

# Performance Audit of Incurred Costs – University of Rhode Island EPSCoR Awards

REPORT PREPARED BY COTTON & COMPANY, LLP

NATIONAL SCIENCE FOUNDATION  
OFFICE OF INSPECTOR GENERAL

October 15, 2021  
OIG 22-1-001





## AT A GLANCE

### Performance Audit of Incurred Costs – University of Rhode Island EPSCoR Awards

Report No. OIG 22-1-001

October 15, 2021

#### AUDIT OBJECTIVES

The National Science Foundation Office of Inspector General engaged Cotton & Company, LLP (C&C) to conduct a performance audit of incurred costs at the University of Rhode Island (URI) on four Established Program to Stimulate Competitive Research (EPSCoR) awards for the period January 2011 to August 2020. The auditors tested more than \$1.9 million of the approximately \$39.5 million of costs claimed to NSF, and more than \$7.8 million in costs reported as cost sharing during the period. The objectives of the audit were to determine if costs claimed by URI on EPSCoR awards were allowable, allocable, reasonable, and in compliance with NSF award terms and conditions and federal financial assistance requirements. A full description of the audit's objectives, scope, and methodology is attached to the report as Appendix B.

#### AUDIT RESULTS

The report highlights concerns about URI's compliance with certain Federal and NSF award requirements. The auditors questioned \$627,748 of direct and indirect costs claimed or reported as cost sharing by URI on the four EPSCoR awards. Specifically, the auditors found \$268,340 of inadequately monitored and inappropriately reported cost sharing, \$206,643 in unallowable expenses, \$121,719 of inappropriately applied indirect costs, \$24,683 of inadequately supported expenses, and \$6,363 of inappropriately allocated expenses. The auditors also identified two compliance-related findings for which there were no questioned costs: non-compliance with URI policies and insufficient controls related to the application of 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 seven findings in the report with associated recommendations for NSF to resolve the questioned costs and to ensure URI strengthens administrative and management controls.

#### AUDITEE RESPONSE

URI varied in agreeing and disagreeing with the findings throughout the report. URI's response is attached in its entirety to the report as Appendix A.

FOR FURTHER INFORMATION, CONTACT US AT [OIGPUBLICAFFAIRS@NSF.GOV](mailto:OIGPUBLICAFFAIRS@NSF.GOV).



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

**MEMORANDUM**

**DATE:** October 15, 2021

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

Jamie French  
Director  
Division of Grants and Agreements



**FROM:** For Mark Bell  
Assistant Inspector General  
Office of Audits

**SUBJECT:** Audit Report No. 22-1-001, University of Rhode Island EPSCoR Awards

This memorandum transmits the Cotton & Company, LLP (C&C) report for the audit of costs charged by the University of Rhode Island (URI) on its four EPSCoR awards from the National Science Foundation (NSF). The audit encompassed more than \$1.9 million of the approximately \$39.5 million claimed to NSF, and more than \$7.8 million in costs reported as cost sharing during the period. The objectives of the audit were to determine if costs claimed by URI on NSF awards were allowable, allocable, reasonable, and in compliance with NSF award terms and conditions and federal financial assistance requirements. A full description of the audit's objectives, scope, and methodology is attached to the report as Appendix B.

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 Kelly Stefanko at 703.292.7100 or [OIGpublicaffairs@nsf.gov](mailto:OIGpublicaffairs@nsf.gov).

#### Attachment

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## EXECUTIVE SUMMARY

Cotton & Company auditors determined that the University of Rhode Island (URI) needs to improve its oversight of expenses charged to NSF awards, or reported as cost sharing on NSF awards, to help ensure both claimed and reported costs are reasonable, allocable, and allowable in accordance with federal and NSF regulations, NSF award terms and conditions, and University policies. Specifically, the audit report includes \$627,748 in questioned costs, seven findings, and 21 recommendations.

### AUDIT OBJECTIVES

The National Science Foundation Office of Inspector General engaged Cotton & Company LLP to conduct a performance audit of costs that URI reported for four NSF Established Program to Stimulate Competitive Research (EPSCoR) awards. The objectives of this performance audit included determining if the costs that URI claimed or reported as cost sharing on the four EPSCoR awards were allowable, allocable, reasonable, and in compliance with NSF award terms and conditions. We have attached a full description of the audit's objectives, scope, and methodology in [Appendix B](#).

### AUDIT CRITERIA

The audit team assessed URI's compliance with relevant federal regulations (2 Code of Federal Regulations [CFR] 200, 2 CFR 215, and 2 CFR 220), NSF Proposal and Award Policies and Procedures Guides [PAPPGs] (NSF 10-1, 13-1, 15-1, 16-1, 17-1, and 19-1), NSF award terms and conditions, and URI policies and procedures. The audit team included references to relevant criteria within each finding and defined key terms within the glossary located in [Appendix E](#).

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS), 2018 Revision, issued by the Comptroller General of the United States.

### AUDIT FINDINGS

As summarized in [Appendix C](#), the auditors identified and questioned \$627,748 in direct and indirect costs that URI inappropriately claimed (\$359,408), or reported as cost sharing (\$268,340), during the audit period, including:

- \$268,340 of inadequately monitored and inappropriately reported cost sharing
- \$206,643 of unallowable expenses
- \$121,719 of inappropriately applied indirect costs
- \$24,683 of inadequately supported expenses
- \$6,363 of inappropriately allocated expenses

The audit report also includes two compliance-related findings for which the auditors did not question any costs:

- Non-compliance with URI policies
- Insufficient controls related to the application of indirect cost rates

### RECOMMENDATIONS

The audit report includes 21 recommendations for NSF's Director of the Division of Institution and Award Support related to resolving the \$627,748 in questioned costs and ensuring URI strengthens its award management environment, as summarized in [Appendix D](#).

### AUDITEE RESPONSE

URI expressed varying levels of agreement and disagreement with the findings throughout the audit report, agreeing to reimburse, or otherwise credit, NSF for \$8,623 in questioned costs, but disagreeing with the remaining \$619,125. URI's response is attached in its entirety to the report as [Appendix A](#).

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### Abbreviations

<b>AAAS</b>	American Association for the Advancement of Science
<b>ACM\$</b>	Award Cash Management \$ervice
<b>Brown</b>	Brown University
<b>EPSCoR</b>	Established Program to Stimulate Competitive Research
<b>FY</b>	Fiscal Year
<b>KSU</b>	Kentucky State University
<b>MTDC</b>	Modified Total Direct Cost
<b>NICRA</b>	Negotiated Indirect Cost Rate Agreement
<b>NSF</b>	National Science Foundation
<b>OIG</b>	Office of Inspector General
<b>PAPPG</b>	Proposal and Award Policies and Procedures Guide
<b>PC</b>	Providence College
<b>RI-C</b>	Rhode Island Commerce
<b>RIC</b>	Rhode Island College
<b>RISD</b>	Rhode Island School of Design
<b>RI-STAC</b>	Rhode Island Science & Technology Advisory Council
<b>RWU</b>	Roger Williams University
<b>STEM</b>	Science, Technology, Engineering and Mathematics
<b>STF</b>	Slater Technology Fund
<b>URI</b>	University of Rhode Island
<b>W&amp;I</b>	Women & Infants’ Hospital

## BACKGROUND

The National Science Foundation is an independent federal agency created “to promote the progress of science; to advance the national health, prosperity, and welfare; and to secure the national defense; and for other purposes.” (Pub. L. No. 81-507). NSF funds research and education in science and engineering by awarding grants and contracts to educational and research institutions throughout the United States.

One way NSF funds such initiatives is by providing awards to targeted states through its Established Program to Stimulate Competitive Research (EPSCoR). States and territories receiving less than 0.75 percent of total NSF research funding over a 5-year period<sup>1</sup> are eligible to receive EPSCoR funding. The Program’s goal is to develop research competitiveness in these entities by strengthening science, technology, engineering, and math (STEM) capability and capacity so that they may become recognized contributors to national and global STEM research.

Most federal agencies have an Office of Inspector General that provides independent oversight of the agency’s programs and operations. Part of NSF OIG’s mission is to conduct audits and investigations to prevent and detect fraud, waste, and abuse. In support of this mission, NSF OIG may conduct independent and objective audits, investigations, and other reviews to promote the economy, efficiency, and effectiveness of NSF programs and operations, as well as to safeguard their integrity. NSF OIG may also hire a contractor to provide these audit services.

NSF OIG engaged Cotton & Company LLP (referred to as “we”) to conduct a performance audit of costs incurred by the University of Rhode Island (URI) on four NSF EPSCoR program awards. URI is a public land grant research university located in Kingston, Rhode Island. In fiscal year (FY) 2019, URI reported approximately \$100.9 million in competitive grants, with \$77.7 million from federal sources, as noted in Figure 1.

**Figure 1: URI’s FY 2019 Competitive Grants Portfolio**



Source: Auditor summary of competitive grants that URI reported on its website (*in thousands of dollars*). Aerial photo of URI’s campus is publicly available on URI’s website (<https://web.uri.edu/admission/visit-us/prepare/>).

<sup>1</sup> Prior to fiscal year 2021, EPSCoR eligibility was based on a 3-year period.

## AUDIT SCOPE

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This performance audit—conducted under Order No. 140D0420F0640—was designed to meet the objectives identified in the Objectives, Scope, and Methodology section of this report ([Appendix B](#)) and was conducted in accordance with *Generally Accepted Government Auditing Standards*, 2018 Revision, issued by the Comptroller General of the United States.

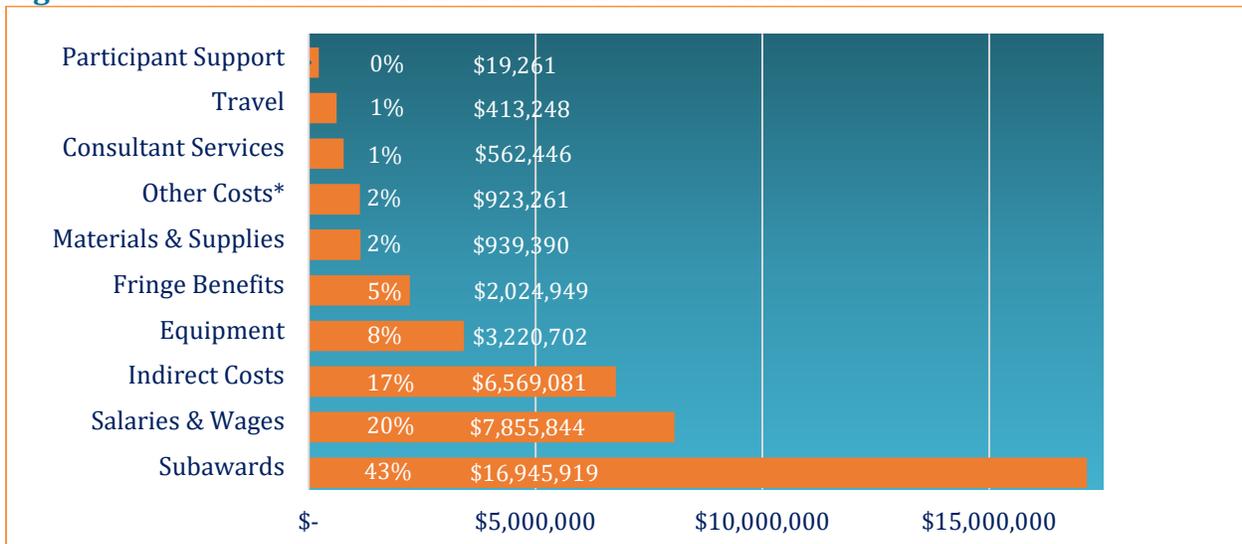
The objectives of this performance audit included determining if (i) the costs URI claimed within NSF’s Award Cash Management Service (ACM\$) and (ii) the expenditures URI reported as [cost sharing](#) for four NSF EPSCoR awards (NSF Award Nos. [REDACTED], [REDACTED], [REDACTED], and [REDACTED]) were allowable, allocable, reasonable, and in compliance with NSF award terms and conditions and applicable federal requirements. [Appendix B](#) provides further information regarding the objectives, scope, and methodology we used to conduct this engagement.

Two of the four awards included within our audit scope were Research Infrastructure Improvement Program Track 1 awards (NSF Award Nos. [REDACTED] and [REDACTED]) and two were Research Infrastructure Improvement Program Track 2 awards (NSF Award Nos. [REDACTED] and [REDACTED]).

- **Research Infrastructure Improvement Program Track 1** awards provide up to \$20 million over 5 years and require the recipient to provide an additional 20 percent of the amount requested from NSF toward the total project cost (known as cost sharing). To broaden their impact, Track 1 awards fund research programs at other institutions (subrecipients) within the jurisdiction through subaward agreements.
- **Research Infrastructure Improvement Program Track 2** awards provide up to \$1.5 million per year for up to 4 years to build collaborative teams of EPSCoR researchers across jurisdictions.

URI provided general ledger data to support the \$39.5 million in expenses it claimed through ACM\$ on these four EPSCoR awards from January 2011 through August 2020, as illustrated in Figure 2.

**Figure 2: Costs URI Claimed on the Four NSF EPSCoR Awards**

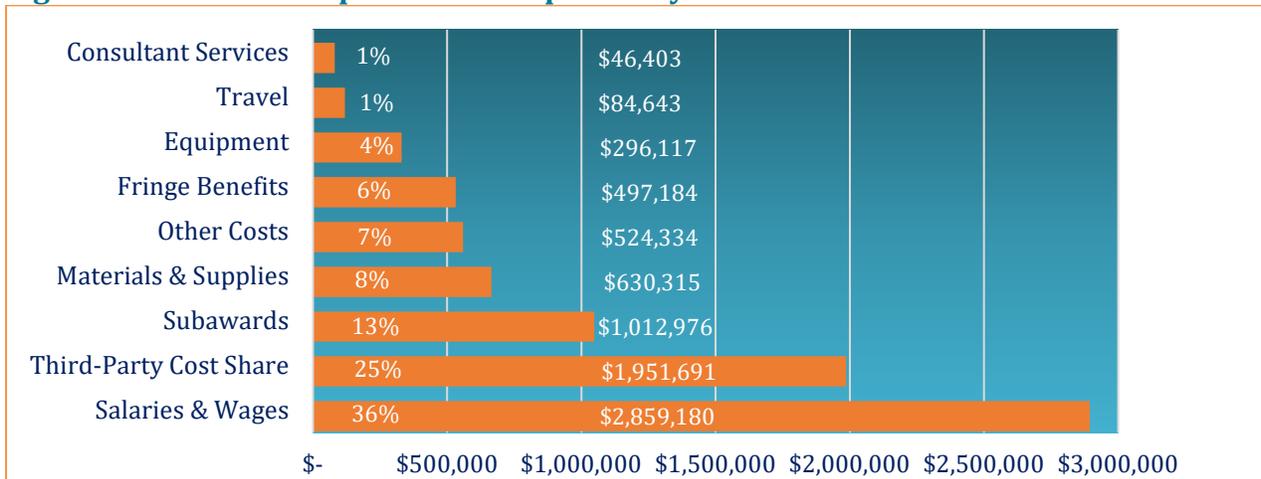


Source: Auditor analysis of accounting data provided by URI.

\*Other costs include publications and other direct costs.

URI also provided general ledger and other cost sharing reporting data to support the \$7.86 million in cost share expenditures it reported on the two EPSCoR awards that included cost sharing requirements (NSF Award Nos. [REDACTED] and [REDACTED],<sup>2</sup> as illustrated in Figure 3.

**Figure 3: Cost Share Expenditures Reported by URI<sup>3</sup>**



Source: Auditor analysis of accounting data provided by URI.

\*Other costs include publications and other direct costs.

<sup>2</sup> NSF Award No. [REDACTED] which expired in December 2017, and NSF Award No. [REDACTED] which is scheduled to expire in August 2022, included cost sharing requirements of \$4 million and \$3.8 million, respectively.

