

Performance Audit of Incurred Costs - University of Idaho

REPORT PREPARED BY COTTON & COMPANY ASSURANCE AND
ADVISORY, LLC

NATIONAL SCIENCE FOUNDATION
OFFICE OF INSPECTOR GENERAL

May 6, 2022
OIG 22-1-004





AT A GLANCE

Performance Audit of Incurred Costs – University of Idaho

Report No. OIG 22-1-004

May 6, 2022

AUDIT OBJECTIVE

The National Science Foundation Office of Inspector General engaged Cotton & Company Assurance and Advisory, LLC (C&C) to conduct a performance audit of costs that the University of Idaho (UI) incurred on 50 NSF awards from each award's inception date through September 2, 2021. The auditors tested more than \$570,000 of the approximately \$42.7 million of costs claimed to NSF. The audit objective was to determine if costs claimed by UI on NSF awards were allowable, allocable, reasonable, and in compliance with NSF awards terms and conditions and federal financial assistance requirements. A full description of the audit's objective, scope, and methodology is attached to the report as Appendix B.

AUDIT RESULTS

The report highlights concerns about UI's compliance with certain federal and NSF award requirements, NSF award terms and conditions, and UI policies. The auditors questioned \$35,316 of costs claimed by UI during the audit period. Specifically, the auditors found \$24,855 in unallowable expenses, \$5,446 of inappropriate Award Cash Management Service (ACMS) drawdowns, and \$5,015 of inappropriately allocated publication expenses. The auditors also identified two compliance related findings for which there were no questioned costs: non-compliance with UI 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 5 findings in the report with associated recommendations for NSF to resolve the questioned costs and to ensure UI strengthens administrative and management controls.

AUDITEE RESPONSE

UI agreed with the majority of the findings in the report. UI's response is attached in its entirety as Appendix A.

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



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

MEMORANDUM

DATE: May 6, 2022

TO: Dale Bell
Director
Division of Institution and Award Support

Jamie French
Director
Division of Grants and Agreements



FROM: Mark Bell
Assistant Inspector General
Office of Audits

SUBJECT: Audit Report No. 22-1-004, University of Idaho

This memorandum transmits the Cotton & Company Assurance and Advisory, LLC (C&C) report for the audit of costs charged by the University of Idaho (UI) to its sponsored agreements with the National Science Foundation on 50 NSF awards during the period of performance from each award's inception date through September 2, 2021. The audit encompassed more than \$570,000 of the approximately \$42.7 million of costs claimed to NSF during the period. The audit objective was to determine if costs claimed by UI on NSF awards were allowable, allocable, reasonable, and in compliance with NSF awards terms and conditions and federal financial assistance requirements. A full description of the audit's objective, 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 Billy McCain at 703.292.7100 or OIGpublicaffairs@nsf.gov.

Attachment

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EXECUTIVE SUMMARY

The Cotton & Company audit team determined that the University of Idaho (UI) needs improved oversight of the allocation and documentation of expenses charged to NSF awards to ensure costs claimed are reasonable, allocable, and allowable in accordance with all federal and NSF regulations, NSF award terms and conditions, and UI policies. Specifically, the audit report includes five findings and a total of \$35,316 in questioned costs.

AUDIT OBJECTIVES

The National Science Foundation Office of Inspector General engaged Cotton & Company Assurance and Advisory, LLC to conduct a performance audit of costs that UI incurred on 50 awards that either ended or were close to the end of their period of performance. The audit objectives included evaluating UI's award management environment to determine whether any further audit work was warranted and performing additional audit work, as determined appropriate. We have attached a full description of the audit's objectives, scope, and methodology as [Appendix B](#).

AUDIT CRITERIA

The audit team assessed UI's compliance with relevant federal regulations (i.e., 2 Code of Federal Regulations [CFR] 200 and 2 CFR 220); NSF Proposal and Award Policies and Procedures Guides (PAPPGs) 15-1, 16-1, 17-1, 18-1, 19-1, and 20-1; NSF award terms and conditions; and UI 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) issued by the Comptroller General of the United States.

AUDIT FINDINGS

As summarized in [Appendix C](#), the auditors identified and questioned \$35,316 of direct and indirect costs that UI inappropriately claimed during the audit period, including:

- \$24,855 of unallowable expenses
- \$5,446 of inappropriate Award Cash Management Service (ACM\$) drawdown
- \$5,015 of inappropriately allocated publication expense

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

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

RECOMMENDATIONS

The audit report includes 12 recommendations for NSF's Director of the Division of Institution and Award Support related to resolving the \$35,316 in questioned costs and ensuring UI strengthens its award management environment, as summarized in [Appendix D](#).

AUDITEE RESPONSE

UI concurred with the majority of the findings throughout the audit report. Specifically, UI agreed to reimburse NSF for \$30,301 in questioned costs but disagreed with the remaining \$5,015. UI's response is attached, in its entirety, to the report as [Appendix A](#).

