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?	No
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?	No
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?	Yes*

*Because UM did not provide “Yes” or “No” answers for these attributes in its response to the OMB Flexibilities Survey, we updated these responses based on the results of our transaction testing, virtual interviews, and other discussions with UM personnel.

APPENDIX C: SCHEDULE OF QUESTIONED COSTS BY FINDING

NATIONAL SCIENCE FOUNDATION
ORDER # 140D0420F0650
PERFORMANCE AUDIT OF COSTS CLAIMED ON NSF AWARDS
UNIVERSITY OF MICHIGAN

SCHEDULE OF QUESTIONED COSTS BY FINDING

Finding	Description	Questioned Costs		Total
		<i>Unsupported</i>	<i>Unallowable</i>	
1	Unallowable Rebudgeting of Participant Support Costs	\$0	\$11,499	\$11,499
2	Insufficient Controls Related to the Application of Indirect Cost Rates	<u>0</u>	<u>0</u>	<u>0</u>
Total		<u>\$0</u>	<u>\$11,499</u>	<u>\$11,499</u>

APPENDIX D: UNIVERSITY OF MICHIGAN'S RESPONSE



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SponsoredPrograms@umich.edu

July 14, 2021

Cotton & Company LLP
333 John Carlyle Street, Suite 500
Alexandria, Virginia 22314

Attention: Megan Mesko, CPA, CFE

The University of Michigan (UM) has reviewed the draft of the performance audit of the implementation of the OMB COVID-19 Flexibilities, dated June 6, 2021. We are pleased to note that C&C did not identify any exceptions with regard to UM's use of the administrative flexibilities granted through NSF's implementation of OMB Memoranda M-20-17, M-20-20, and M-20-26.

Regarding the Area for Improvement and Findings noted in the report, UM offers the following:

Response to COVID-19 Flexibilities Area for Improvement

- Monitoring of Travel Credits for Award No. [REDACTED]:
 - UM policy requires cancelled travel to be credited to the Sponsored award.
 - The expense in question remained on the NSF award due to the OMB Flexibilities.
 - The award has been extended, with the express purpose for the original travel to occur, utilizing the travel credits issued and not yet redeemed.

Response to Audit Findings

- Finding 1: Unallowable Rebudgeting of Participant Support Costs for Award No. [REDACTED]
 - UM concurs with this finding.
 - \$11,499.19 was returned to NSF via ACMS on July 7, 2021.
 - The recommended guidance already exists in UM policy, <https://orsp.umich.edu/participant-support-costs>
- Finding 2: Incorrect Application of Indirect Cost Rates
 - Table 2 – UM charges Indirect Cost based on the NSF notice of award.
 - Table 3 – UM systematically reduces the rate on all federal awards when the NICRA rate goes down. Therefore, it is not possible for indirect costs to be overcharged.

Please direct any question about this response to Bryan S. VanSickle at bvsickle@umich.edu or 734-647-1946.

Finally, we appreciate the efforts of the C&C team that worked with UM on this review. The team members were professional, easy to work with, offered clear communication in regards to items they had questions about and were efficient and effective in completing the review.

Regards,

Debora L Talley Digitally signed by Debora L Talley
Date: 2021.07.14 14:18:55
-04'00'

Debora L. Talley
Director of Sponsored Programs

DRAFT

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 UM used the administrative COVID-19 flexibilities authorized by OMB and, if so, whether UM 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 federal¹⁷ and NSF criteria,¹⁸ 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](#)

¹⁷ We assessed UM’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.

¹⁸ We assessed UM’s compliance with NSF PAPPGs 13-1, 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 UM’s internal controls, within the audit’s scope, solely to understand whether the directives/policies and procedures UM has in place ensure charges against NSF awards comply with relevant federal regulations and NSF award terms.
- Requested, obtained, and reviewed UM 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 UM and NSF OIG. NSF OIG provided award data that UM reported through ACM\$ during our audit period.
 - We assessed the reliability of the general ledger data that UM provided by (a) comparing the costs charged to NSF awards per UM’s accounting records to the reported net expenditures reflected in the ACM\$ drawdown requests that UM submitted to NSF during the audit period; and (b) reviewing the parameters that UM used to extract transaction data from its accounting systems. During this review, we determined that UM’s transaction-level data did not reconcile to the costs it claimed in ACM\$ due to timing differences between when UM first incurred the costs and recorded them in its systems and when UM drew down the funds in ACM\$. Because UM did not have sufficient resources available to enable it to identify the expenditures that related to costs claimed during the audit period, we modified the initial scope of our audit to focus on the expenditures incurred during the audit period, based on discussions with NSF OIG. Specifically, rather than including the \$65.5 million in expenditures that UM drew down through ACM\$ across 767 awards during our audit period, we modified our scope to include \$61.8 million in expenditures that UM incurred¹⁹ on 855 NSF awards during the audit period.
 - Because we determined the general ledger data provided for the modified scope was sufficiently reliable for the purposes of our audit engagement, we selected our transaction samples from the population of expenditures that UM charged to projects set up to accumulate costs on NSF awards from March 1 through September 30, 2020.

¹⁹ Our audit population included all expenses recorded within UM’s accounting system with transaction dates within the audit period, or March 1 through September 30, 2020.

- 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.
 - UM provided detailed transaction-level data to support all costs incurred on NSF awards during the audit period. This data resulted in a total audit universe of \$61,787,645 in costs claimed on 855 NSF awards.
- Gained an understanding of whether and how UM implemented the OMB/NSF administrative flexibilities by:
 - Analyzing UM’s responses to the COVID-19 flexibility surveys included in **Appendix A** and **Appendix B**.
 - Summarizing all guidance, policies, and procedures that UM issued in response to the COVID-19 pandemic.
 - Conducting walkthroughs and interviews with UM staff to evaluate how UM implemented the COVID-19 flexibilities and how that implementation fit within UM’s overall grant management environment.
- Brainstormed and executed a series of data analytic tests aimed at identifying expenses that UM incurred in accordance with the COVID-19 flexibilities, or that we identified as high risk for other related reasons.
- Judgmentally selected 39 transactions to test based on the results of our data analytic tests, as approved by NSF OIG.
- Reviewed the supporting documentation that UM 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 UM’s implementation of the OMB/NSF 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 UM personnel to ensure UM was aware of each potential finding and to provide UM 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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