<sup>3</sup> URI reported \$5,498,893 in cost sharing for NSF Award No. [REDACTED] which exceeded the \$4 million in cost sharing required for this award, and \$2,277,183 in cost sharing for NSF Award No. [REDACTED]

We judgmentally selected 75 samples from URI’s general ledger and cost sharing reports. Specifically, we selected \$960,774 in costs URI claimed in ACM\$, and \$961,597 in expenditures it reported as cost sharing, on the four NSF EPSCoR awards to determine whether the costs were **allocable, allowable, reasonable**, and in compliance with NSF award terms and conditions, organizational policies, and applicable federal requirements, as illustrated in Table 1.<sup>4</sup>

**Table 1: Summary of Samples Selected from URI’s General Ledger and Cost Sharing Reports**

Type of Samples Selected	Number of Samples	Amount
<b>Costs Claimed in ACM\$</b>	<b>50</b>	<b>\$960,774</b>
Subaward*	20	798,162
Other Budget Categories	30	162,612
<b>Cost Share Expenditures</b>	<b>25</b>	<b>\$961,597</b>
Subaward	1	15,972
Third Party Cost Share**	6	734,582
Other Budget Categories	18	211,043

Source: Auditor summary of selected transactions.

\*We selected an additional 27 transactions totaling \$337,900 from the accounting data provided by subawardees to support the sampled subaward expenses.

\*\*We selected an additional 20 transactions totaling \$260,494 from the accounting data provided by Third Party cost sharing institutions to support the sampled Third Party cost share expenditures.

## AUDIT RESULTS

We identified and questioned \$359,408 in costs that URI claimed in ACM\$ on, and \$268,340 it reported as cost sharing for, the four NSF EPSCoR awards included within our audit population. We also reported one finding related to URI’s non-compliance with its internal policies and one finding related to the controls URI has in place to apply indirect costs that did not result in questioned costs. See Table 2 for a summary of questioned costs by finding area and **Appendix C** for a summary of questioned costs by NSF award.

**Table 2: Summary of Questioned Costs by Finding Area**

Finding Description	Questioned Costs	
	Claimed in ACM\$	Reported as Cost Sharing
Inadequately Monitored and Inappropriately Reported Cost Sharing	\$0	\$268,340
Unallowable Expenses	206,643	0
Indirect Costs Inappropriately Applied	121,719	0
Inadequately Supported Expenses	24,683	0
Inappropriately Allocated Expenses	6,363	0
Non-Compliance with URI Policies	0	0
Insufficient Controls Related to the Application of Indirect Cost Rates	0	0
<b>Total</b>	<b>\$359,408</b>	<b>\$268,340</b>

Source: Auditor-developed summary of findings identified.

<sup>4</sup> The \$960,774 and \$961,597 represent the total value of the samples selected from URI’s accounting data for testing; they do not represent the dollar base of the total costs reviewed during the audit.

We made 21 recommendations for NSF’s Director of the Division of Institution and Award Support related to resolving the \$627,748 in questioned costs (\$359,408 in costs claimed in ACM\$ and \$268,340 in reported cost sharing) and ensuring URI strengthens its administrative and management procedures for monitoring federal funds. See [Appendix D](#) for a summary of all recommendations.

We communicated the results of our audit, the related findings, and recommendations to URI and NSF OIG. We included URI’s response to this report in its entirety in [Appendix A](#).

## **FINDING 1: INADEQUATELY MONITORED AND INAPPROPRIATELY REPORTED COST SHARING**

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URI did not adequately monitor or report \$268,340 in expenditures it reported to NSF as cost sharing<sup>5</sup> for two EPSCoR awards (NSF Award Nos. [REDACTED] and [REDACTED]).<sup>6</sup> Specifically, URI did not ensure that cost sharing it reported for institutions that received awards from the Rhode Island Science & Technology Advisory Council (RI-STAC), an organization within Rhode Island Commerce (RI-C) responsible for contributing cost sharing for NSF Award Nos. [REDACTED] and [REDACTED],<sup>7</sup> represented only allowable project costs.<sup>8</sup>

### ***Inadequately Supported Cost Sharing***

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URI reported \$207,061 in cost sharing by institutions that did not maintain adequate documentation to support that they used the awards they received from RI-STAC/RI-C to cover allocable, reasonable, or necessary project costs, as required for the reported cost

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<sup>5</sup> According to 2 Code of Federal Regulations (CFR) §215.2(i) and 2 CFR §200.29, cost sharing means the portion of project costs not paid by federal funds. Per 2 CFR §215.23(a) and 2 CFR §200.306(b), shared costs on federal awards must be accepted as part of the non-federal entity’s cost sharing or matching when such contributions (1) can be verified in the non-federal entity’s records; (2) are not included as contributions for any other federal award; (3) are necessary and reasonable for accomplishment of project or program objectives; (4) are allowable; (5) are not paid by the federal government under another federal award; and (6) are provided for in the approved budget when required by the federal awarding agency.

<sup>6</sup> NSF implemented mandatory cost sharing for the EPSCoR program, among other programs. Although the cost sharing requirements are included in the applicable program solicitation, NSF may take into account institution-specific factors when setting the requirements. Specifically, NSF Award No. [REDACTED] which expired in December 2017, and NSF Award No. [REDACTED] which is scheduled to expire in August 2022, include cost sharing requirements of \$4 million and \$3.8 million, respectively.

<sup>7</sup> In accordance with the approved NSF grant budgets, RI-STAC/RI-C issued awards directly to Third Party institutions to assist URI in meeting the cost sharing requirements for NSF Award Nos. [REDACTED] and [REDACTED].

<sup>8</sup> According to 2 CFR §215.2(y) and 2 CFR §200.83, project costs means total allowable costs incurred under a federal award, including all required cost sharing. Per 2 CFR 220, Appendix A, Section C.2., and 2 CFR § 200.403, for a project cost to be allowable, it must be adequately documented, as well as both necessary and reasonable for the performance of the federal award.

share expenditures to be allowable under federal regulations<sup>9</sup> and **NSF Proposal and Award Policies and Procedures Guides (PAPPGs)**,<sup>10</sup> as illustrated in Table 3.

**Table 3: Inadequately Supported Cost Sharing**

FY	NSF Award No.	Expense Total	Insufficient Documentation to Support the Allowability of:	Notes
2011-2012	██████████	\$200,000	Women & Infants' Hospital salary, fringe benefits, equipment, travel, supplies, subawards, and other direct expenditures	<b>a</b>
2014	██████████	7,061	Brown University travel expenditures	<b>b</b>

Source: Auditor summary of identified exceptions.

- a) Between FYs 2011 and 2012, URI reported \$200,000 in cost sharing on NSF Award No. ██████████ related to an award RI-STAC/RI-C provided to Women & Infants' Hospital (W&I). Although W&I was able to provide general ledger data to support it incurred \$200,000 in expenses for this award, it did not maintain sufficient documentation to support the allowability of any expenditures recorded within its general ledger.
- b) In FY 2013, URI reported \$199,974 in cost sharing on NSF Award No. ██████████ for an award RI-STAC/RI-C provided to Brown University (Brown). Although Brown was able to provide general ledger data to support the majority of these expenditures (See the **Unsupported Cost Share** exception below), it did not maintain sufficient documentation to support the allowability of \$7,061 in sampled cost share travel expenditures.<sup>11</sup>

### **Unsupported Cost Sharing**

When reporting cost sharing to NSF, URI reported 100 percent of the amounts RI-STAC/RI-C awarded to Third Party cost sharing institutions, rather than the total cost share expenditures that the institutions actually incurred. As the awarded amounts do not represent allowable project costs, URI reported \$45,779 in unsupported cost sharing on two NSF awards, as illustrated in Table 4.

<sup>9</sup> According to 2 CFR §215.21, recipients' financial management systems shall provide cost accounting records that are supported by source documentation.

<sup>10</sup> NSF PAPPGs 10-1 and 13-1, Part II, Chapter V, state that grantees should ensure that costs claimed under NSF grants are necessary, reasonable, allocable, and allowable under the applicable cost principles, NSF policy, and/or the program solicitation. Further, NSF PAPPGs 10-1 and 13-1, Part II, Chapter II, Section A.1 state that documentation for each expenditure or action affecting the grant shall reflect appropriate organizational reviews or approvals, which should be made in advance of the action.

<sup>11</sup> According to 2 CFR §215.21, recipients' financial management systems shall provide cost accounting records that are supported by source documentation.

**Table 4: Unsupported Cost Sharing**

NSF Award No.	FY	Cost Sharing Institution	Amount Reported for FY	Amount Incurred as of August 2020 <sup>12</sup>	Unsupported Cost Sharing	Notes
██████████	2013	Brown	\$199,974	\$198,048	\$1,926	a
██████████	2017	Roger Williams University	89,503	68,313	21,190	b
██████████	2019	Brown	79,739	75,879	3,860	c
██████████	2020	Rhode Island School of Design	61,141	42,338	18,803	d

Source: Auditor summary of identified exceptions.

- a) In FY 2013, URI reported \$199,974 in cost sharing for Brown on NSF Award No. ██████████ or the full amount RI STAC/RI-C awarded to Brown, rather than the \$198,048 in project costs that Brown actually incurred. As a result, \$1,926 of the cost sharing URI reported was unsupported.
- b) In FY 2017, URI reported \$89,503 in cost sharing for Roger Williams University (RWU) on NSF Award No. ██████████ or the full amount RI STAC/RI-C awarded to RWU, rather than the \$68,313 in project costs that RWU actually incurred. As a result, \$21,190 of the cost sharing URI reported was unsupported.
- c) In FY 2019, URI reported \$79,739 in cost sharing for Brown on NSF Award No. ██████████ or the full amount RI STAC/RI-C awarded to Brown, rather than the \$75,879 in project costs that Brown actually incurred. As a result, \$3,860 of the cost sharing URI reported was unsupported.
- d) In FY 2020, URI reported \$61,141 in cost sharing for the Rhode Island School of Design (RISD) on NSF Award No. ██████████ or the full amount RI STAC/RI-C awarded to RISD, rather than the \$42,338 in project costs that RISD actually incurred. As a result, \$18,803 of the cost sharing URI reported was unsupported.

***Prematurely Reported Cost Sharing***

URI reported cost sharing using the full amounts that RI-STAC/RI-C awarded to Third Party institutions during the FY in which RI-STAC/RI-C issued the awards, rather than in the FY(s) in which the institutions incurred allowable project costs. As a result, URI prematurely reported \$153,438 in cost sharing on one NSF award, as illustrated in Table 5.

<sup>12</sup> The final draw within the audit’s period of performance occurred in August 2020. As such, URI provided the data to support the costs under review for the four EPSCoR awards up to this date.

**Table 5: Prematurely Reported Cost Sharing**

NSF Award No.	FY	Cost Sharing Institution	Amount Reported	Amount Incurred as of FY End	Amount Prematurely Reported	Amount Incurred as of August 2020 <sup>13</sup>	Notes
██████████	2011	W&I	\$200,000	\$98,166	\$101,834	\$200,000	a
██████████	2015	Rhode Island College	104,225	52,621	51,604	104,225	b

Source: Auditor summary of identified exceptions.

- a) URI reported 100 percent of the \$200,000 RI STAC/RI-C awarded to W&I on NSF Award No. ██████████ as FY 2011 cost sharing before W&I incurred \$200,000 in project costs. Specifically, although W&I was awarded \$200,000 in FY 2011, and has reported spending the full \$200,000, it only incurred \$98,166 in project costs in FY 2011 and used the remaining \$101,834 to cover project costs it incurred in FY 2012.
- b) URI reported 100 percent of the \$104,225 RI STAC/RI-C awarded to Rhode Island College (RIC) on NSF Award No. ██████████ as FY 2015 cost sharing before RIC incurred \$104,225 in project costs. Specifically, although RIC was awarded \$104,225 in FY 2015, and has reported spending the full \$104,225, it only incurred \$52,621 in project costs in FY 2015 and used the remaining \$51,604 to cover project costs it incurred in FYs 2016 and 2017.

**Duplicate Cost Sharing Reported**

URI reported the same \$15,500 **equipment** expense as a project cost when reporting cost sharing on two NSF awards, which is unallowable per federal regulations,<sup>14</sup> as illustrated in Table 6.

**Table 6: Duplicate Cost Sharing Reported**

NSF Award No.	Expense Total	Duplicative Costs	Notes
██████████	\$15,500	Equipment Expense	a
██████████	\$15,500		

Source: Auditor summary of identified exceptions.

- a) URI reported the same \$15,500 equipment expense when reporting cost sharing for NSF Award No. ██████████ in FY 2017 and for NSF Award No. ██████████ in FY 2019.

**Conclusion**

URI did not have sufficient policies and procedures or internal controls in place to ensure that it appropriately monitored cost sharing reported to NSF related to awards issued by

<sup>13</sup> The final draw within the audit’s period of performance occurred in August 2020. As such, URI provided the data to support the costs under review for the four EPSCoR awards up to this date.

<sup>14</sup> According to 2 CFR §215.23(a) and 2 CFR §200.306(b), *Cost sharing or matching*, shared costs on federal awards must be accepted as part of the non-federal entity’s cost sharing or matching when such contributions are not included as contributions for any other federal award.

RI-STAC/RI-C to Third Party institutions. Specifically, because the Third Party institutions responsible for spending the awards URI reported as cost share did not report directly to URI, URI did not monitor either the research the institutions were performing or the project costs the institutions incurred and reported as cost sharing. Further, URI did not have sufficient controls in place to ensure cost sharing reports only included allowable expenses.

As a result, we are questioning \$268,340 in costs that URI reported as cost sharing that it did not appropriately monitor, review, or support as allowable project costs under federal and/or NSF policies, as illustrated in Table 7.

**Table 7: Finding 1 Summary: Inadequate Monitoring and Inappropriate Reporting of Cost Sharing**

NSF Award No.	Compliance Exception Identified	Questioned Costs		
		Claimed in ACM\$	Reported as Cost Sharing	URI Agreed to Reimburse
	Inadequately Supported Award	\$0	\$200,000	\$0
	Inadequately Supported Travel	0	7,061	0
	Brown Unsupported Cost Sharing	0	1,926	0
	RWU Unsupported Cost Sharing	0	21,190	0
	Brown Unsupported Cost Sharing	0	3,860	0
	RISD Unsupported Cost Sharing	0	18,803	0
	W&I Prematurely Reported Cost Sharing	0	0	0
	RIC Prematurely Reported Cost Sharing	0	0	0
	Duplicate Cost Sharing Reported	0	15,500	0
<b>Total</b>		<u>\$0</u>	<u>\$268,340</u>	<u>\$0</u>

Source: Auditor summary of identified exceptions.

## Recommendations

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

- 1.1 Resolve the \$268,340 in questioned and non-compliant cost share expenditures and direct URI to remove the sustained questioned and non-compliant cost share expenditures from the cost sharing reports it submitted to NSF. If the removal of disallowed cost share expenditures causes the award to fall short of the mandatory cost sharing requirement for either award, direct URI to repay NSF funds associated with the unmet cost sharing obligation.
- 1.2 Direct URI to strengthen its cost sharing monitoring processes to ensure that it appropriately monitors cost share expenditures incurred by Third Party institutions and verifies that the research the institutions are performing is appropriate. These processes could include performing timely reconciliations of project costs reported by Third Party institutions and requiring detailed progress reports.

- 1.3 Direct URI to strengthen its cost sharing monitoring procedures to ensure institutions responsible for reporting cost share expenditures maintain, and provide URI with, documentation to support that all costs reported to URI are allowable, allocable, and adequately supported.
- 1.4 Direct URI to strengthen its administrative and management processes related to reporting cost sharing to NSF to ensure that it does not include the same cost share expenditures on multiple cost sharing reports, and that its cost sharing reports do not include cost share amounts that have been awarded but not yet expended.