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Abbreviations

| | |
|--------------|--|
| ACM\$ | Award Cash Management Service |
| CFR | Code of Federal Regulations |
| FY | Fiscal Year |
| GAGAS | Generally Accepted Government Auditing Standards |
| GL | General Ledger |
| MTDC | Modified Total Direct Costs |
| NICRA | Negotiated Indirect Cost Rate Agreement |
| NSF | National Science Foundation |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| PAPPG | Proposal and Award Policies and Procedures Guide |
| POP | Period of Performance |
| UI | University of Idaho |

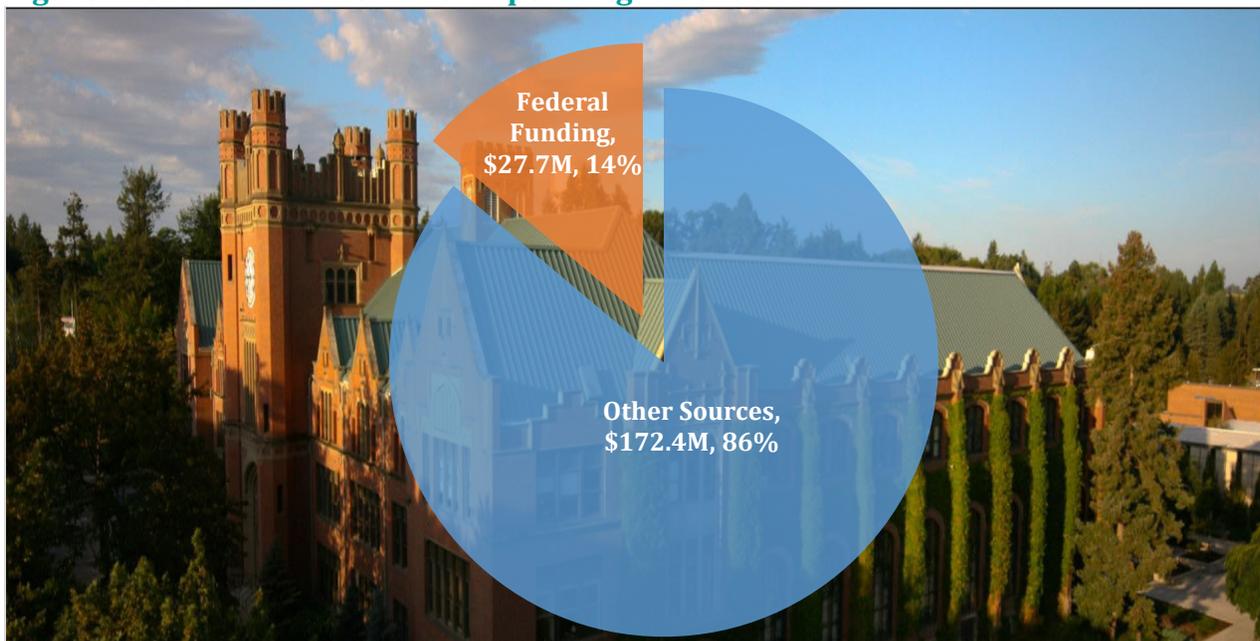
BACKGROUND

The National Science Foundation is an independent federal agency created “to promote the progress of science; to advance the national health, prosperity, and welfare; 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.

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 Assurance and Advisory, LLC (referred to as “we”) to conduct a performance audit of costs incurred by the University of Idaho (UI). UI is a land-grant university located in Moscow, Idaho. In Fiscal Year (FY) 2020-2021, UI reported more than \$200 million in non-operating revenue, with \$27.7 million from federal sources—including NSF—as illustrated in Figure 1.

Figure 1: UI’s FY 2020-2021 Non-Operating Revenue



Source: The chart data is available on the University of Idaho Controller website (<https://www.uidaho.edu/-/media/UIIdaho-Responsive/Files/finance/Controller/Financial-Statements/fy21-financial-statement.pdf?la=en&hash=A844636B40F44A48D28AE0109A8DF52B8A9FE7AC>). The photo of UI’s campus is publicly available on UI’s website (<https://www.uidaho.edu/about>).

AUDIT SCOPE

This performance audit—conducted under Order No. 140D0421F0610—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*, issued by the Comptroller General of the United States.

The objectives of this performance audit were to evaluate UI’s award management environment, determine whether any further audit work was warranted, and perform any additional audit work, as determined appropriate. [Appendix B](#) provides detailed information regarding the audit scope and methodology used for this engagement.

As illustrated in Figure 2, UI provided general ledger (GL) data to support the \$42.7 million in expenses it claimed on 50 NSF awards from each award’s inception through September 2, 2021.

Figure 2: Costs UI Claimed on 50 NSF Awards¹



Source: Auditor analysis of accounting data UI provided, illustrating the total costs (\$42,678,502) by expense type, using financial information to support costs incurred on NSF awards during the audit period. Other costs include other direct costs, computer services, and publications.

We judgmentally selected 44 transactions totaling \$570,471² (see Table 1) and evaluated supporting documentation to determine whether the costs claimed on the NSF awards were **allocable**, **allowable**, and **reasonable**, and whether they were in conformity with NSF award terms and conditions, organizational policies, and applicable federal financial assistance requirements.

¹ The total award-related expenses reported in UI’s GL exceeded the \$42,669,670 in NSF’s Award Cash Management Service (ACM\$). Although the amount of the variance between the claimed expenses and the expenses reported in the GL documentation is minimal, the variances by award resulted in a finding. Refer to [Finding 2 Inappropriate ACM\\$ Drawdown](#) and the [Objectives, Scope, and Methodology](#) section of this report for additional details.

² The \$570,471 represents the total value of the 44 transactions selected for transaction-based testing; it does not represent the dollar base of the total costs reviewed during the audit.

Table 1: Summary of Selected Transactions

| Budget Category | Transaction Count | Expense Amount ³ |
|---------------------------|-------------------|-----------------------------|
| Subawards | 3 | \$195,827 |
| Other Direct Costs | 9 | 131,497 |
| Materials and Supplies | 3 | 87,885 |
| Travel | 5 | 49,678 |
| Salaries and Wages | 11 | 33,997 |
| Equipment | 3 | 27,243 |
| Participant Support Costs | 4 | 21,233 |
| Computer Services | 2 | 7,464 |
| Consultant Services | 1 | 6,000 |
| Publications | 1 | 3,400 |
| Indirect Costs | 1 | 3,225 |
| Fringe Benefits | 1 | 3,022 |
| Total | <u>44</u> | <u>\$570,471</u> |

Source: Auditor summary of selected transactions.

AUDIT RESULTS

We identified and questioned \$35,316 in costs that UI charged to six NSF awards. We also identified expenses that UI charged to six NSF awards that resulted in non-compliance with federal, NSF, or UI-specific policies and procedures but that did not result in questioned costs. See Table 2 for a summary of questioned costs by finding area, [Appendix C](#) for a summary of questioned costs by NSF award, and [Appendix D](#) for a summary of all recommendations.

Table 2: Summary of Questioned Costs by Finding Area

| Finding Description | Questioned Costs |
|---|------------------------|
| Unallowable Expenses | \$24,855 |
| Inappropriate Award Cash Management Service (ACM\$) Drawdown | 5,446 |
| Inappropriately Allocated Publication Expense | 5,015 |
| Non-Compliance with UI Policies | - |
| Insufficient Controls Related to the Application of Indirect Cost Rates | - |
| Total | <u>\$35,316</u> |

Source: Auditor summary of findings identified.

We made 12 recommendations for NSF’s Director of the Division of Institution and Award Support related to resolving the \$35,316 in questioned costs and ensuring UI strengthens its administrative and management procedures for monitoring federal funds. We communicated the results of our audit and the related findings and recommendations to UI and NSF OIG. We included UI’s response to this report in its entirety in [Appendix A](#).

³ The expense amounts reported represent the total dollar value of the transactions selected for our sample; they do not include the total [fringe benefit](#) or [indirect costs](#) applied to the sampled transactions, which we also tested for allowability.

FINDING 1: UNALLOWABLE EXPENSES

UI charged five NSF awards a total of \$24,855 in expenses incurred for training software, indirect costs, **travel**, and **equipment** that were unallowable under federal regulations⁴ and NSF **Proposal and Award Policies and Procedures Guides (PAPPGs)**.⁵

Unallowable Software Expenses

UI charged one NSF award for \$9,552 in software expenses for which UI had already received reimbursement from a non-sponsored source, as illustrated in Table 3.

Table 3: Unallowable Software Expenses

| Expense Date | NSF Award No. | Unallowable Total | Unallowable Expenses Associated With: | Notes |
|--------------|---------------|-------------------|---------------------------------------|----------|
| June 2021 | ████████ | \$9,552 | Reimbursed Cybersecurity Program | a |

Source: Auditor summary of identified exception.

- a) In June 2021, UI charged NSF Award No. ██████████ for \$9,552 in costs incurred to purchase software related to a cybersecurity training program. Although UI had originally paid for this expense, because UI received reimbursement for the expense from the Idaho State Board of Education, UI should have removed these costs from this NSF award.

Unallowable Indirect Costs

UI charged two NSF awards for \$9,211 in unallowable indirect costs, as illustrated in Table 4.

Table 4: Unallowable Indirect Costs

| Expense Date | NSF Award No. | Unallowable Total | Unallowable Expenses Associated With: | Notes |
|---------------|---------------|-------------------|---------------------------------------|----------|
| June 2017 | ████████ | \$111 | Cost Transfer | a |
| February 2018 | ████████ | 9,100 | Capital Asset Purchase | b |

Source: Auditor summary of identified exceptions.

- a) In June 2017, UI charged NSF Award No. ██████████ for indirect costs that exceeded the allowable amount by \$111. This occurred because UI processed a cost transfer for a series of travel expenses after the end of the FY in which it had originally incurred the expenses. Specifically, when processing the cost transfer, UI applied the 47.50 percent indirect cost rate applicable at the time of the cost transfer, rather

⁴ According to 2 Code of Federal Regulations (CFR) § 200.403, for a cost to be allowable, it must be adequately documented, necessary, and reasonable for the performance of the federal award. See Appendix E of this report for additional **factors affecting the allowability of costs**.