**University of Rhode Island Response:** Although URI agreed that it had inappropriately reported \$15,500 in duplicate cost share, it did not agree with the remaining \$252,840 in questioned costs. Further, URI stated that it should not be required to reimburse NSF for any of the \$268,340 in questioned cost share expenditures because it reported \$1,498,893 in excess cost sharing, which exceeds the questioned cost amount. Specifically:

**Inadequately Supported Cost Sharing:** URI disagreed with the \$207,061 in questioned inadequately supported cost share, stating that it believes the documentation provided is acceptable for Third Party cost sharing institutions. Specifically:

- With regard to the \$200,000 in inadequately supported cost sharing questioned on NSF Award No. [REDACTED] URI noted that, although W&I was unable to access transactional information as a result of a 2014 accounting system change, W&I's general ledger was sufficiently detailed to support the reported cost share amount.
- With regard to the \$7,061 in inadequately supported cost sharing questioned on NSF Award No. [REDACTED] URI noted that, although Brown did not maintain transactional information to support costs recorded in its general ledger based on its record retention policy, which stipulates that Brown must maintain documentation for 3 years after the end of the subaward, Brown's general ledger was sufficiently detailed to support the reported cost share amount.

**Unsupported Cost Sharing:** URI did not explicitly agree or disagree with the \$45,779 in questioned costs for this finding; instead, it stated that the practices for disbursing funding to Third Party cost sharing institutions cause URI to report cost sharing using RI-C award amounts rather than actual cost share expenditures. Specifically, URI noted that RI-C directly disburses the full amount of each award to the institutions and RI-C subsequently reports the full amount of those awards to URI for reporting to NSF, consistent with the NSF budget. As a result, RI-C does not provide URI with final expenditure reports that URI can use to update the cost sharing reports it submits to NSF.

**Prematurely Reported Cost Sharing:** URI did not explicitly agree or disagree with this finding; however, it stated that RI-C's practices for disbursing funding to Third Party cost sharing institutions cause URI to report RI-C award amounts rather than actual cost share

expenditures, as noted in the unsupported cost sharing response above. Further, URI stated that both of the institutions included in this finding (i.e., W&I and RIC) fully expended their awards.

***Duplicate Cost Sharing Reported:*** URI agreed that it inappropriately reported the same \$15,500 equipment cost to NSF as cost sharing on two NSF awards.

***Finding 1 Recommendations:*** Although URI noted that it has controls in place that provide reasonable assurance regarding the reporting and monitoring of cost sharing, it did agree to perform a review of, and strengthen, its Third Party cost sharing practices. However, it did not agree to reimburse NSF for any of the questioned cost sharing amount because the \$1,498,893 in excess cost share expenditures it has recorded exceeds the \$263,340 in questioned costs.

***Auditors' Additional Comments:*** Because URI did not provide sufficient documentation to support that the questioned cost share expenditures represent allowable costs, our conclusions and recommendations regarding this finding have not changed. Specifically:

***Inadequately Supported Cost Sharing:*** Although both W&I and Brown were able to provide expenditure reports that supported the total amount reported as cost sharing, because URI did not require that records to support the cost sharing expenditures be retained, and the organizations did not provide documentation to support that the cost share expenditures related to allowable costs, our position regarding this finding has not changed. Specifically, as the primary recipient of the EPSCoR funds, URI has the responsibility to ensure Third Party institution costs are allowable. URI's responsibility to maintain records supporting the allowability of costs is independent of Third Party institutions' records retention requirements. Moreover, because federal regulations require that organizations maintain records for a period of 3 years after the grantee submits the final expenditure report for an award, URI should have ensured that both W&I and Brown maintained documentation to support the allowability of the reported cost share expenditures through April 2021, after we requested the records.<sup>15</sup>

***Unsupported Cost Sharing:*** Although URI stated that it reported cost sharing in accordance with the NSF award budget, because URI's practices caused it to report unspent award funds as cost share expenditures, our position regarding this finding has not changed.

***Prematurely Reported Cost Sharing:*** Although URI stated that the organizations expended the full cost share amounts, because the amounts URI reported did not represent allowable

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<sup>15</sup> According to 2 CFR §215.53(b), *Retention and access requirements for records*, financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of 3 years from the date of submission of the final expenditure report. Although the W&I and Brown awards may have expired in 2011-2012 and 2015, respectively, because URI submitted the final expenditure report for the prime award (NSF Award No. ████████) in April 2018, both W&I and Brown should have retained records related to their subawards under NSF Award No. ████████ through April 2021.

cost share expenditures at the time URI reported the cost sharing, our position regarding this finding has not changed.

**Duplicate Cost Sharing Reported:** Because URI agreed that it had reported the same \$15,500 equipment expense as a cost share expenditure on two NSF awards, our position regarding this finding has not changed.

## FINDING 2: UNALLOWABLE EXPENSES

URI charged two NSF awards for \$206,643 in expenses that are unallowable under federal regulations<sup>16</sup> and NSF PAPPGs.<sup>17</sup>

### Unapproved Subaward Expenses

As illustrated in Table 8, for NSF Award No. ██████████ URI and two of its subrecipients issued subawards to institutions that were not included in the approved NSF budget without first obtaining NSF’s approval using the NSF FastLane system,<sup>18</sup> as required for the subaward costs to be allowable per the NSF PAPPGs.<sup>19</sup>

**Table 8: Unapproved Subaward Expenses**

NSF Award No.	Total Subaward Expenses	Unapproved Subaward Expenses Associated With:	Notes
██████████	\$178,835	American Association for the Advancement of Science	a
██████████	25,548	RWU	b

Source: Auditor summary of identified exceptions.

- a) URI charged NSF Award No. ██████████ for \$178,835 in expenses related to a subaward with American Association for the Advancement of Science (AAAS). URI had originally included AAAS in its budget as a consultant; however, it ultimately issued AAAS a subaward for external program evaluation instead. Although URI

<sup>16</sup> According to 2 CFR 220, Appendix A, Sections C.2 and C.3, and 2 CFR §200.403(a), for costs to be allowable, they must be necessary and reasonable for the performance of the federal award.

<sup>17</sup> NSF PAPPGs 10-1 and 16-1, Part II, Chapter V, Section A and 19-1, Part II, Chapter X, Section A, state that grantees should ensure that all costs charged to NSF awards meet the requirements of the applicable federal cost principles, grant terms and conditions, and any other specific requirements of both the award notice and the applicable program solicitation.

<sup>18</sup> NSF PAPPG 10-1, Part II, Chapter II, Section A.2.b. states that organizations must submit all notifications and requests contained in Award & Administration Guide Exhibit II-1, which includes contracting or transferring project effort (subawards), electronically via the NSF FastLane system.

<sup>19</sup> NSF PAPPG 10-1, Part II, Chapter II, Section B.3. states that the prospective awardees should disclose their intent to enter into a subaward agreement in their proposal submission, and that if it becomes necessary to contract or otherwise transfer a part of the research after the grant has been awarded, the grantee shall electronically submit, at a minimum, (i) a clear description of the work to be performed and (ii) a separate budget for each subaward, and NSF will indicate its authorization by an amendment to the grant signed by the Grants and Agreements Officer.

notified<sup>20</sup> NSF of its intention to shift AAAS from a consultant to a subawardee, URI did not obtain NSF’s formal approval for this change using the NSF FastLane system.

- b) URI charged NSF Award No. [REDACTED] for at least \$25,548 in expenses that RWU (a URI subrecipient) invoiced for subaward costs that RWU’s subrecipients, Providence College (PC) and RIC, invoiced to RWU for Summer Undergraduate Research Fellowship expenses. Although URI had identified RWU as the subrecipient responsible for providing Summer Undergraduate Research Fellowship payments, URI did not obtain NSF’s approval<sup>21</sup> for RWU to issue subawards to PC or RIC.

**Unallowable Other Direct Costs**

URI charged two NSF awards for \$2,260 in unallowable other direct costs, as illustrated in Table 9.

**Table 9: Unallowable Other Direct Costs**

Expense Date	NSF Award No.	Expense Total	Unallowable Expenses Associated With:	Notes
September 2017	[REDACTED]	\$2,148	General-purpose furniture	a
June 2020	[REDACTED]	112	Airfare upgrade fees	b

Source: Auditor summary of identified exceptions.

- a) In September 2017, URI charged NSF Award No. [REDACTED] for \$2,148 to purchase furniture that was not reasonable or necessary for the performance of this award.
- b) In June 2020, URI charged NSF Award No. [REDACTED] for \$112 in unallowable airline upgrade fees<sup>22</sup> invoiced by RISD, a subrecipient on the NSF award.

**Conclusion**

URI did not have sufficient policies and procedures or internal controls in place to ensure that it and its subawardees only charged allowable expenses to NSF awards. Specifically, URI’s procedures did not always ensure that it:

- Formally processed subaward requests within NSF’s FastLane system rather than relying on other forms of communication with NSF to support NSF’s approval of unbudgeted subawards.

<sup>20</sup> As support that NSF was aware of the subaward, URI provided a panel summary that it had submitted to NSF, which noted that URI would be shifting AAAS from a consultant role to a subawardee role.

<sup>21</sup> The subaward between URI and RWU stipulates that the subaward is subject to the terms and conditions of both NSF and the prime award, NSF Award No. [REDACTED] with the exception that prior approvals are to be sought from the prime recipient and not the federal awarding agency.

<sup>22</sup> According to 2 CFR §200.474(d), airfare in excess of the basic, least expensive class is generally unallowable.

- Provided adequate training to personnel responsible for charging expenses to NSF awards to ensure that the personnel adequately document and maintain both the justification for incurring costs that appear to be general in nature and NSF’s prior approval for incurring those costs.
- Only reimbursed subawardees for allowable travel expenses.

We are therefore questioning \$206,643 of unallowable **direct** and **indirect** expenses charged to two NSF awards. URI concurred with \$2,260 of the questioned costs but disagreed with the remaining \$204,383, as illustrated in Table 10.

**Table 10: Finding 2 Summary: Unallowable Expenses**

NSF Award No.	Description	Fiscal Year	Questioned Costs Claimed in ACM\$			
			Direct	Indirect	Total	URI Agreed to Reimburse
██████	Subaward to AAAS	N/A	\$166,585	\$12,250	\$178,835	\$0
██████	Subaward to RWU	2013	25,548	0	25,548	0
██████	September 2017 Furniture	2018	1,442	706	2,148	2,148
██████	June 2020 Flight Upgrade	2020	112	0	112	112
			<b><u>\$193,687</u></b>	<b><u>\$12,956</u></b>	<b><u>\$206,643</u></b>	<b><u>\$2,260</u></b>

Source: Auditor summary of identified exceptions.

### Recommendations

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

- 2.1 Resolve the \$204,383 in questioned subaward costs for which URI has not agreed to reimburse NSF and direct URI to repay or otherwise remove the sustained questioned costs from its NSF awards
- 2.2 Direct URI to provide documentation supporting that it has repaid or otherwise credited the \$2,260 of questioned furniture and travel costs for which it has agreed to reimburse NSF.
- 2.3 Direct URI to strengthen the administrative and management internal controls and processes over transferring significant parts of NSF-funded research to other organizations. Processes could include:
  - Establishing procedures that require URI to verify that, for any subaward it intends to establish to perform research under an NSF grant awarded to URI, it specifically obtains the NSF Grants Officer’s approval, either as part of the

NSF grant budget or through a formal FastLane request to transfer the research or effort, before establishing the subaward.

- Establishing procedures that require URI to verify that, for any subaward costs invoiced by its NSF grant subrecipients, it specifically obtains the NSF Grants Officer's approval, either as part of the NSF grant budget or through a formal FastLane request to transfer the research or effort, before approving the subaward invoice and charging the expense to an NSF Award.
- Requiring periodic training for Principal Investigators and other personnel permitted to issue subaward agreements under NSF awards.

2.4 Direct URI to strengthen its administrative and management processes to ensure that general-purpose costs charged to federal awards are necessary to carry out grant objectives and are directly related to the purpose of the federal award, or removed from the award.

2.5 Direct URI to strengthen its subaward monitoring process to ensure that its subawardees only claim allowable travel costs.

**University of Rhode Island Response:** URI agreed to reimburse NSF for \$2,260 in questioned other direct costs but disagreed with the remaining \$204,383 in unapproved subaward expenses. Specifically:

- With regard to the \$178,835 in questioned subaward expenses charged to NSF Award No. [REDACTED] URI stated that the costs charged for the subaward to AAAS should be allowable because: (i) URI had included the institution in the NSF-approved budget as a consultant, (ii) URI notified NSF it was issuing a subaward to AAAS, (iii) NSF issued additional funding to URI under a budget that included AAAS as a subawardee, (iv) there was no substantive or significant change to project effort, and (v) AAAS's work on the project was required.
- With regard to the \$25,548 in questioned RWU subaward expenses charged to NSF Award No. [REDACTED] URI stated that the PC and RIC subawards should be allowable because the subawards were administrative tools used to carry out RWU activities outlined in the NSF-approved budget. Additionally, URI noted that because RWU awarded these subawards to support fellowship payments, there was no substantive or significant change to project effort, and URI was therefore not required to obtain NSF's approval.

**Finding 2 Recommendations:** URI disagreed with the recommendations that it reimburse the questioned subaward costs and that it strengthen its internal controls surrounding pre-approvals for subawards. Specifically, URI stated that it believes its current controls are adequate to provide reasonable assurance that it obtains any required approvals prior to engaging in subawards. However, URI did agree to reimburse the \$2,260 in questioned

travel and furniture costs and to perform a review of its general-purpose expenditure and subaward travel processes to determine if any changes to its current controls are warranted.

**Auditors' Additional Comments:** Although URI and RWU issued the subawards to AAAS, PC, and RIC to enable the organizations to perform activities that appear to have been consistent with the budget for NSF Award No. [REDACTED] because URI did not obtain appropriate NSF approval prior to issuing these subawards, our position regarding this finding has not changed. Specifically, because URI did not formally request or receive approval for these unbudgeted subawards through FastLane, or through an amendment to the grant signed by the NSF Grants Officer, as required for these costs to be allowable per the relevant NSF PAPPGs, our conclusions and recommendations have not changed.

### **FINDING 3: INDIRECT COSTS INAPPROPRIATELY APPLIED**

The federal Negotiated Indirect Cost Rate Agreements (NICRAs) issued to URI and Brown<sup>23</sup> allow the institutions to apply indirect cost rates to a **Modified Total Direct Cost (MTDC)** base.<sup>24</sup> This base excludes equipment costs. However, both URI and Brown applied indirect cost rates to equipment costs that were inappropriately included in the MTDC base. As a result, URI charged NSF Award No. [REDACTED] for \$121,719 in inappropriately applied indirect costs, as illustrated in Table 11.

**Table 11: Expenses Inappropriately Included in MTDC**

<b>Expense Date</b>	<b>NSF Award No.</b>	<b>Indirect Expenses</b>	<b>Indirect Cost Rate Inappropriately Applied to:</b>	<b>Notes</b>
June 2012	[REDACTED]	\$5,847	Upgrades to an existing amphitheater audio/visual system	<b>a</b>
September 2014	[REDACTED]	115,872	Computer nodes and equipment	<b>b</b>

*Source: Auditor summary of identified exceptions.*

- a) In June 2012, URI charged NSF Award No. [REDACTED] for \$5,847 in indirect costs applied to costs it incurred to upgrade an existing amphitheater audio/visual system that should have been classified as **capital expenditures**.

<sup>23</sup> URI's NICRA dated August 19, 2010, and its subawardee Brown's NICRA dated January 25, 2010, both state that MTDCs shall exclude equipment, capital expenditures, charges for patient care, student tuition remission, rental costs for off-site facilities, scholarships, and fellowships, as well as the portion of each subgrant and subcontract in excess of \$25,000.

<sup>24</sup> According to 2 CFR 220, Appendix A, Section G.2, MTDC consists of all salaries and wages, fringe benefits, materials and supplies, services, travel, and subgrants and subcontracts up to the first \$25,000 of each subgrant or subcontract (regardless of the period covered by the subgrant or subcontract). Equipment, capital expenditures, charges for patient care and tuition remission, rental costs, scholarships, and fellowships, as well as the portion of each subgrant and subcontract in excess of \$25,000, must be excluded from MTDC.

- b) In September 2014, URI charged NSF Award No. [REDACTED] for \$115,872 in indirect costs that a subawardee, Brown, applied to costs it incurred to purchase computer nodes and other accessories that it used to fabricate computer equipment.