⁵ NSF PAPPGs 17-1, 18-1, and 20-1, 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.

than the 46.00 percent rate applicable at the time it incurred the original cost.⁶

- b) In February 2018, UI charged NSF Award No. [REDACTED] for \$9,100 in unallowable indirect costs that it applied to costs incurred to purchase a vehicle. Although UI indicated that the expense related to a car rental, because UI did not rent the car, but instead paid a car rental agency to purchase the vehicle, UI should have considered this expense the purchase of a **capital asset**. As a result, UI should not have applied indirect costs to this expense.⁷

Unallowable Travel Expenses

UI charged one NSF award for \$3,092 in unallowable travel expenses,⁸ as illustrated in Table 5.

Table 5: Unallowable Travel Expenses

| Expense Date | NSF Award No. | Unallowable Total | Unallowable Expenses Associated With: | Notes |
|--------------|---------------|-------------------|---------------------------------------|-------|
| October 2018 | [REDACTED] | \$3,092 | Chartered Airfare | a |

Source: Auditor summary of identified exception.

- a) In October 2018, UI charged NSF Award No. [REDACTED] for \$3,092 in unallowable travel costs associated with the rental of a private plane. Specifically, UI elected to use a chartered aircraft to transport NSF award participants to a conference; however, it did not appropriately complete the cost comparison it used to support that chartered airfare was the most economical travel option or determine whether it could reduce the cost of the chartered airfare, which included the serving of

⁶ From December 6, 2016, through June 30, 2017, UI inappropriately charged \$7,447 in travel costs to a **participant support** budget category. The indirect cost rate at the time of the transaction was 46.00 percent. In February 2020, UI transferred the travel costs to the correct budget category. The transfer caused UI to apply the 47.50 percent indirect cost rate applicable at the time of the transfer, rather than the 46.00 rate applicable at the time of the original charge. As such, UI charged \$3,537 in indirect costs (47.50 percent of \$7,447) to this award. This amount exceeds the indirect costs that UI should have charged based on the date of the original expense (\$3,426, or 46.00 percent of \$7,447) by \$111.

⁷ UI’s Negotiated Indirect Cost Rate Agreement (NICRA) dated June 27, 2017, states that the **Modified Total Direct Cost (MTDC)** base excludes **capital expenditures** (i.e., buildings, individual items of equipment, alterations, and renovations). Additionally, according to 2 §CFR 200.68, MTDC includes all direct **salaries and wages**, applicable fringe benefits, materials and **supplies**, services, travel, and **subawards** and subcontracts up to the first \$25,000 of each subaward or subcontract (regardless of the **period of performance [POP]** of the subawards and subcontracts under the award). MTDCs exclude equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs, and the portion of each subaward and subcontract in excess of \$25,000.

⁸ According to 2 § CFR 200.474, *Travel(d)(1)*, airfare costs in excess of the basic, least expensive unrestricted accommodations class offered by commercial airlines are unallowable. Additionally, UI’s *Paying for Travel* policy states that when using chartered flying services or private aircraft, the cost is limited to the lowest-priced airfare available. Airplanes may be rented or chartered for use on official travel when that is the most economical and practical means of transportation.

alcohol, if it asked for no alcohol to be served on the flight.⁹ Because a corrected comparison supports that the chartered airfare was not the most economical option, we are questioning the difference between the total cost of the trip using chartered airfare (\$14,117) and the total cost of the trip using commercial airfare (\$11,025).

Unallowable Equipment Expenses

UI charged one NSF award for \$3,000 in unallowable equipment expenses, as illustrated in Table 6.

Table 6: Unallowable Equipment Expenses

| Expense Date | NSF Award No. | Unallowable Total | Unallowable Expenses Associated With: | Notes |
|--------------|---------------|-------------------|---------------------------------------|-------|
| May 2019 | ██████████ | \$3,000 | Equipment | a |

Source: Auditor summary of identified exception.

- a) In May 2019, UI charged NSF Award No. ██████████ for \$3,000 in equipment costs related to the purchase of equipment that the Principal Investigator noted was not used to benefit the award.

Conclusion

UI did not have sufficient policies and procedures or internal controls in place to ensure it only charged allowable costs to NSF awards. Specifically, UI’s procedures did not always ensure that it reimbursed NSF awards for costs reimbursed by other funding sources, appropriately applied indirect costs to cost transfers, capitalized equipment purchases, appropriately completed travel comparisons for chartered aircrafts, and charged equipment purchases to awards consistent with federal guidance, NSF award terms and conditions, and UI policies and procedures.

We are therefore questioning \$24,855 of unallowable expenses charged to five NSF awards. UI concurred with the questioned costs, as illustrated in Table 7.

⁹ According to UI Policy *Meals and Refreshments at University of Idaho Sponsored Meeting*, a claim for alcoholic reimbursement may be allowable, but depending on the funding source, UI may require personnel to place alcohol charges on a non-appropriated fund. NSF PAPPG 18-1 Part I, Chapter II, Section C.2.g.xiii.c, states that no NSF funds may be requested or spent for alcoholic beverages.

Table 7: Finding 1 Summary: Unallowable Expenses

| NSF Award No. | Description | Fiscal Year | Questioned Costs | | | UI Agreed to Reimburse |
|---------------|--|-------------|------------------------|------------------------|------------------------|------------------------|
| | | | Direct | Indirect | Total | |
| ██████ | June 2021 Reimbursed Software Expenses | 2021 | \$6,476 | \$3,076 | \$9,552 | \$9,552 |
| ██████ | June 2017 Cost Transfer | 2017 | - | 111 | 111 | 111 |
| ██████ | February 2018 Capital Asset | 2018 | - | 9,100 | 9,100 | 9,100 |
| ██████ | October 2018 Chartered Airfare | 2019 | 2,096 | 996 | 3,092 | 3,092 |
| ██████ | May 2019 Equipment | 2019 | 3,000 | - | 3,000 | 3,000 |
| Total | | | <u>\$11,572</u> | <u>\$13,283</u> | <u>\$24,855</u> | <u>\$24,855</u> |

Source: Auditor summary of identified exceptions.

Recommendations

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

- 1.1. Direct UI to provide documentation supporting that it has repaid or otherwise credited the \$24,855 in questioned costs for which it has agreed to reimburse NSF.
- 1.2. Direct UI to strengthen its administrative and management procedures to ensure that it reimburses the original funding source(s) charged for costs ultimately reimbursed by other funding sources.
- 1.3. Direct UI to strengthen its monitoring procedures and internal control processes for applying indirect costs to federal awards. Updated procedures should ensure:
 - UI applies the appropriate indirect cost rates to cost transfers processed in a different fiscal year than the year in which UI originally incurred the expense.
 - UI appropriately accounts for equipment purchases as capital assets.
- 1.4. Direct UI to strengthen its administrative and management processes for ensuring that its chartered airfare cost comparisons are accurate and complete, and that it only charges NSF awards for costs associated with the most economical travel option. Specifically, UI’s updated processes should ensure that UI removes all costs associated with serving alcohol prior to reserving chartered flights.
- 1.5. Direct UI to strengthen its administrative and management processes for ensuring that it only charges equipment to the award(s) that benefit from the purchase.

University of Idaho Response: Although UI did not state whether it agreed or disagreed with this finding, it did indicate that it has reimbursed, or will reimburse, NSF for the questioned costs. Further, although UI stated that it believes it has sufficient internal controls in place to reasonably assure expenses charged to NSF awards are allowable, allocable, reasonable, and necessary, it did note that it intends to evaluate and improve its controls and provide additional training as necessary. Specifically, UI stated that:

- On November 26, 2021, it used the ACM\$ to reimburse NSF for the \$9,552 in questioned software expenses charged to NSF Award No. [REDACTED] UI further stated that it will strengthen its Banner controls to ensure reimbursed expenses are not subject to reallocation.
- It will reimburse NSF for the \$111 in questioned indirect costs charged to NSF Award No. [REDACTED] UI further stated that it will implement reviews of expense transfers that cross fiscal years to ensure the indirect cost rate applied to the cost transfer matches the indirect cost rate applied to the original charge.
- On January 19, 2022, it used ACM\$ to reimburse NSF for the \$9,100 in questioned indirect costs charged to NSF Award No. [REDACTED] UI further stated that it has notified the Principal Investigator that this type of transaction will not be allowed in the future.
- On January 5, 2022, it used ACM\$ to reimburse NSF for the \$3,092 in questioned chartered airfare costs charged to NSF Award No. [REDACTED] UI further stated that it will strengthen its controls around documenting cost comparisons between chartered and commercial flights.
- On January 29, 2022, it used ACM\$ to reimburse NSF for the \$3,000 in questioned equipment costs charged to NSF Award No. [REDACTED] UI further stated that it will provide training to its Principal Investigators regarding the importance of monitoring NSF award expenses, especially when the results of their research may impact the direction of a project.

Auditors' Additional Comments: Our position regarding this finding has not changed. Specifically, because UI did not disagree with the questioned costs and intends to implement additional internal controls and provide training in response to the identified exceptions and recommendations, our position regarding this finding has not changed.

FINDING 2: INAPPROPRIATE AWARD CASH MANAGEMENT SERVICE (ACM\$) DRAWDOWN

During the audit period, UI inappropriately drew down \$5,446 in funding from NSF's ACM\$, as illustrated in Table 8.¹⁰

Table 8: Inappropriate ACM\$ Drawdown

| NSF Award No. Drawn Down | Appropriate NSF Award No. | Amount Inappropriately Drawn Down | Notes |
|--------------------------|---------------------------|-----------------------------------|-------|
| ██████████ | ██████████ | \$5,446 | a |

Source: Auditor summary of identified exception.

- a) UI erroneously drew down \$5,446 on NSF Award No. ██████████. Specifically, UI stated that it had intended to draw down funding to cover costs incurred for NSF Award No. ██████████ however, it erroneously drew down the funding on NSF Award No. ██████████.