**Conclusion**

URI did not always appropriately consider whether component items that it or its subawardees purchased should be capitalized as part of a capital asset’s cost. Further, URI does not have adequate procedures surrounding the approval of subawardee invoices to ensure that subawardees only assess indirect costs on the appropriate MTDC base.

We are therefore questioning \$121,719 of inappropriately applied indirect costs charged to one NSF award, as illustrated in Table 12.

**Table 12: Finding 3 Summary: Indirect Costs Inappropriately Applied**

NSF Award No.	Description	Fiscal Year	Questioned Costs Claimed in ACM\$			
			Direct	Indirect	Total	URI Agreed to Reimburse
[REDACTED]	June 2012 Indirect Costs Applied to AV Upgrades	2012	\$0	\$5,847	\$5,847	0
[REDACTED]	September 2014 Indirect Costs Invoiced by Brown	2015	115,872	0	115,872	0
<b>Total</b>						

Source: Auditor summary of identified exceptions.

**Recommendations**

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

- 3.1 Resolve the \$121,719 in questioned indirect and subaward costs for which URI has not agreed to reimburse NSF and direct URI to repay or otherwise remove the sustained questioned costs from its NSF awards.
- 3.2 Direct URI to strengthen its monitoring procedures and internal control processes for applying indirect costs to federal awards. Updated procedures could include conducting annual training regarding when materials used in the fabrication of an asset should be included in the capitalized cost of that asset.
- 3.3 Direct URI to strengthen its subaward monitoring procedures to ensure that subawardees only apply indirect costs to expenses that should be included in their Modified Total Direct Cost base.

**University of Rhode Island Response:** URI disagreed with the \$121,719 in questioned indirect costs, stating that indirect costs were appropriately applied. Specifically:

- With regard to the \$5,847 in questioned indirect costs charged to NSF Award No. [REDACTED] URI stated that the vendor miscategorized the purchase of cabling, lighting, monitors, and installation as an “upgrade.” URI further stated that it had appropriately applied the indirect costs because none of the individual items met the capitalization threshold of \$5,000 and the items did not extend the life of the audio/visual system.
- With regard to the \$115,872 in questioned indirect costs charged to NSF Award No. [REDACTED] URI stated that Brown applied its indirect cost rate to the computer component expenses because it classified the components as computer supplies, which are included in Brown’s MTDC base, consistent with its accounting system. Further, URI noted that, as a result of Brown’s record retention policy, Brown was unable to provide any further documentation to support the allowability of this cost.

***Finding 3 Recommendations:*** URI disagreed with the recommendation that it reimburse the questioned indirect costs. Specifically, URI stated that it believes the questioned indirect costs are allowable and that the monitoring and controls it has in place surrounding the application of indirect costs are effective and in accordance with its policies. However, URI agreed to perform a review of its subrecipient monitoring procedures to determine if any changes to its current controls are warranted.

**Auditors’ Additional Comments:** Because URI’s response is not sufficient to support that it was appropriate for URI to include the related direct costs in the MTDC base, to which indirect cost rates are applied, our conclusions and recommendations regarding this finding have not changed. Specifically:

- With regard to the \$5,847 in questioned indirect costs charged to NSF Award No. [REDACTED] although no single item exceeded URI’s capitalization threshold, because URI purchased more than \$11,000 in materials that it installed in a piece of equipment that had a cost exceeding \$5,000 and a useful life exceeding one year, URI should have capitalized the materials as part of the equipment cost and therefore excluded them from the MTDC base.
- With regard to the \$115,872 in questioned indirect costs charged to NSF Award No. [REDACTED] although Brown applied indirect costs consistent with its accounting system based on the account to which it charged the IT components, because Brown used the purchased computer nodes to build a piece of capitalized equipment, Brown should have charged the costs to an account that is excluded from its MTDC base.

## FINDING 4: INADEQUATELY SUPPORTED EXPENSES

URI did not provide adequate documentation to support the allocability, allowability, and reasonableness of \$24,683 in expenses charged to two NSF awards, as required for the costs to be allowable under federal regulations<sup>25</sup> and NSF PAPPGs,<sup>26</sup> as shown in Table 13.

**Table 13: Inadequately Supported Expenses**

Expense Date	NSF Award No.	Expense Total	Insufficient Documentation to Support the Allowability of:	Notes
March 2011	██████████	\$4,470	A subawardee's consultant expense	<b>a</b>
November 2016	██████████	\$20,213	A subaward employee's institutional base salary	<b>b</b>

Source: Auditor summary of identified exceptions.

- a) In March 2011, URI charged NSF Award No. ██████████ for \$4,470 in direct and indirect costs associated with consultant costs invoiced by Slater Technology Fund (STF) that were not supported by a consulting agreement that included sufficient information to support that STF had appropriately invoiced the costs. Specifically, the documentation that STF provided did not include a description of the services the consultant would provide, an estimate of the time required, or the rate of compensation that URI would pay to the consultant.<sup>27</sup>
- b) In November 2016, URI charged NSF Award No. ██████████ for \$20,213 in direct and indirect costs associated with salary costs invoiced by Kentucky State University (KSU). Although these costs were supported by KSU's invoice, KSU did not provide documentation to support that it had appropriately invoiced the salary costs based on the employee's **institutional base salary**.<sup>28</sup>

<sup>25</sup> According to 2 CFR § 200.403, for a cost to be allowable, it must be adequately documented, as well as necessary and reasonable for the performance of the federal award. Further, per 2 CFR §200.302(b)(3), awardees' financial management systems must provide records that identify the source and application of funds, supported by source documentation. Lastly, per 2 CFR §215.21(b)(7), recipients' financial management systems must provide cost accounting records that are supported by source documentation.

<sup>26</sup> NSF PAPPGs 10-1 and 15-1, Part II, Chapter V, Section A state that grantees should ensure that costs claimed under NSF grants are necessary, reasonable, allocable, and allowable under the applicable cost principles, NSF policy, and/or the program solicitation. Further, NSF PAPPGs 10-1 and 15-1, Part II, Chapter II, Section A.1.a state that documentation for each expenditure or action affecting the grant must reflect appropriate organizational reviews or approvals, which should be made in advance of the action.

<sup>27</sup> According to 2 CFR 220 Appendix A, J.37(b)(8), entities should consider the adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions) when determining the allowability of professional service costs.

<sup>28</sup> According to 2 CFR §200.430(a)(3), costs of compensation for personal services are allowable to the extent that they are supported. Further per 2 CFR §200.430(h)(2), charges for work performed on federal awards by faculty members during the academic year are only allowable at the employee's institutional base salary.

## Conclusion

URI did not ensure that subawardees created and maintained adequate documentation to support the allowability of all expenses invoiced to URI.

We are therefore questioning \$24,683 in inadequately supported direct and indirect expenses that URI charged to two NSF awards, as illustrated in Table 14.

**Table 14: Finding 4 Summary: Inadequately Supported Expenses**

NSF Award No.	Description	Fiscal Year	Questioned Costs Claimed in ACM\$			
			Direct	Indirect	Total	URI Agreed to Reimburse
██████	March 2011 STF Expenses	2011	\$3,000	\$1,470	\$4,470	\$0
██████	November 2016 KSU Expenses	2017	13,168	7,045	20,213	0
<b>Total</b>			<b><u>\$16,168</u></b>	<b><u>\$8,515</u></b>	<b><u>\$24,683</u></b>	<b><u>\$0</u></b>

*Source: Auditor summary of identified exceptions.*

## Recommendations

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

- 4.1 Resolve the \$24,683 in questioned inadequately supported subaward expenses for which URI has not agreed to reimburse NSF and direct URI to repay or otherwise remove the sustained questioned costs from its NSF awards.
- 4.2 Direct URI to strengthen its subaward monitoring procedures to ensure subawardees create and maintain documentation to support that all costs invoiced to URI are reasonable, allowable, and allocable.

**University of Rhode Island Response:** URI disagreed with the \$24,683 in questioned costs, stating that it believes the expenditures are adequately supported and that it has adequate controls in place to provide reasonable assurance that subaward expenses relate to the scope of work and benefit the award. Specifically:

- With regard to the \$4,470 in questioned consultant costs charged to NSF Award No. ██████ URI believes these costs should be allowable because STF retained the standard documentation it receives to support this type of transaction; i.e., an invoice and a check requisition form.
- With regard to the \$20,213 in questioned salary costs charged to NSF Award No. ██████ URI believes these costs should be allowable because the employee’s salary was less than KSU’s maximum allowable summer salary and because KSU

created an Electronic Personnel Action Form that supported the sampled supplementary salary expense, consistent with its internal policies.

**Finding 4 Recommendations:** Although URI disagreed with the recommendation that it reimburse the questioned subaward costs, it agreed to review its subrecipient monitoring procedures to determine if any changes to its current controls are warranted.

**Auditors' Additional Comments:** Because URI did not provide sufficient documentation to support the allowability of these costs, our conclusions and recommendations regarding this finding have not changed. Specifically:

- With regard to the \$4,470 in questioned consultant costs charged to NSF Award No. [REDACTED] although STF may have created and retained the standard documentation it requires to support consultant payments, because STF did not provide a consulting agreement to support that the costs invoiced by the consultant were appropriately calculated, reasonable, and allowable, our position regarding this finding has not changed.
- With regard to the \$20,213 in questioned salary costs charged to NSF Award No. [REDACTED] because KSU did not provide documentation to support that it calculated the invoiced supplemental salary based on the employee's institutional base salary and their actual effort on the NSF award, as required for salary costs to be allowable, our position regarding this finding has not changed.

**FINDING 5: INAPPROPRIATELY ALLOCATED EXPENSE**

URI did not allocate the cost it incurred to purchase a general purpose copier to an NSF award based on the relative benefits the award received, as required by federal regulations<sup>29</sup> and NSF PAPPGs.<sup>30</sup> As a result, URI inappropriately allocated \$6,363 to one NSF award, as illustrated in Table 15.

**Table 15: Inappropriately Allocated Copier Expense**

Expense Date	NSF Award No.	Amount Charged	Percent Allocable	Amount Inappropriately Allocated	Notes
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<sup>29</sup> According to 2 CFR § 200.405 (a), a cost is allocable to a particular cost objective (i.e., a specific function, project, sponsored agreement, department, or the like) if the goods or services involved are chargeable or assignable to such cost objective in accordance with the relative benefits received.

<sup>30</sup> NSF PAPPG 16-1, Part II, Chapter V, Section A states that grantees should ensure all costs charged to NSF awards meet the requirements of the applicable federal cost principles, grant terms and conditions, and any other specific requirements of both the award notice and the applicable program solicitation.

December 2017	██████████	\$6,363	Unable to Determine <sup>31</sup>	\$6,363	a
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Source: Auditor summary of identified exceptions.

- a) In December 2017, the final month of NSF Award No. ██████████'s **period of performance**, URI charged the NSF award for \$6,363, or 100 percent, of the costs it incurred to purchase a copier. Although the budget for the award included funding for printing/copying equipment, URI did not receive the copier until the final 2 days of the award's more than 7-year period of performance.<sup>32</sup>

## Conclusion

URI did not have sufficient policies and procedures or internal controls in place to ensure that it allocated costs incurred to purchase equipment at the end of a grant's period of performance based on the relative benefits the NSF award received.

We are therefore questioning \$6,363 of direct expenses that do not appear to have been appropriately allocated to one NSF award, as illustrated in Table 16.

**Table 16: Finding 5 Summary: Inappropriately Allocated Expense**

NSF Award No.	Description	Fiscal Year	Questioned Costs Claimed in ACMS			
			Direct	Indirect	Total	URI Agreed to Reimburse
██████████	December 2017 Copier	2018	\$6,363	\$0	\$6,363	\$6,363
<b>Total</b>			<b>\$6,363</b>	<b>\$0</b>	<b>\$6,363</b>	<b>\$6,363</b>

Source: Auditor summary of identified exceptions.

## Recommendations

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

- 5.1 Direct URI to provide documentation supporting that it has repaid or otherwise credited the \$6,363 in questioned unallocable equipment costs for which URI has agreed to reimburse NSF.
- 5.2 Direct URI to strengthen its administrative and management controls and processes for supporting the allocation of expenses to sponsored projects. Updated processes could include implementing additional procedures requiring the Office of Sponsored Projects to review and approve all non-salary expenses charged to NSF awards within 90 days of the award's expiration date.

<sup>31</sup> Because the methodology URI used does not appear reasonable, and because URI did not document or provide a reasonable justification for its allocation methodology, we are unable to determine the percentage allocable to this award.

<sup>32</sup> NSF Award No. ██████████ had a period of performance from August 15, 2010, to December 31, 2017.

**University of Rhode Island Response:** URI agreed to reimburse NSF for the \$6,363 in inappropriately allocated equipment expenses and to consider the recommendations for this finding.

**Auditors' Additional Comments:** Our position regarding this finding has not changed.

## **FINDING 6: NON-COMPLIANCE WITH URI POLICIES**

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URI did not always comply with, or document its compliance with, its subaward, procurement, and effort-reporting policies and procedures when incurring costs charged to NSF awards.

### ***Non-Compliance with URI Subaward Policies***

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We identified 12 instances in which URI did not appropriately complete one or more of the four types of supporting documentation that it is required to complete for each subaward per its internal subaward policies,<sup>33</sup> as illustrated in Table 17.

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<sup>33</sup> URI's *Pre-Award – Prepare and Submit Your Proposal*, *Subrecipient Monitoring Process Steps*, and *Subrecipient Monitoring Policy* require personnel to complete the following for subrecipients: purchase order, subrecipient risk assessment, checklist to determine subrecipient or contractor involvement, and annual monitoring of audit results and compliance with federal audit requirements.

**Table 17: URI Required Subaward Documentation Completed**

Subawardee	NSF Award No.	Required Subaward Documentation Completed?			
		Purchase Order	Risk Assessment	Checklist to Determine Subrecipient or Contractor Involvement	Support for Annual Audit Monitoring
Roger Williams University	██████	No	Yes	Yes	Yes
Kentucky State University	██████	Yes	Yes	No	No
Rhode Island Hospital	██████	Yes	No	No	Yes
University of Oklahoma	██████	Yes	Yes	No	No
Laureate Institute for Brain Research	██████	Yes	Yes	Yes	No
University of Maine	██████	Yes	No	No	Yes
Brown University		Yes	Yes	Yes	No
Bryant University		Yes	Yes	Yes	No
Salve Regina University	██████	Yes	No	No	Yes
Integrated Learning Innovations, Inc.	██████	Yes	Yes	No	No
Rhode Island College	██████	Yes	Yes	Yes	No
Brown University	██████	Yes	Yes	No	Yes

Source: Auditor summary of URI subaward documentation provided.

***Non-Compliance with URI Procurement Policies***

We identified two instances in which URI did not comply with its procurement policies, which require personnel to complete a Certification of Unavailability/Unsuitability form before purchasing equipment with a value greater than or equal to \$5,000,<sup>34</sup> as illustrated in Table 18.

**Table 18: Non-Compliance with URI Procurement Policies**

Expense Date	Award Number	Vendor	Amount
June 2017	██████	Interactive Oceanographics	\$5,497
December 2017		Ricoh	6,363

Source: Auditor summary of identified instances of non-compliance.

***Non-Compliance with URI Effort-Reporting Policies***

<sup>34</sup> URI's *Purchasing Manual Property & Inventory* states that a Certification of Unavailability/Unsuitability Screening form must accompany all requisitions to purchase federal equipment with a value of \$5,000 or more.

We identified one instance in which URI did not comply with its effort-reporting policies, which require personnel to obtain approval from the Comptroller’s Office for any recertification of effort,<sup>35</sup> as illustrated in Table 19.

**Table 19: Non-Compliance with URI Effort Reporting Policies**

Expense Date	NSF Award No.	URI Policy Violated	Notes
August 2017	[REDACTED]	Uncertified Effort Recertification	a

Source: Auditor summary of identified instances of non-compliance.

- a) In August 2017, URI recorded \$4,682 in salary expenses as cost share expenditures on NSF Award No. [REDACTED]. Although this salary related to effort that had been re-certified, URI did not provide any documentation to support that the Controller’s Office had approved the changes made to the effort report/distribution.

### Conclusion

URI did not have adequate procedures in place to ensure that it consistently complied with, and documented its compliance with, its subaward, procurement, and effort-reporting policies and procedures.

Because these instances of non-compliance did not directly result in URI charging unallowable costs to NSF awards, or reporting unallowable cost sharing, we are not questioning any costs related to these exceptions. However, we are noting the 15 instances in which URI did not comply with its policies when charging costs to, or reporting cost sharing for, four NSF awards as compliance findings, as illustrated in Table 20.

**Table 20: Finding 6 Summary: Non-Compliance with URI Policies**

NSF Award No.	Compliance Exception Identified	Number of Instances
[REDACTED]	Non-Compliance with URI Subaward Policies	4
[REDACTED]	Non-Compliance with URI Subaward Policies	5
[REDACTED]	Non-Compliance with URI Subaward Policies	3
[REDACTED]	Non-Compliance with URI Procurement Policies	1
[REDACTED]	Non-Compliance with URI Procurement Policies	1
[REDACTED]	Non-Compliance with URI Effort-Reporting Policies	1

Source: Auditor summary of identified instances of non-compliance.

### Recommendations

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

<sup>35</sup> URI’s *Effort Certification Manual* states that if personnel certify their effort and it is later determined that URI should change the amount or distribution of the effort certified, the Controller’s Office must first review and approve a formal written request to do so.

- 6.1 Direct URI to strengthen its administrative and management procedures related to the issuance and monitoring of subawards to ensure that personnel complete all required forms per URI's policies.
- 6.2 Direct URI to strengthen its directives, procedures, and internal controls for procuring equipment on sponsored projects. Updated processes could include the following:
- Conducting annual training for those individuals who procure equipment, including Principal Investigators. Specifically, the training should include clarification regarding the documentation requirements for purchasing equipment, including when to use the Certification of Unavailability/Unsuitability form.
  - Implementing a manual review process to ensure individuals who initiate equipment purchases complete all applicable forms required by URI's procurement policy.
- 6.3 Direct URI to strengthen its internal controls for reviewing re-certified salary expense(s) to ensure the Controller's Office appropriately approves all re-certified salary before URI charges the salary costs to federal awards.

**University of Rhode Island Response:** URI did not explicitly state whether it agreed or disagreed with this finding. However, it did state that, although it believes it has sufficient controls in place to ensure compliance with its internal subaward, procurement, and effort-reporting policies, it will assess its current procedures in these areas to determine if further enhancements are warranted. Specifically:

- With regard to its non-compliance with its subaward policies, URI stated that it has made a variety of enhancements to its subaward processes to ensure that it appropriately documents purchase orders, risk assessments, subrecipient/contractor checklists, and subrecipient monitoring procedures, including:
  - Improvements to its electronic document storage.
  - Replacing the use of, and therefore the need to store, manual forms.
- With regard to its non-compliance with its procurement policies, URI stated that, although URI personnel complete the Certification of Unavailability/Unsuitability forms for expenditures in excess of \$5,000 and URI then stores the forms electronically outside of the PeopleSoft system, it was unable to locate the two forms identified in the finding.
- With regard to its non-compliance with its effort-reporting policies, URI agreed that it needed to revise its effort certification form and stated that it will review the

forms it uses for re-certification to determine whether it should make any changes regarding the documentation of required approvals.

**Finding 6 Recommendations:** Although URI stated that it believes its current purchase order processes are sufficient, it agreed to perform a review of its subrecipient monitoring, procurement, and effort-reporting procedures to determine if any changes to the current controls or additional trainings are warranted.

**Auditors' Additional Comments:** Our position regarding this finding has not changed.

**FINDING 7: INSUFFICIENT CONTROLS RELATED TO THE APPLICATION OF INDIRECT COST RATES**

Although URI stated that it has controls in place for reviewing proposed versus awarded indirect cost rates, URI did not document its review of these rates to ensure that it and its subawardees consistently applied indirect costs using the **negotiated rate(s)** in effect as of the date of the award, consistent with federal regulations<sup>36</sup> and NSF guidance.<sup>37</sup>

**Provisional Indirect Cost Rates Not Adjusted**

URI did not adjust the **provisional indirect cost rates** it applied to NSF awards upon receiving the negotiated rates approved by its cognizant agency, as required by federal regulations.<sup>38</sup> Specifically, URI applied provisional indirect cost rates to two NSF awards, as illustrated in Table 21.

**Table 21: Provisional Indirect Costs Rates Not Adjusted**

NSF Award No.	Award Date	Transaction Date(s)	Rate Applied (%)	Appropriate Rate (%)	Notes
██████	8/13/2010	7/1/2010-6/30/2012	49	52	a
██████	8/13/2010	7/1/2012-6/30/2013	49	53	
██████	8/13/2010	7/1/2013-	49	53.5	
██████	9/15/2017	7/1/2019-6/30/2020	53.5	54.5	b
██████	9/15/2017	7/1/2020-	53.5	56	

Source: Auditor summary of identified instances of indirect costs applied using provisional indirect cost rates.

<sup>36</sup> According to 2 CFR 200, Appendix III, Section C.7., federal agencies must use the negotiated rates in effect at the time of the initial award throughout the life of the federal award.

<sup>37</sup> NSF also requires Institutions of Higher Education to use the negotiated indirect cost rate in effect on the date of the award throughout the life of the award. See NSF PAPPGs 13-1, 15-1, 16-1, 17-1, and 19-1, Part I, Chapter II, Section C.2.g.(viii).

<sup>38</sup> Although URI was permitted to use a provisional indirect cost rate for grants awarded during a provisional rate period, per 2 CFR 200, Appendix III, Section C.7, because provisional rates are not considered negotiated rates, grantees are required to adjust any provisional rates used once a rate is negotiated and approved by the cognizant agency.

- a) URI applied its 49 percent provisional indirect cost rate<sup>39</sup> to direct costs it charged to NSF Award No. [REDACTED] rather than applying the 52, 53, and 53.5 percent rates negotiated for the period in which this grant was awarded.<sup>40</sup>
- b) URI applied its 53.5 percent provisional indirect cost rate<sup>41</sup> to NSF Award No. [REDACTED] rather than applying the 54.5 and 56 percent rates negotiated for the period in which this grant was awarded.<sup>42</sup>

***Inconsistent Subawardee Indirect Cost Rates***

URI allowed its subawardees to apply indirect costs using rates that were not consistent with the NICRA rates in effect on the dates URI issued the subawards, as illustrated in Table 22.

**Table 22: Inconsistent Subawardee Indirect Cost Rates**

NSF Award No.	Subaward Date	Transaction Date	Rate Applied (%)	Appropriate Rate (%)	Notes
[REDACTED]	11/22/2010	11/1/2012	44.2	49.0	a
[REDACTED]	05/04/2012	8/24/2012	20.0	58.8	b
[REDACTED]	05/03/2012	8/15/2012	20.0	37.0	c
[REDACTED]	10/26/2017	3/24/2020	38.4	43.2	d

*Source:* Auditor summary of identified instances of subawardees applying indirect costs using indirect cost rates that were not consistent with the applicable NICRAs.

- a) URI established a subaward agreement with RWU to perform work on NSF Award No. [REDACTED] using a 44.2 percent indirect cost rate, rather than RWU’s 49 percent NICRA rate.
- b) RWU, a URI subawardee, established a subaward agreement with RIC to perform work on NSF Award No. [REDACTED] using a 20 percent indirect cost rate for stipends, rather than RIC’s 58.8 percent NICRA rate.
- c) RWU, a URI subawardee, established a subaward agreement with PC to perform work on NSF Award No. [REDACTED] using a 20 percent indirect cost rate for stipends, rather than PC’s 37 percent NICRA rate.

<sup>39</sup> URI’s NICRA dated April 13, 2007, states that URI should apply a 49 percent indirect cost rate for grants awarded after July 2010.

<sup>40</sup> URI’s NICRA dated August 19, 2010, states that URI should apply the following indirect cost rates to on-campus research grants: 52 percent for grants awarded from July 2010 through June 2012, 53 percent for grants awarded from July 2012 through June 2013, and 53.5 percent for grants awarded from July 2013 through June 2015, until amended.

<sup>41</sup> URI’s NICRA dated April 8, 2014, states that URI should apply a 53.5 percent indirect cost rate for grants awarded after July 2017.

<sup>42</sup> URI’s NICRA dated July 22, 2019, states that URI should apply the following indirect cost rates to on-campus research grants: 53.5 percent for grants awarded from July 2017 through June 2019, 54.5 percent for grants awarded from July 2019 through June 2020, 56 percent for grants awarded from July 2020 through June 2021, and 57.5 percent for grants awarded from July 2021 through June 2022, until amended.

- d) URI established a subaward agreement with RWU to perform work on NSF Award No. [REDACTED] using the 43.2 percent indirect cost rate included in the NICRA that had been applicable when the parties established the subaward; however, RWU applied the 38.4 percent indirect cost rate included in a subsequent NICRA when assessing indirect costs on its subaward invoice.

**Conclusion**

We are not reporting any questioned costs for this finding because the rates URI applied were lower than the appropriate rates, which caused URI to claim lower indirect costs on NSF awards than were otherwise allowable. However, because URI did not document that it has sufficient controls in place to identify differences between the rates it applied and the rates that it should have applied based on the NSF award or subaward date, its current process could cause it to charge unallowable costs to NSF awards if the rates were to decrease in future NICRAs. We are therefore noting a compliance finding for the six instances in which URI or its subawardees applied indirect costs using rates that were not adjusted or that were inconsistent with the NICRAs in effect at the time the grants/subawards were awarded, as illustrated in Table 23.

**Table 23: Finding 7 Summary: Insufficient Controls Related to the Application of Indirect Costs**

NSF Award No.	Compliance Exception Identified	Institution
[REDACTED]	Provisional Indirect Cost Rates Not Adjusted	URI
[REDACTED]	Provisional Indirect Cost Rates Not Adjusted	URI
[REDACTED]	Inconsistent Subawardee Indirect Cost Rates	RWU
[REDACTED]	Inconsistent Subawardee Indirect Cost Rates	RIC
[REDACTED]	Inconsistent Subawardee Indirect Cost Rates	PC
[REDACTED]	Inconsistent Subawardee Indirect Cost Rates	RWU

*Source:* Auditor summary of identified instances in which URI or its subawardees applied indirect costs to NSF awards using indirect cost rates that were not consistent with the NICRAs in effect when the grants/subawards were awarded.

**Recommendations**

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

- 7.1 Direct URI to update its current practices for establishing indirect cost rates for sponsored projects awarded during provisional rate periods. The revised practices should require URI to update the indirect cost rates applied to grants awarded during provisional rate periods upon receiving the approved negotiated rates for that period.
- 7.2 Direct URI to strengthen its subaward monitoring procedures to ensure subawardees consistently apply indirect costs proposed and claimed on subaward

agreements using the negotiated indirect cost rate(s) in effect when the subawards were awarded.

**University of Rhode Island Response:** URI did not explicitly state whether it agreed or disagreed with this finding. However, it noted that it has controls in place to provide reasonable assurance that it appropriately applies indirect costs. Specifically:

- With regard to its use of provisional indirect cost rates, URI noted that it charges the provisional indirect cost rate to NSF awards until a finalized/predetermined negotiated rate is established. URI then reviews the approved negotiated rate. If the finalized/predetermined rate is lower, URI adjusts the budget; however, if the finalized/predetermined rate is higher, URI continues to use the provisional rate. URI noted that this approach prevents indirect cost rates from increasing and jeopardizing a Principal Investigator's ability to complete the approved scope of work due to insufficient funding.
- With regard to URI allowing its subawardees to apply indirect cost rates that are inconsistent with their NICRAs, URI noted that subawardees have authority to rebudget between direct and indirect costs should the proposed rate increase between the proposal stage and the date of the award.

Further, URI noted that the Council on Governmental Relations issued a letter to NSF stating that if institutional policy allows for the use of a lower indirect cost rate, institutions may continue using the proposed indirect costs.

**Finding 7 Recommendations:** URI disagreed with both recommendations for this finding, stating that implementing the recommendations would negatively impact the scope of work that the Principal Investigators are able to perform and that implementing the recommendations would increase URI's administrative burden.

**Auditors' Additional Comments:** Although URI believes that both it and its subawardees should be able to charge lower indirect cost rates to federal awards because doing so does not harm the government, URI does not appear to have sufficient controls in place to ensure it reviews both its and its subawardees' NICRA rates in effect at the time the awards are issued. As a result, if rates were to decrease in future NICRAs, URI and/or its subawardees could overcharge indirect costs to NSF awards. As such, our conclusions and recommendations regarding this finding have not changed.

Cotton & Company LLP



Megan Mesko, CPA, CFE,  
Partner  
October 13, 2021

**APPENDIX A: UNIVERSITY OF RHODE ISLAND'S RESPONSE**

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September 29, 2021

Megan Mesko, CPA, CFE  
Cotton & Company, LLP  
635 Slaters Lane, 4<sup>th</sup> Floor  
Alexandria, VA 22314

**RE: University of Rhode Island – Performance Audit of Incurred Costs for National Science Foundation (NSF) Awards for the Established Program to Stimulate Competitive Research (EPSCoR) awards**

Dear Ms. Mesko,

The University of Rhode Island (URI) appreciates the opportunity to work with the National Science Foundation Office of Inspector General to examine its research accounting practices. URI takes its obligations to administer NSF awards in compliance with all applicable laws, policies, and requirements very seriously. As such, URI welcomes recommendations and opportunities to improve its research accounting practices.

URI is committed to continuing to enhance policies and procedures surrounding its research accounting practices. To that end, the University is assessing each recommendation from the report and, with input from the NSF during the resolution process, will seek to implement those recommendations that will enhance its current compliance environment. We look forward to discussing these costs and, upon request, will provide any additional supporting information to NSF as part of the resolution process.

URI agrees to reimburse the NSF \$8,623 in questioned costs identified in the report. We do not agree with \$619,125 of questioned costs.

In closing, we appreciate this opportunity to respond to the NSF Performance Audit of Incurred Costs. URI has a strong commitment to integrity and stewardship and takes the audit process seriously. We believe the results of this audit will help assist URI in strengthening its sponsored programs administrative management policies and procedures.

Sincerely,



Abigail Rider  
Vice President, Administration and Finance



Peter J. Snyder, Ph.D.  
Vice President, Research and Economic Development

URI – Performance Audit of Incurred Costs for NSF Awards for the EPSCoR awards

**Finding 1: Inadequately Monitored and Inappropriately Reported Cost Sharing**  
**Inadequately Supported Cost Sharing**

URI disagrees with the questioned cost findings described below.

The specific situations for the findings are discussed below. It is important to note URI’s cost share total for NSF Award No. [REDACTED] is \$5,498,892.80 (incurred and reported) which is in excess of the cost share requirement for this award of \$4,000,000 by \$1,498,892.80. This excess match was due in large part to RI Commerce’s continued support of the important research, including training of students, being done by faculty at Rhode Island Institutions of Higher Education during the award’s extension of the award’s original end date. Consequently, the excess match should be considered when determining the resolution of these questioned costs.

Furthermore, URI has internal controls in place to provide reasonable assurance that cost share funds are appropriately reported and monitored. However, URI will assess if any enhancements or improvements to its current procedures is warranted.

**Cotton & Company Report Table 3: Inadequately Supported Cost Sharing**

FY	NSF Award No.	Expense Total	Insufficient Documentation to Support the Allowability of:	Notes
2011-2012	[REDACTED]	\$200,000	Women & Infants’ Hospital salary, fringe benefits, equipment, travel, supplies, subawards, and other direct expenditures	<b>a</b>
2014	[REDACTED]	7,061	Brown University travel expenditures	<b>b</b>

- a) The selected detailed testing covered transactions for the period January 1, 2011 – December 31, 2011. W&I states the lack of detailed supporting documentation available during this audit is due primarily to a change in W&I’s accounting system in 2014 and the detailed transactional information is no longer accessible at W&I. The general ledger detail (supporting expenditures incurred greater than the original award of \$200,000) provided to the auditors was detailed by transaction (amount, date, description of transaction) and is acceptable documentation as part of a final third-party cost share closeout.