Conclusion

UI did not have sufficient policies and procedures or internal controls in place to ensure it drew down expenses on the proper awards when using ACM\$. We are therefore questioning \$5,446 in costs UI inappropriately drew down on one NSF award. UI concurred with the questioned costs, as illustrated in Table 9.

Table 9: Finding 2 Summary: Inappropriate ACM\$ Drawdown

| NSF Award No. | Description | Fiscal Year | Questioned Costs | | | |
|---------------|------------------------------|-------------|------------------|------------|----------------|------------------------|
| | | | Direct | Indirect | Total | UI Agreed to Reimburse |
| ██████████ | Inappropriate ACM\$ Drawdown | 2019 - 2023 | \$5,446 | \$0 | \$5,446 | \$5,446 |
| Total | | | <u>\$5,446</u> | <u>\$0</u> | <u>\$5,446</u> | <u>\$5,446</u> |

Source: Auditor summary of identified exception.

Recommendations

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

- 2.1. Direct UI to provide documentation that it has repaid or otherwise credited the \$5,446 in questioned drawdowns for which it has agreed to reimburse NSF.

¹⁰ According to 2 CFR § 200.305 (b) (1), advance payments to a non-federal entity must be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the non-federal entity in carrying out the purpose of the approved program or project.

2.2. Direct UI to strengthen its policies and procedures and internal controls to ensure it draws down funds on the correct NSF awards in NSF’s Award Cash Management Service.

University of Idaho Response: Although UI did not state whether it agreed or disagreed with this finding, it stated that it has refunded NSF for the questioned costs via ACM\$, and that it will strengthen its procedures over ACM\$ draws.

Auditors’ Additional Comments: Our position regarding this finding has not changed. Specifically, because UI did not disagree with the questioned costs and intends to implement procedures to address the need for internal controls related to its ACM\$ drawdowns, our position regarding this finding has not changed.

FINDING 3: INAPPROPRIATELY ALLOCATED PUBLICATION EXPENSE

UI did not appropriately allocate a publication expense to an NSF award based on the relative benefits the award received, as required by both federal regulations¹¹ and the NSF PAPPG.¹² As a result, UI inappropriately allocated \$5,015 in publication expenses to one NSF award, as illustrated in Table 10.

Table 10: Appropriate Publication Expense Allocation

| Expense Date | NSF Award No. | Amount Charged | Percent Allocable | Amount Inappropriately Allocated | Notes |
|--------------|---------------|----------------|-------------------|----------------------------------|-------|
| June 2019 | _____ | \$5,015 | Undetermined | \$5,015 | a |

Source: Auditor summary of identified exception.

- a) In June 2019, UI charged NSF Award No. [REDACTED] for \$5,015, or 100 percent, of the costs it incurred to publish a research article. Because this award was only one of the three funding sources identified in the publication, UI does not appear to have allocated this expense to the award based on the relative benefits the award received. Because UI did not document or provide a reasonable justification as to why it allocated 100 percent of the cost to this NSF award, we were unable to determine the percentage allocable to this award.

Conclusion

UI did not have sufficient policies and procedures or internal controls in place to ensure that it allocated costs incurred based on the relative benefits received by each award. We

¹¹ 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 (or other equitable relationship). Additionally, 2 CFR § 200.461 states that **publication costs** for print media are allowable, including the page charges, as long as the charges are levied impartially on all items published by the journal.

¹² NSF PAPPG 17-1, Part II, Chapter X, 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.

are therefore questioning \$5,015 of publication expenses that UI inappropriately allocated to one NSF award, as illustrated in Table 11.

Table 11: Finding 3 Summary: Inappropriately Allocated Publication Expense

| NSF Award No. | Description | Fiscal Year | Questioned Costs | | | |
|---------------|-----------------------|-------------|------------------|----------------|----------------|------------------------|
| | | | Direct | Indirect | Total | UI Agreed to Reimburse |
| ██████████ | June 2019 Publication | 2019 | \$3,400 | \$1,615 | \$5,015 | \$0 |
| Total | | | <u>\$3,400</u> | <u>\$1,615</u> | <u>\$5,015</u> | <u>\$0</u> |

Source: Auditor summary of identified exception.

Recommendations

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

- 3.1. Resolve the \$5,015 in questioned publication costs for which UI has not agreed to reimburse NSF and direct UI to repay or otherwise remove the sustained questioned costs from its NSF award.
- 3.2. Direct UI to strengthen its policies and procedures and internal controls to ensure it documents the **allocation** methodology used to allocate publication costs across the sponsored awards acknowledged in the publication.

University of Idaho Response: UI disagreed with this finding, which originally only included \$502 in questioned publication costs that UI had previously indicated were allocable to NSF Award No. ██████████. Specifically, UI stated that, because the publication only referenced the other sponsored awards to recognize their contributions to the baseline science that supported the research performed for NSF Award No. ██████████ none of the publication expenses should be allocated to those awards. Further, UI stated that it cannot allocate the publication costs to the other two awards because NSF Award No. ██████████ was terminated before UI incurred the publication costs and NSF Award No. ██████████ ended on January 28, 2022.

Auditors’ Additional Comments: We revised the audit report to question 100 percent of the publication expense, or \$5,015, rather than the 10 percent of the expense, or \$502, that we questioned in the draft report. Specifically, although we had originally only questioned 10 percent of the expense based on the allocation methodology UI provided in response to our audit fieldwork requests, we do not believe the allocation methodology UI provided in its formal response to the draft report is reasonable. We are therefore unable to determine what percentage of this cost UI should have allocated to NSF Award No. ██████████. Accordingly, we updated the report to question all costs associated with this publication expense.

FINDING 4: NON-COMPLIANCE WITH UI POLICIES

UI did not always comply with its effort and procurement policies and procedures when incurring costs charged to NSF awards.

Non-Compliance with UI Effort Policy

We identified one instance in which UI did not comply with its internal effort policies and procedures, which require personnel to complete effort reports on a semi-annual basis,¹³ as illustrated in Table 12.

Table 12: Non-Compliance with UI Effort Policy

| Expense Date | NSF Award No. | Fiscal Year | Effort Policy Compliance Exception | Notes |
|--------------|---------------|-------------|---|-------|
| June 2017 | ██████████ | 2017 | Late Effort Report Creation and Certification | a |

Source: Auditor summary of identified exception.

- a) In June 2017, UI charged NSF Award No. ██████████ for \$2,100 in salary costs for a graduate student; however, UI did not create or certify the student’s summer 2017 effort report until January 2022, in response to our audit.

Non-Compliance with UI Procurement Policy

We identified one instance in which UI did not comply with its internal procurement policies and procedures, which require UI to competitively bid service agreements for consultants if the agreements exceed \$25,000,¹⁴ as illustrated in Table 13.

Table 13: Non-Compliance with UI Procurement Policy

| Contract Date | NSF Award No. | Fiscal Year | Procurement Policy Compliance Exception | Notes |
|---------------|---------------|-------------|---|-------|
| November 2018 | ██████████ | 2019 | Purchase Not Competitively Bid | a |

Source: Auditor summary of identified exception.

- a) In November 2018, UI executed a \$196,000 contract for external evaluation services under NSF Award No. ██████████. Because the expense appears to have benefitted the award and the evaluator was explicitly identified in the award budget and annual report, we are not questioning this cost; however, UI did not competitively bid the services.

¹³ According to UI Policy 45.09, *Effort Reporting and Personnel Activity Reports (PARs)*, “Effort reports will be electronically generated semi-annually and made available online to each employee.” The policy further states, “Effort reports must be completed within thirty (30) working days of the date they are released to the employee.”

¹⁴ According to UI Policy 60.02, *Purchasing Criteria*, competitive bidding is required for any service agreements for consultants where the agreement exceeds \$25,000.

Conclusion

UI did not have adequate procedures in place to ensure that it consistently complied with, or documented its compliance with, its effort and procurement policies and procedures. Because these instances of non-compliance did not directly result in UI charging unallowable costs to NSF awards, we are not questioning any costs related to these exceptions. However, we are noting compliance findings for the two instances in which UI did not comply with its internal policies when charging costs to two NSF awards, as illustrated in Table 14.

Table 14: Finding 4 Summary: Non-Compliance with UI Policies

| NSF Award No. | Compliance Exception Identified | Fiscal Year |
|---------------|---|-------------|
| ██████ | Non-Compliance with UI Effort Policy | 2017 |
| ██████ | Non-Compliance with UI Procurement Policy | 2019 |

Source: Auditor summary of identified exceptions.

Recommendations

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

- 4.1. Direct UI to strengthen its administrative and management procedures for effort reporting to ensure that it creates and certifies each individual’s effort report consistent with its effort reporting policies.
- 4.2. Direct UI to strengthen its administrative and management procedures to require the procurement office to confirm that it competitively bid **consultant services** before executing consulting agreements for services in excess of \$25,000.

University of Idaho Response: UI agreed with this finding, noting that it will strengthen its effort reporting and procurement procedures to ensure that it appropriately generates effort reports and appropriately documents its compliance with competitive bidding requirements.

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

FINDING 5: INSUFFICIENT CONTROLS RELATED TO THE APPLICATION OF INDIRECT COST RATES

UI did not have sufficient controls in place to ensure it consistently applied indirect costs using the rate(s) in effect as of the NSF award date, as required by federal¹⁵ and NSF guidance.¹⁶

UI applied the provisional indirect cost rate in effect as of the NSF grant's award date, rather than adjusting the provisional rates to reflect the pre-determined **negotiated indirect cost rates** approved by its cognizant agency when UI received those rates, as required by federal regulations.¹⁷ Specifically, UI did not appropriately adjust the provisional indirect cost rate it applied to four NSF awards, as illustrated in Table 15.