The research associated with the cost sharing award was conducted and contributed to the success of the EPSCoR program.

- b) Brown states it no longer retains detailed documentation to support these expenditures per its record retention policy to maintain documentation for a period of three years after the end of the subaward. Brown’s award from RI-STAC/RI-C ended July 31, 2015.

URI – Performance Audit of Incurred Costs for NSF Awards for the EPSCoR awards

The general ledger data provided was detailed by account. This type of detailed listing is acceptable as part of a final third-party cost share closeout.

The research associated with the cost sharing award was conducted and contributed to the success of the EPSCoR program.

**Unsupported Cost Sharing**

As described above, excess match should be considered when determining the resolution of these questioned costs.

As described more fully below, match was reported based on the disbursement of funds from RI Commerce to the match award recipients. For third-party match listed in the table below, a final expenditure report was not reported to URI to update the NSF match report.

RI Commerce determines which institutions receives cost share award funding and directly disburses the funds to the award recipients and provides a listing of the awards, funding and recipients to URI for third-party match reporting purposes.

URI’s procedure for reporting match based on the disbursement of funds corresponds with the description of match per the Summary Proposal Budget Explanation for Rhode Island Economic Development Corporation, later named “RI Commerce”. In the budget explanation, the proposed cost sharing level was \$800,000 for 5 years, for a total of \$4 million, provided in state (State of Rhode Island) funds as cost share for the “RI Research Alliance Collaborative Grants Seed Funding Program”. This funding was written into statute by the RI General Assembly as EPSCoR match and supports the goals of EPSCoR and EPSCoR-like programs by seeking to provide seed funding for collaborative multi-institutional faculty investigator teams that are well-positioned to attract significant follow-on federal investment.

**Cotton & Company Report Table 4: Unsupported Cost Sharing**

NSF Award No.	FY	Cost-Sharing Institution	Amount Reported for FY	Amount Incurred as of August 2020	Unsupported Cost Sharing	Notes
	2013	Brown	\$199,974	\$198,048	\$1,926	a
	2017	Roger Williams University	89,503	68,313	21,190	b

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	2019	Brown	79,739	75,879	3,860	c
	2020	Rhode Island School of Design	61,141	42,338	18,803	d

- a) For these items we request the questioned costs be offset with excess match reported.
- b) For these items we request the questioned costs be offset with excess match reported.
- c) For these items we request the questioned costs be offset with excess match reported.
- d) RISD received a no cost extension from RI STAC to spend the remaining funds.

**Prematurely Reported Cost Sharing**

This finding relates to the cost share reporting methodology and timing of reporting described above, whereby the match was reported at the time the disbursement made from RI STAC/RI-C to the institutions receiving the match awards.

**Cotton & Company Report Table 5: Prematurely Reported Cost Sharing**

NSF Award No.	FY	Cost-Sharing Institution	Amount Reported	Amount Incurred as of FY End	Amount Incurred as of August 2020	Notes
	2011	W&I	\$200,000	\$98,166	\$200,000	a
	2015	Rhode Island College	104,225	52,621	104,225	b

- a) For these transactions, both institutions fully expended the award.
- b) For these transactions, both institutions fully expended the award.

**Duplicate Cost Sharing Reported**

URI agrees this transaction is duplicated.

**Cotton & Company Report Table 6: Duplicate Cost Sharing Reported**

NSF Award No.	Expense Total	Duplicative Costs	Notes
	\$15,500	Equipment Expense	a
	\$15,500		

- a) For audit resolution of this item, we request the amount overmatched as described on page 3 be used to offset this questioned cost.

**Cotton & Company Finding 1 Recommendations**

URI – Performance Audit of Incurred Costs for NSF Awards for the EPSCoR awards

We have provided responses to each of the Cotton & Company recommendations for Finding 1 below.

- 1.1 URI reported excess match to continue with the important research carried out during the award’s extended end date. The questioned costs resulting from record retention procedures and circumstances nevertheless benefited the EPSoR award. Removal of these disallowed cost share expenses as recommended above will not cause the award to fall short of the mandatory cost sharing requirement.
- 1.2 URI agrees to undertake a review to strengthen the third-party cost sharing monitoring process. The general ledger detail provided during the audit is acceptable documentation as part of a final third-party cost share closeout.
- 1.3 URI agrees to undertake a review to strengthen the third-party cost sharing monitoring process.
- 1.4 URI agrees to undertake a review of current NSF cost share reporting procedures to ensure no duplicate reporting.

**Finding 2: Unallowable Expenses**

URI disagrees with the questioned cost findings related to subaward expenses described below.

URI deems these expenses were allowable as they were approved by their inclusion in the respective NSF approved budgets and subsequent changes were merely administrative. Although these expenses were rebudgeted to subaward expenses, there were no significant or substantive changes to scopes of work, personnel, etc. requiring NSF prior approval.

URI has internal controls in place to provide reasonable assurance that subaward prior approvals are obtained when required. However, URI will assess if any enhancements or improvements to its current procedures are warranted.

Unapproved Subaward Expenses

URI disagrees with this finding.

Cotton & Company Report Table 8: Unapproved Subaward Expenses

NSF Award No.	Total Subaward Expenses	Unapproved Subaward Expenses Associated With:	Notes
	\$178,835	American Association for the Advancement of Science (AAAS)	a
	25,548	RWU	b

URI – Performance Audit of Incurred Costs for NSF Awards for the EPSCoR awards

- a) URI did not change or otherwise transfer the work to another organization. The only change was the form of the arrangement from consultant (included in the NSF approved budget) to a subaward. In a joint URI and NSF communication dated August 12, 2010, a copy of which was provided to the auditors, URI notified NSF of this intended change. The underlying scope of work, the individuals performing the work as well as the outcomes of the project from AAAS did not change. It should be noted NSF Award [REDACTED] was effective August 15, 2010 and was dated after the notification of the intended change. On August 15, 2012, NSF issued URI additional funding and the approved budget included AAAS as a subawardee.

NSF's terms and conditions for NSF Approval (as listed on the NSF website, NSF10-1 January 2010) states requests for approval from NSF include contracting or transferring the project effort (subawards). NSF further states "no significant part of the research or substantive effort under an NSF grant may be contracted or otherwise transferred to another organization without prior NSF approval".

NSF was not only aware of the intended change in the form of arrangement (which was approved by NSF in the later funding increment), but, also, importantly, the change in the arrangement was not substantive or significant to the project effort.

It is also important to note, AAAS' work as the external evaluator was a required element of the EPSCoR program. Additionally, the structure of the arrangement as a subaward reduced the indirect costs assessed as they were capped at 25% of the subaward expenditures.

Based on the above, URI requests these questioned costs be removed.

- b) URI disagrees with this finding since the changes were merely administrative. The SURF expenses were included in the original award and moving them from one budget category to another on the subaward was considered an allowable rebudget since this second tier subaward did not convey a "significant part of the research or substantive effort under an NSF grant" as the underlying scope of work did not change. This was an administrative change only. These SURF expenses were related to the fellows at these second tier subawardee institutions whose activities were coordinated by RWU.

Based on the above, URI requests these questioned costs be removed.

Unallowable Other Direct Costs

URI agrees with this finding.

URI – Performance Audit of Incurred Costs for NSF Awards for the EPSCoR awards

**Cotton & Company Report Table 9: Unallowable Other Direct Costs**

Expense Date	NSF Award No.	Expense Total	Unallowable Expenses Associated With:	Notes
September 2017		\$2,148	General-purpose furniture	a
June 2020		112	Airfare upgrades	b

- a) URI agrees these expenditures are not allowable as they are more general purpose in nature and therefore should not be a direct cost on the award.
- b) URI agrees that it is a rare occurrence that airfare upgrades would be allowable under the grant. Therefore, this expenditure should not be a direct cost on the award.

**Cotton & Company Finding 2 Recommendations**

We have provided responses to each of the Cotton & Company recommendations for Finding 2 below.

- 2.1 NSF received the intended benefits of the subaward expenses questioned above. Since the changes were merely administrative in nature and there were no significant or substantive changes in work, URI requests NSF to remove these items from their questioned costs.
- 2.2 URI agrees with these questioned costs and will remove them from the award and reimburse NSF.
- 2.3 See responses to sub-recommendations below.
  - 2.3.1 These items were merely administrative changes. URI has adequate controls surrounding the procedures for seeking NSF Grants Officer’s approvals.
  - 2.3.2 These items were merely administrative changes. URI has adequate controls surrounding the procedures for seeking NSF Grants Officer’s approvals.
  - 2.3.3 These items were merely administrative changes. URI has adequate controls surrounding the procedures for seeking NSF Grants Officer’s approvals.
- 2.4 URI agrees to undertake a review of general purpose costs charged to federal awards to determine if further enhancements and improvements are warranted.
- 2.5 URI agrees to undertake a review of subaward travel costs to determine if further enhancements and improvements are warranted.

**Finding 3: Indirect Costs Inappropriately Applied**

URI – Performance Audit of Incurred Costs for NSF Awards for the EPSCoR awards

URI disagrees with the questioned cost findings described below. The specific situations for the findings are discussed below.

Furthermore, URI has internal controls in place to provide reasonable assurance that indirect costs are appropriately applied. However, URI will assess if any enhancements or improvements to its current procedures are warranted.

Cotton & Company Report Table 11: Expenses Inappropriately Included in MTDC

Expense Date	NSF Award No.	Indirect Expenses	Indirect Cost Rate Inappropriately Applied to:	Notes
June 2012		\$5,847	Upgrades to an existing amphitheater audio/visual system	a
September 2014		115,872	Computer nodes and equipment	b

- a) URI disagrees with this finding. Although the vendor categorized the purchase as an “upgrade”, the costs incurred were not sufficient in nature or amount to meet URI’s capitalization criteria.

The total invoice amounted to \$11,932 and included 32 separate line items, including cabling, lighting, monitors and installation - the largest of which was installation for \$2,080. None of the items individually met the capitalization threshold of \$5,000. Additionally, the nature of the items purchased individually and collectively did not extend the life of the underlying asset.

URI’s Capitalization Policy also states that if the expenditures have an estimated useful life of more than one year the items should be capitalized.

As described above, these expenditures did not meet the basic capitalization criteria of URI and therefore were expensed.

Therefore, we request these questioned costs be removed.

- b) URI disagrees with this finding. The subaward between Brown and the URI spanned a period of performance of 8/15/10 - 7/31/17. Due to the earlier end date of the subaward, Brown is no longer within its record retention period for the costs in question. Brown states its record retention policy is to maintain records for a period of three years from the date of Brown’s submission of the final expenditure report to URI. Therefore, there are no available records to further support the allowability of the questioned costs.

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Brown states the computing component costs incurred were classified as IT Peripherals, in accordance with their accounting procedure in effect at that time, and further categorized as supplies, and as such, the costs were subject to applicable indirect costs.

Therefore, based on the above, we request these questioned costs be removed.

**Cotton & Company Finding 3 Recommendations**

We have provided responses to each of the Cotton & Company recommendations for Finding 3 below.

- 3.1 URI disagrees with questioned costs totaling \$121,719 as described above and requests they be removed.
- 3.2 URI disagrees with the characterization of the questioned costs and believes the monitoring procedures and internal control processes are operating effectively and in accordance with URI policies.
- 3.3 URI agrees to undertake a review of its subrecipient monitoring procedures to determine if further enhancements and improvements are warranted.

**Finding 4: Inadequately Supported Expenses**

URI disagrees with the questioned cost findings described below. The specific situations for the findings are discussed below. In both cases, URI deems the expenditures to be adequately supported.

Furthermore, URI has internal controls in place to provide reasonable assurance that subaward expenses and the related scopes of work benefit the award. However, URI will assess if any enhancements or improvements to its current procedures are warranted.

**Cotton & Company Report Table 13: Inadequately Supported Expenses**

Expense Date	NSF Award No.	Expense Total	Insufficient Documentation to Support the Allowability of:	Notes
March 2011		\$4,470	A subawardee’s consultant expense	a
November 2016		20,213	A subaward employee’s institutional base salary	b

- a) URI disagrees with this finding. Supporting documentation provided during the audit included an approved check requisition form with an explanation “general operating expenses/professional and consulting services/technical services/consultant fee”. The supporting invoice from the consultant included details of expense categories, listing the

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number of hours and the amount per the line item. The calculated average hourly rate is \$125/hour, a reasonable hourly rate for professional services.

Slater Fund states this documentation is standard for this type of transaction at Slater and documents sufficient and reasonable internal controls (invoice detail, invoice approvals, etc.). Consequently, these costs are allowable.

Therefore, URI requests these questioned costs be removed.

- b) URI disagrees with this finding. As described below, KSU followed its internal processes for recording and approving summer research expenses.

The faculty handbook sets out maximum pay rates for summer salary. The maximum per the policy is 2-1/2 months of academic year salary, which in this case would be \$26,324.52. Ashok's summer research salary was \$7,500 which is acceptable under the policy, since the policy sets out a maximum ceiling, and does not establish a minimum floor.

Institutional Base Salary is defined as the following per KSU's website "the annual compensation set by KSU for an employee's appointment, whether that employee's professional effort is spent on research, teaching or other activities."

The KSU Faculty Handbook states "faculty employed for fewer than twelve months during a year may enter into an agreement with the University for supplementary employment". The supplementary summer employment transaction is handled through an Electronic Personnel Action Form (EPAF), not a separate contract or agreement. This form is submitted to the department chair and Vice-President who both review, approve and sign it. The fully executed EPAF for \$7,500 was provided to the auditors.

Since the transaction was within the guidelines of KSU's supplementary employment policy, these expenses are allowable.

Therefore, URI requests these questioned costs be removed.

### Cotton & Company Finding 4 Recommendations

We have provided responses to each of the Cotton & Company recommendations for Finding 4 below.

- 4.1 URI disagrees with the questioned costs of \$24,683 as indicated in responses above and requests these questioned costs be removed.

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- 4.2 URI agrees to undertake a review of its subrecipient monitoring procedures to determine further enhancements and improvements.

**Finding 5: Inappropriately Allocated Expense**

Although URI agrees with this questioned cost, URI has internal controls in place to provide reasonable assurance that expense allocations are monitored. However, URI will assess if any enhancements or improvements to its current procedures are warranted.

**Cotton & Company Report Table 15: Inappropriately Allocated Copier Expense**

Expense Date	NSF Award No.	Amount Charged	Percent Allocable	Amount Inappropriately Allocated	Notes
December 2017	██████	\$6,363	Unable to Determine	\$6,363	a

- a) URI agrees the cost was not allocated properly given its receipt date and the award end date and therefore should not be a direct cost on the award.

**Cotton & Company Finding 5 Recommendations**

We have provided responses to each of the Cotton & Company recommendations for Finding 5 below.

- 5.1 URI agrees with this questioned cost and will remove the cost from the NSF award and reimburse NSF.
- 5.2 URI agrees to undertake a review of expense allocation monitoring procedures to determine further if further enhancements and improvements are warranted.

**Finding 6: Non-Compliance with URI Policies**

URI has internal controls in place to provide reasonable assurance that subaward, procurement and effort-reporting policies and procedures are monitored. However, URI will assess if any enhancements or improvements to its current procedures are warranted.

**Non-Compliance with URI Subaward Policies**

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URI has internal controls in place to provide reasonable assurance of compliance with subaward policies and procedures. Over the period of time covered in the audit (2010 – 2020), a variety of enhancements and improvements have been made. However, URI will assess its current procedures in these areas to determine if further enhancements are warranted.

Cotton & Company Report Table 17: URI Required Subaward Documentation Completed

Subawardee	NSF Award No.	Required Subaward Documentation Completed?			
		Purchase Order	Risk Assessment	Checklist to Determine Subrecipient or Contractor Involvement	Support for Annual Audit Monitoring
Roger Williams University	██████	No	Yes	Yes	Yes
Kentucky State University	██████	Yes	Yes	No	No
Rhode Island Hospital	██████	Yes	No	No	Yes
University of Oklahoma	██████	Yes	Yes	No	No
Laureate Institute for Brain Research	██████	Yes	Yes	Yes	No
University of Maine	██████	Yes	No	No	Yes
Brown University	██████	Yes	Yes	Yes	No
Bryant University	██████	Yes	Yes	Yes	No
Salve Regina University	██████	Yes	No	No	Yes
Integrated Learning Innovations, Inc.	██████	Yes	Yes	No	No
Rhode Island College	██████	Yes	Yes	Yes	No
Brown University	██████	Yes	Yes	No	Yes

- Purchase order: Over the past several years, improvements have been made with electronic document storage. At the date of this transaction, 2012, some files were only hard copy files, as was the case for this transaction.
- Risk Assessment: This form is typically obtained prior to the subaward approval. For the period under review, the form was a separate manual form that was collected and filed with the other subaward documentation. All but one of the findings are prior to 2018.
- Checklist to determine Subrecipient or Contractor involvement: This form is typically obtained prior to the subaward approval. For the period under review, the form was a separate manual form that was collected and filed with the other subaward documentation. All but two findings are prior to 2019. The procedure will be reviewed to determine if changes are needed to clarify for which entities (i.e., not IHEs) the form is required.

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- Support for annual audit monitoring: The monitoring process for Single Audit is currently handled by the Controller’s Office after the initial subaward has been approved. In 6 of the 7 findings, a Single Audit letter was obtained, but its date was not within one year prior of the date of the selected transaction. In one case, the letter was issued to the subawardee, but it was not returned. The procedure will be reviewed to determine if changes are warranted.

**Non-Compliance with URI Procurement Policies**

URI has internal controls in place to provide reasonable assurance that procurement policies and procedures are monitored. However, URI will assess if any enhancements or improvements to its current procedures are warranted.

**Cotton & Company Report Table 18: Non-Compliance with URI Procurement Policies**

Expense Date	Award Number	Vendor	Amount
June 2017	██████	Interactive Oceanographics	\$5,497
December 2017	██████	Ricoh	6,363

- This form accompanies capital expenditures in excess of \$5,000 and is filed electronically outside the Peoplesoft system. For these 2 findings, the forms could not be located.

**Non-Compliance with URI Effort-Reporting Policies**

URI has internal controls in place to provide reasonable assurance that effort-reporting policies and procedures are monitored. However, URI will assess if any enhancements or improvements to its current procedures are warranted.

**Cotton & Company Table 19: Non-Compliance with URI Effort Reporting Policies**

Expense Date	NSF Award No.	URI Policy Violated	Notes
August 2017	██████	Uncertified Effort Recertification	a

- a) In this particular instance, changes were needed and documented on the effort certification form. URI will undertake a review of the forms used during a recertification process to determine if any changes are needed to document Controller’s Office approvals.

**Cotton & Company Finding 6 Recommendations**

We have provided responses to each of the Cotton & Company recommendations for Finding 6 below.

- 6.1 URI believes its current procedure for purchases orders is sufficient.

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URI is currently implementing a new Research Administration software suite. URI staff are currently assessing options for storing electronic forms within this system.

URI agrees to review the Checklist procedure to determine if any further enhancements should be made to enhance consistent use of the form.

URI will review its process for monitoring Single Audit responses. Nevertheless, because the review is done annually, and not prior to every subaward invoice payment, there may be instances whereby the monitoring form is not obtained within a 12-month window prior to a specific subaward payment.

6.2 See responses to sub-recommendations below.

6.2.1 URI agrees with this recommendation and will undertake a review of current training.

6.2.2 URI agrees with this recommendation and will undertake a review of current procedures.

6.3 URI’s current process to document changes is through a payroll adjustment form. In this case, the form was filled out and signed by the business manager and Sponsored Projects. There is no signature line on the form for the person who would sign the effort certification. In these cases, the business manager is usually the proxy for the individual employee, processing the needed changes. URI will review the form to determine if adding another signature block will address the finding and not add any undue processing time.

**Finding 7: Insufficient Controls Related to the Application of Indirect Cost Rates**

URI has internal controls in place to provide reasonable assurance that proper indirect costs are applied.

Recently, the Council on Governmental Relations (COGR) wrote a letter to NSF addressing recent NSF OIG audit findings on this topic. COGR’s position in summary is that if institutional policy allows the lower F&A rate to be used, proposed direct costs can be maintained and there is no harm to NSF.

Provisional Indirect Cost Rates Not Adjusted

Cotton & Company Table 21: Provisional Indirect Costs Rates Not Adjusted

NSF Award No.	Award Date	Transaction Date(s)	Rate Applied (%)	Appropriate Rate (%)	Notes
██████	8/13/2010	7/1/2010-6/30/2012	49	52	a
██████	8/13/2010	7/1/2012-6/30/2013	49	53	

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NSF Award No.	Award Date	Transaction Date(s)	Rate Applied (%)	Appropriate Rate (%)	Notes
██████	8/13/2010	7/1/2013-	49	53.5	
██████	9/15/2017	7/1/2019-6/30/2020	53.5	54.5	b
██████	9/15/2017	7/1/2020-	53.5	56	

- a) URI applies the provisional rate to the award. Once the negotiated rate is finalized/predetermined, a review of the rates is undertaken. If the new rates are lower than the provisional, then a detailed review would be conducted to adjust the budgets. If the new rates are greater than the provisional, no further work is done and the new rates are applied on new awards on a prospective basis.

This prospective approach enables the Principal Investigators to draft their scopes of work and budgets with the updated rates. Otherwise, it is possible an increased F&A rate on an existing award could jeopardize completing the approved scope of work within the funded amount.

- b) URI applies the provisional rate to the award. Once the negotiated rate is finalized/predetermined, a review of the rates is undertaken. If the new rates are lower than the provisional, then a detailed review would be conducted to adjust the budgets. If the new rates are greater than the provisional, no further work is done and the new rates are applied on new awards on a prospective basis.

This prospective approach enables the Principal Investigators to draft their scopes of work and budgets with the updated rates. Otherwise, it is possible an increased F&A rate on an existing award could jeopardize completing the approved scope of work within the funded amount.

Inconsistent Subawardee Indirect Cost Rates

URI has internal controls in place to provide reasonable assurance that proper indirect costs are applied for subawards.

Cotton & Company Report Table 22: Inconsistent Subawardee Indirect Cost Rates

NSF Award No.	Subaward Date	Transaction Date	Rate Applied (%)	Appropriate Rate (%)	Notes
██████	11/22/2010	11/1/2012	44.2	49	a
██████	05/04/12	8/24/2012	20	58.8	b
██████	05/03/12	8/15/2012	20	37	c

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NSF Award No.	Subaward Date	Transaction Date	Rate Applied (%)	Appropriate Rate (%)	Notes
[REDACTED]	10/26/2017	3/24/2020	38.4	43.2	d

- a) Typically, F&A rates budgeted during the proposal stage are based on an approved NICRA. If the subawardee’s rates increase between the date of the proposal and date of the award, the subawardee has rebudgeting authority to rebudget between direct and indirect costs.
- b) Typically, F&A rates budgeted during the proposal stage are based on an approved NICRA. If the subawardee’s rates increase between the date of the proposal and date of the award, the subawardee has rebudgeting authority to rebudget between direct and indirect costs.
- c) Typically, F&A rates budgeted during the proposal stage are based on an approved NICRA. If the subawardee’s rates increase between the date of the proposal and date of the award, the subawardee has rebudgeting authority to rebudget between direct and indirect costs.
- d) Typically, F&A rates budgeted during the proposal stage are based on an approved NICRA. If the subawardee’s rates increase between the date of the proposal and date of the award, the subawardee has rebudgeting authority to rebudget between direct and indirect costs.

**Cotton & Company Finding 7 Recommendations**

We have provided responses to each of the Cotton & Company recommendations for Finding 7 below.

- 7.1 URI disagrees with this recommendation on the basis it would create downstream negative impacts on the Principal Investigator’s scope of work. Furthermore, it would substantially increase administrative burden.
- 7.2 URI disagrees with this recommendation on the basis it is up to the subawardee to determine of rebudgeting between direct and indirect cost categories is warranted to support carrying out the agreed upon scope of work. It is worth noting that these changes would substantially increase tracking and administrative burden associated with executing subawards.

## **APPENDIX B: OBJECTIVES, SCOPE, AND METHODOLOGY**

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## OBJECTIVES

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The NSF OIG Office of Audits engaged Cotton & Company LLP (referred to as “we”) to conduct a performance audit, the objectives of which were to determine if the costs URI claimed within ACM\$ and/or reported as cost sharing, for four EPSCoR awards were allowable, allocable, reasonable, and in compliance with NSF award terms and conditions and applicable federal requirements.

## SCOPE

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The audit population included \$39,474,100 in expenses claimed on NSF Award Nos. [REDACTED] and [REDACTED] and \$7,855,815 in costs URI reported as cost sharing on NSF Award Nos. [REDACTED] and [REDACTED] between January 2011 and August 2020.

## METHODOLOGY

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After obtaining NSF OIG’s approval for our audit plan, which we designed based on the objectives and scope identified above, we performed each of the audit steps outlined in the plan. Generally, these steps included:

- Gaining an understanding of the audit requirements, NSF’s EPSCoR program, and the budgets, purpose, and cost sharing requirements applicable to each of the four NSF awards under audit.
- Requesting general ledger and other relevant accounting data to support all costs URI claimed or reported as cost share to NSF on the four NSF awards under audit prior to August 2020.
- Assessing the reliability of the general ledger data that URI and subawardees<sup>43</sup> provided to support the costs URI claimed in ACM\$ for the four NSF awards included within our audit population. We performed this assessment by comparing the costs charged to the NSF awards per URI’s accounting records to the reported net expenditures reflected in the ACM\$ drawdown requests.
  - Our work required us to rely on computer-processed data obtained from URI, its subawardees, and the NSF OIG. NSF OIG provided award data that URI reported through ACM\$ during our audit period.
    - We assessed the reliability of the general ledger data that URI provided by (1) comparing the costs charged to the NSF awards per URI’s accounting records to the reported net expenditures reflected in the ACM\$ drawdown requests that URI submitted to NSF over the life

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<sup>43</sup> Sampled subawardees included RISD, RWU, AAAS, KSU, Rhode Island Hospital, the University of Oklahoma, the Laureate Institute for Brain Research, Salve Regina University, Community College of Rhode Island, PC, the University of Maine, Brown University, Bryant University, Integrated Learning Innovations, Inc., STF, and RIC.

of the four NSF awards, and (2) reviewing the parameters that URI used to extract transaction data from its accounting systems. We found URI's computer-processed data to be sufficiently reliable overall for the purposes of the audit, and we did not identify any issues with the parameters that URI used to extract the accounting data.

- We assessed the reliability of the general ledger or other accounting data provided by URI subawardees by reconciling the costs supported by the accounting data to the sampled amounts invoiced to URI, in total and by budget category. We found each subawardee's 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.
- URI provided detailed transaction-level data to support all costs charged to and reported for the four NSF EPSCoR awards. This data resulted in the audit universe including \$39,474,100 in expenses URI claimed in ACM\$ on the four NSF awards.
- Assessing the reliability of the general ledger and other cost sharing reporting data that URI and Third Party cost sharing institutions<sup>44</sup> provided to support the cost share expenditures reported to NSF by comparing the cost share expenditures that URI and the other institutions recorded within their accounting records to the expenditures claimed within the cost sharing reports URI submitted for NSF Award Nos. [REDACTED] and [REDACTED]
  - Our work required us to rely on computer-processed data obtained from URI, five Third Party cost sharing institutions, and NSF's award management system, eJacket. NSF OIG provided access to the relevant awards on eJacket through which URI reported cost sharing during our audit period.
    - We assessed the reliability of the general ledger and other accounting data that URI provided by (1) comparing the cost sharing reported on the NSF awards per URI's accounting records to the cost sharing reports that URI submitted to NSF over the life of the two NSF awards, and (2) reviewing the parameters that URI used to extract transaction data from its accounting systems. We found URI's computer-

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<sup>44</sup> Sampled Third Party cost sharing institutions included W&I, Brown, RIC, RWU, and RISD.

processed data to be sufficiently reliable overall for the purposes of the audit, and we did not identify any issues with the parameters that URI used to extract the accounting data.

- We assessed the reliability of the general ledger and other accounting data that the five sampled Third Party cost sharing institutions provided by reconciling the costs supported by their accounting data to the amounts URI reported to NSF as cost sharing for each institution on each award. We found each Third Party institution’s data to be sufficiently reliable for the purposes of the audit.
- We found the cost sharing reports available in eJacket 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 eJacket database were accurate or reliable.
- o URI provided detailed transaction-level data to support all expenditures reported as cost sharing on NSF Award Nos. [REDACTED] and [REDACTED]. This data resulted in the audit universe including \$7,855,815 in cost share expenditures reported on the two NSF awards.
- Obtaining and reviewing all available accounting and administrative policies and procedures, external audit reports, desk review reports, and other relevant information that URI and NSF OIG provided, as well as any other relevant information that was available online.
- Summarizing our understanding of federal, NSF, URI, EPSCoR, and award-specific policies and procedures surrounding costs budgeted for and/or charged to NSF awards and specifically identifying the controls in place to ensure that costs charged to sponsored projects were reasonable, allocable, and allowable.
- Evaluating whether URI appropriately reported and met the cost sharing requirements established for NSF Award Nos. [REDACTED] and [REDACTED] as summarized in Appendix B, Table 1.

**Appendix B, Table 1: Review of Cost Sharing Requirements**

NSF Award No.	Required Cost Sharing (Cumulative)	Reported Cost Sharing	Notes
[REDACTED]	\$4,000,000	\$5,498,893	a
[REDACTED]	3,800,000	2,277,183	b

Source: Auditor summary of cost share requirements and cost share reports URI submitted to NSF.

- a) We determined that URI met its annual (\$800,000 per year) and cumulative (\$4,000,000) cost sharing requirements for NSF Award No. [REDACTED].

- b) Although URI had only reported \$2,277,183 in cost sharing on this award as of August 8, 2020,<sup>45</sup> because URI is not required to report the full \$3,800,000 in cost sharing until August 31, 2022,<sup>46</sup> we did not note an exception with this discrepancy.<sup>47</sup>
- Providing URI with a list of 75 samples that we selected based on our data analytics and requesting that URI provide documentation to support each transaction.
  - Requesting that URI obtain accounting data from (i) subawardees to support expenses billed within sampled subaward invoices and (ii) Third Party cost sharing institutions to support reported cost sharing amounts.
    - After receiving the requested subawardee accounting detail we (i) reconciled the data provided to the sampled subaward invoice amount and selected 27 additional subawardee expenses to test for allowability, allocability and reasonableness.
    - After receiving the requested Third Party cost sharing institution accounting detail we (i) reconciled the data provided to the sampled cost sharing amount and selected 20 additional transactions to test for allowability, allocability and reasonableness.
  - Reviewing the supporting documentation that URI, its subawardees, and the Third Party cost sharing institutions provided for each sampled expense and requesting additional documentation as necessary to ensure that we obtained sufficient, appropriate evidence to enable us to assess the allowability of each sampled transaction under relevant federal,<sup>48</sup> NSF,<sup>49</sup> and URI policies.<sup>50</sup>
  - Holding virtual interviews and walkthroughs with URI over the course of the audit to discuss URI's administration and management of NSF awards, its EPSCoR program, and the cost sharing performed on these awards. These discussions typically involved URI and Cotton & Company; however, we included both the NSF OIG and RI-C/RI-STAC, as necessary.

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<sup>45</sup> August 8, 2020 was the date of the last cost sharing report available for NSF Award No. [REDACTED] during the audit's period of performance.

<sup>46</sup> NSF Award No. [REDACTED] is scheduled to expire on August 31, 2022.

<sup>47</sup> The Program Solicitation applicable to NSF Award No. [REDACTED] [NSF 16-557](#), requires cost sharing of at least, and no more than, 20 percent of the amount requested from NSF, but does not include annual cost sharing requirements.

<sup>48</sup> We assessed URI's compliance with 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and 2 CFR Part 220, Cost Principles for Educational Institutions (Office of Management and Budget Circular A-21), as appropriate.

<sup>49</sup> We assessed URI's compliance with NSF PAPPs 10-1, 13-1, 15-1, 16-1, 17-1, and 19-1 and with NSF award-specific terms and conditions, as appropriate.

<sup>50</sup> We assessed URI's compliance with internal URI policies and procedures surrounding costs budgeted for and/or charged to NSF awards.

At the conclusion of our fieldwork, we provided a summary of our results to NSF OIG personnel for review. We also provided the summary to URI personnel to ensure that URI was aware of each of our findings and that it did not have additional documentation to support the questioned costs.

We conducted this performance audit from October 2020 to June 2021 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.

## **APPENDIX C: SUMMARY OF QUESTIONED COSTS**

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**Appendix C, Table 1: Schedule of Questioned Costs by Finding**

Finding	Description	Questioned Costs				Total
		Claimed in ACM\$		Reported as Cost Sharing		
		<i>Unsupported</i>	<i>Unallowable</i>	<i>Unsupported</i>	<i>Unallowable</i>	
1	Inadequately Monitored and Inappropriately Reported Cost Sharing	\$-	\$-	\$45,779	\$222,561	\$268,340
2	Unallowable Expenses	-	206,643	-	-	206,643
3	Indirect Costs Inappropriately Applied	-	121,719	-	-	121,719
4	Inadequately Supported Expenses	-	24,683	-	-	24,683
5	Inappropriately Allocated Expenses	-	6,363	-	-	6,363
6	Non-Compliance with URI Policies	-	-	-	-	-
7	Insufficient Controls Related to the Application of Indirect Costs	=	=	=	=	=
<b>Total</b>		<b><u>\$0</u></b>	<b><u>\$359,408</u></b>	<b><u>\$45,779</u></b>	<b><u>\$222,561</u></b>	<b><u>\$627,748</u></b>

Source: Auditor summary of identified exceptions.

**Appendix C, Table 2: Summary of Questioned Costs by NSF Award Number**

<b>NSF Award No.</b>	<b>No. of Transaction Exceptions</b>	<b>Questioned Direct Costs</b>	<b>Questioned Indirect Costs</b>	<b>Questioned Cost Sharing</b>	<b>Total Questioned</b>	<b>URI Agreed to Reimburse</b>
	20	\$318,810	\$20,273	\$245,677	\$584,760	\$8,511
	1	-	-	-	-	-
	6	13,168	7,045	-	20,213	-
	10	112	-	22,663	22,775	112
<b>Grand Total</b>	<b>37</b>	<b>\$332,090</b>	<b>\$27,318</b>	<b>\$268,340</b>	<b>\$627,748</b>	<b>\$8,623</b>

Source: Auditor summary of identified exceptions.

**Appendix C, Table 3: Summary of Questioned Costs by NSF Award Number and Expense Description**

Finding Description	Award No.	Expense Description	Questioned Direct Costs	Questioned Indirect Costs	Questioned Cost Sharing	Total Questioned Costs	URI Agreed to Reimburse
1) Inadequately Monitored and Inappropriately Reported Cost Sharing	██████████	Inadequately Supported Award	\$-	\$-	\$200,000	\$200,000	\$-
		Inadequately Supported Travel	-	-	7,061	7,061	-
		Brown Unsupported Cost Sharing	-	-	1,926	1,926	-
		RWU Unsupported Cost Sharing	-	-	21,190	21,190	-
	██████████	Brown Unsupported Cost Sharing	-	-	3,860	3,860	-
		RISD Unsupported Cost Sharing	-	-	18,803	18,803	-
	██████████	W&I Prematurely Reported Cost Sharing	-	-	-	-	-
		RIC Prematurely Reported Cost Sharing	-	-	-	-	-
	██████████	Duplicate Cost Sharing Reported	-	-	15,500	15,500	-
2) Unallowable Expenses	██████████	Subaward to AAAS	166,585	12,250	-	178,835	-
		Subaward to RWU	25,548	-	-	25,548	-
	██████████	September 2017 Furniture	1,442	706	-	2,148	2,148
	██████████	June 2020 Flight Upgrade	112	-	-	112	112
3) Indirect Costs Inappropriately Applied	██████████	June 2012 Indirect Costs Applied to AV Upgrades	-	5,847	-	5,847	-
		September 2014 Indirect Costs Invoiced by Brown	115,872	-	-	115,872	-

Finding Description	Award No.	Expense Description	Questioned Direct Costs	Questioned Indirect Costs	Questioned Cost Sharing	Total Questioned Costs	URI Agreed to Reimburse
4) Inadequately Supported Expenses	██████	March 2011 STF Expenses	3,000	1,470	-	4,470	-
	██████	November 2016 KSU Expenses	13,168	7,045	-	20,213	-
5) Inappropriately Allocated Expenses	██████	December 2017 Copier	6,363	-	-	6,363	6,363
6) Non-Compliance with URI Policies	██████	Non-Compliance with URI Subaward Policies	-	-	-	-	-
	██████	Non-Compliance with URI Subaward Policies	-	-	-	-	-
	██████	Non-Compliance with URI Subaward Policies	-	-	-	-	-
	██████	Non-Compliance with URI Procurement Policies	-	-	-	-	-
	██████	Non-Compliance with URI Procurement Policies	-	-	-	-	-
	██████	Non-Compliance with URI Effort-Reporting Policies	-	-	-	-	-
7) Insufficient Controls Related to the Application of Indirect Costs	██████	Provisional Indirect Cost Rates Not Adjusted	-	-	-	-	-
	██████	Provisional Indirect Cost Rates Not Adjusted	-	-	-	-	-
	██████	Inconsistent Subawardee Indirect Cost Rates	-	-	-	-	-
	██████	Inconsistent Subawardee Indirect Cost Rates	-	-	-	-	-

Finding Description	Award No.	Expense Description	Questioned Direct Costs	Questioned Indirect Costs	Questioned Cost Sharing	Total Questioned Costs	URI Agreed to Reimburse
		Inconsistent Subawardee Indirect Cost Rates	-	-	-	-	-
		Inconsistent Subawardee Indirect Cost Rates	-	-	-	-	-
<b>Total</b>			<u><b>\$332,090</b></u>	<u><b>\$27,318</b></u>	<u><b>\$268,340</b></u>	<u><b>\$627,748</b></u>	<u><b>\$8,623</b></u>

Source: Auditor summary of identified exceptions.

## **APPENDIX D: SUMMARY OF RECOMMENDATIONS**

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

- 1.1 Resolve the \$268,340 in questioned and non-compliant cost share expenditures and direct URI to remove the sustained questioned and non-compliant cost share expenditures from the cost sharing reports it submitted to NSF. If the removal of disallowed cost share expenditures causes the award to fall short of the mandatory cost sharing requirement for either award, direct URI to repay NSF funds associated with the unmet cost sharing obligation.
- 1.2 Direct URI to strengthen its cost sharing monitoring processes to ensure that it appropriately monitors cost share expenditures incurred by Third Party institutions and verifies that the research the institutions are performing is appropriate. These processes could include performing timely reconciliations of project costs reported by Third Party institutions and requiring detailed progress reports.
- 1.3 Direct URI to strengthen its cost sharing monitoring procedures to ensure institutions responsible for reporting cost share expenditures maintain, and provide URI with, documentation to support that all costs reported to URI are allowable, allocable, and adequately supported.
- 1.4 Direct URI to strengthen its administrative and management processes related to reporting cost sharing to NSF to ensure that it does not include the same cost share expenditures on multiple cost sharing reports, and that its cost sharing reports do not include cost share amounts that have been awarded but not yet expended.
- 2.1 Resolve the \$204,383 in questioned subaward costs for which URI has not agreed to reimburse NSF and direct URI to repay or otherwise remove the sustained questioned costs from its NSF awards.
- 2.2 Direct URI to provide documentation supporting that it has repaid or otherwise credited the \$2,260 of questioned furniture and travel costs for which it has agreed to reimburse NSF.
- 2.3 Direct URI to strengthen the administrative and management internal controls and processes over transferring significant parts of NSF-funded research to other organizations. Processes could include:
  - Establishing procedures that require URI to verify that, for any subaward it intends to establish to perform research under an NSF grant awarded to URI, it specifically obtains the NSF Grants Officer's approval, either as part of the NSF grant budget or through a formal FastLane request to transfer the research or effort, before establishing the subaward.
  - Establishing procedures that require URI to verify that, for any subaward costs invoiced by its NSF grant subrecipients, it specifically obtains the NSF

Grants Officer's approval, either as part of the NSF grant budget or through a formal FastLane request to transfer the research or effort, before approving the subaward invoice and charging the expense to an NSF Award.

- Requiring periodic training for Principal Investigators and other personnel permitted to issue subaward agreements under NSF awards.
- 2.4 Direct URI to strengthen its administrative and management processes to ensure that general-purpose costs charged to federal awards are necessary to carry out grant objectives and are directly related to the purpose of the federal award, or removed from the award.
  - 2.5 Direct URI to strengthen its subaward monitoring process to ensure that its subawardees only claim allowable travel costs.
  - 3.1 Resolve the \$121,719 in questioned indirect and subaward costs for which URI has not agreed to reimburse NSF and direct URI to repay or otherwise remove the sustained questioned costs from its NSF awards.
  - 3.2 Direct URI to strengthen its monitoring procedures and internal control processes for applying indirect costs to federal awards. Updated procedures could include conducting annual training regarding when materials used in the fabrication of an asset should be included in the capitalized cost of that asset.
  - 3.3 Direct URI to strengthen its subaward monitoring procedures to ensure that subawardees only apply indirect costs to expenses that should be included in their Modified Total Direct Cost base.
  - 4.1 Resolve the \$24,683 in questioned inadequately supported subaward expenses for which URI has not agreed to reimburse NSF and direct URI to repay or otherwise remove the sustained questioned costs from its NSF awards.
  - 4.2 Direct URI to strengthen its subaward monitoring procedures to ensure subawardees create and maintain documentation to support that all costs invoiced to URI are reasonable, allowable, and allocable.
  - 5.1 Direct URI to provide documentation supporting that it has repaid or otherwise credited the \$6,363 in questioned unallocable equipment costs for which URI has agreed to reimburse NSF.
  - 5.2 Direct URI to strengthen its administrative and management controls and processes for supporting the allocation of expenses to sponsored projects. Updated processes could include implementing additional procedures requiring the Office of Sponsored Projects to review and approve all non-salary expenses charged to NSF awards within 90 days of the award's expiration date.

- 6.1 Direct URI to strengthen its administrative and management procedures related to the issuance and monitoring of subawards to ensure that personnel complete all required forms per URI's policies.
- 6.2 Direct URI to strengthen its directives, procedures, and internal controls for procuring equipment on sponsored projects. Updated processes could include the following:
- Conducting annual training for those individuals who procure equipment, including Principal Investigators. Specifically, the training should include clarification regarding the documentation requirements for purchasing equipment, including when to use the Certification of Unavailability/Unsuitability form.
  - Implementing a manual review process to ensure individuals who initiate equipment purchases complete all applicable forms required by URI's procurement policy.
- 6.3 Direct URI to strengthen its internal controls for reviewing re-certified salary expense(s) to ensure the Controller's Office appropriately approves all re-certified salary before URI charges the salary costs to federal awards.
- 7.1 Direct URI to update its current practices for establishing indirect cost rates for sponsored projects awarded during provisional rate periods. The revised practices should require URI to update the indirect cost rates applied to grants awarded during provisional rate periods upon receiving the approved negotiated rates for that period.
- 7.2 Direct URI to strengthen its subaward monitoring procedures to ensure subawardees consistently apply indirect costs proposed and claimed on subaward agreements using the negotiated indirect cost rate(s) in effect when the subawards were awarded.

## **APPENDIX E: GLOSSARY**

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**Allocable cost.** A cost is allocable to a particular federal award or other cost objective if the goods or services involved are chargeable or assignable to that federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:

- (a) Is incurred specifically for the federal award;
- (b) Benefits both the federal award and other work of the non-federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
- (c) Is necessary to the overall operation of the non-federal entity and is assignable in part to the federal award in accordance with the principles in this subpart. (2 CFR § 200.405)

Factors affecting allowability of costs. The tests of allowability of costs under these principles are: they must be reasonable; they must be allocable to sponsored agreements under the principles and methods provided herein; they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and they must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items (2 CFR 220, Appendix A, Section C.2.).

**Return to the term's initial use.**

**Allowable cost.** Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under federal awards:

- (a) Be necessary and reasonable for the performance of the federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the federal award as to types or amount of cost items.
- (c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-federal entity (2 CFR § 200.403).

**Return to the term's initial use.**

**Capital expenditures** means expenditures to acquire capital assets or expenditures to make additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations, or alterations to capital assets that materially increase their value or useful life (2 CFR § 200.13).

**Return to the term's initial use.**

**Cost Sharing or Matching** means that portion of project or program costs not borne by the Federal Government (2 CFR § 215.2).

Cost Sharing or Matching means the portion of project costs not paid by federal funds (unless otherwise authorized by federal statute) (2 CFR § 200.29).

**Return to the term's initial use.**

**Direct Costs** are those costs that can be identified specifically with a particular final cost objective, such as a federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs (2 CFR § 200.413).

[Return to the term's initial use.](#)

**Equipment** means an article of non-expendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of the capitalization level established by the institution for financial statement purchases, or \$5,000. (2 CFR § 220 Appendix A, J.18).

[Return to the term's initial use.](#)

**Indirect (Facilities & Administrative (F&A)) Costs** means those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs. Indirect (F&A) cost pools must be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived (2 CFR § 200.56).

[Return to the term's initial use.](#)

**Institutional Base Salary** is the annual compensation paid by the University for an employee's appointment whether that individual's time is spent on research, teaching, administration, or other activities (URI Institutional Base Salary Policy).

[Return to the term's initial use.](#)

**Modified Total Direct Cost (MTDC)** means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward (regardless of the period of performance of the subawards under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of \$25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs (2 CFR § 200.68).

[Return to the term's initial use.](#)

**Negotiated Rates** are generally charged to federal awards through the development and application of an indirect cost rate and per negotiated indirect cost rate agreements, include final, fixed, and predetermined rates but exclude provisional rates that. In order to recover indirect costs related to federal awards, most organizations must negotiate an indirect cost rate with the federal agency that provides the preponderance of funding, or Health and Human Services in the case of colleges and universities (NSF Office of Budget, Finance and Award Management).

### **Return to the term's initial use.**

**Period of Performance** means the time during which the non-federal entity may incur new obligations to carry out the work authorized under the federal award. The federal awarding agency or pass-through entity must include start and end dates of the period of performance in the federal award (2 CFR § 200.77).

### **Return to the term's initial use.**

**Proposal & Award Policies & Procedures Guide (PAPPG)** is comprised of documents relating to the Foundation's proposal and award process for the assistance programs of NSF. The PAPPG, in conjunction with the applicable standard award conditions incorporated by reference in award, serve as the Foundation's implementation of 2 CFR § 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. If the PAPPG and the award conditions are silent on a specific area covered by 2 CFR § 200, the requirements specified in 2 CFR § 200 must be followed (NSF PAPPG 20-1).

### **Return to the term's initial use.**

**Provisional Indirect Cost Rate** is a temporary rate established to permit funding and reimbursement of indirect costs pending establishment of a final rate (that rate determined at the end of an accounting period using "actual" direct and indirect cost data.) (NSF Office of Budget, Finance and Award Management)

### **Return to the term's initial use.**

**Reasonable Costs.** 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. The question of reasonableness is particularly important when the non-federal entity is predominantly federally funded. In determining reasonableness of a given cost, consideration must be given to:

- a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-federal entity or the proper and efficient performance of the federal award.
- b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; federal, state, local, tribal, and other laws and regulations; and terms and conditions of the federal award.
- c) Market prices for comparable goods or services for the geographic area.
- d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government.
- e) Whether the non-federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the federal award's cost (2 CFR § 200.404).

**Reasonable Cost.** A reasonable cost is a cost that, in its nature and amount, does not

exceed that which would have been incurred by a prudent person under the circumstances prevailing at the time the decision to incur the cost was made (2 CFR § 200.404, 2 CFR § 220 Appendix A, C.3.).

**Return to the term's initial use.**



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