Table 15: Provisional Indirect Cost Rates Not Adjusted

| NSF Award Number | Award Date | Fiscal Year(s) | Provisional Rate Applied (%) ¹⁸ | Appropriate Negotiated Rate (%) ¹⁹ |
|------------------|------------|----------------|--|---|
| [REDACTED] | 8/23/2014 | 2015 - 2016 | 45.3 | 45.3 |
| | | 2017 | 45.3 | 46.0 |
| | | 2018-2021 | 45.3 | 47.5 |
| [REDACTED] | 7/27/2015 | 2015 - 2016 | 45.3 | 45.3 |
| | | 2017 | 45.3 | 46.0 |
| | | 2018-2021 | 45.3 | 47.5 |
| [REDACTED] | 8/23/2015 | 2015 - 2016 | 45.3 | 45.3 |
| | | 2017 | 45.3 | 46.0 |
| | | 2018-2021 | 45.3 | 47.5 |
| [REDACTED] | 1/28/2016 | 2016 | 34.0 | 34.0 |
| | | 2017-2021 | 34.0 | 36.0 |

Source: Auditor summary of identified exceptions.

¹⁵ 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.

¹⁶ NSF requires Institutions of Higher Education to use the negotiated indirect cost rate in effect as of the date of the award throughout the life of the award. See NSF PAPPs 15-1, 16-1, and 18-1, Part I, Chapter II, Section C.2.g.(viii).

¹⁷ Although UI was permitted to use its provisional indirect cost rate when grants were awarded in a provisional rate period, per 2 CFR 200, Appendix III, Section C.7, because provisional rates are not considered negotiated rates, the provisional rates used at the time of the award must be adjusted once a rate is negotiated and approved by the cognizant agency for indirect costs.

¹⁸ UI's NICRAs dated December 9, 2010 established provisional indirect cost rates of 45.3 percent for on-campus organized research and 34.0 percent for agriculture & forestry experience stations from July 1, 2013, until amended which were applied throughout the life of each NSF award.

¹⁹ UI's NICRA dated February 26, 2016, established predetermined (negotiated) indirect cost rates of 45.3 percent for on-campus organized research from July 1, 2013, to June 30, 2016; 46.0 percent for on-campus organized research from July 1, 2016, to June 30, 2017; 47.5 percent for on-campus organized research from July 1, 2017, to June 30, 2019; 34.0 percent for agriculture & forestry experience stations from July 1, 2013, to June 30, 2016 and 36.0 percent for agriculture & forestry experience stations from July 1, 2016, to June 30, 2019.

Conclusion

UI did not have sufficient internal controls in place to ensure it adjusted its provisional indirect cost rates after it received its final negotiated rates. We are not reporting any questioned costs for this finding, as the rates UI applied were lower than the appropriate rates, resulting in UI claiming lower indirect costs to NSF than were otherwise allowable. However, UI's current process could cause it to charge unallowable costs to NSF awards if rates were to decrease in future Negotiated Indirect Cost Rate Agreements (NICRAs). Therefore, we are noting exceptions related to four NSF awards to which UI did not appropriately apply indirect cost rates, as illustrated in Table 16.

Table 16: Finding 5 Summary: Insufficient Controls Related to the Application of Indirect Cost Rates

| NSF Award Number | Compliance Exception Identified | Fiscal Years |
|------------------|--|--------------|
| ██████ | Provisional Indirect Cost Rates Not Adjusted | 2017 - 2021 |
| ██████ | Provisional Indirect Cost Rates Not Adjusted | 2017 - 2021 |
| ██████ | Provisional Indirect Cost Rates Not Adjusted | 2017 - 2021 |
| ██████ | Provisional Indirect Cost Rates Not Adjusted | 2017 - 2021 |

Source: Auditor summary of identified exceptions.

Recommendation

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

- 5.1 Direct UI to develop and implement controls to update the indirect cost rates applied to grants awarded during provisional rate periods upon receiving the approved negotiated rates for those periods.

University of Idaho Response: UI disagreed with this finding. Specifically, UI stated that its award setup procedures include using the NICRA rate in effect when the NSF grant is awarded. Additionally, UI noted that it has published a Frequently Asked Questions document which supports its approach for only applying new NICRA rates to awards that became effective after a NICRA is issued.

Auditors' Additional Comments: Our position regarding this finding has not changed. It is appropriate for UI to use provisional indirect cost rate(s) for grants that are awarded during a provisional rate period. However, because provisional indirect cost rates are not considered negotiated rates, to comply with federal regulations, UI must adjust the provisional rates used at the time of the award once a negotiated rate is available.²⁰ Because UI does not have controls in place that require it to adjust the provisional rate to a final negotiated rate and/or to document its decision to use a lower indirect cost rate, our

²⁰ According to 2 CFR 200, Appendix III, Section C.7, provisional rates are not considered negotiated rates and therefore must be adjusted once a rate is negotiated and approved by the cognizant agency for indirect costs.

position regarding this finding has not changed.

COTTON & COMPANY ASSURANCE AND ADVISORY, LLC



Megan Mesko, CPA, CFE
Partner
May 4, 2022

APPENDIX A: UI'S RESPONSE



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April 13, 2022

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

Attention: Megan Mesko, CPA, CFE

Dear Ms. Mesko,

The University of Idaho (UI) appreciates the opportunity to work with the National Science Foundation Office of Inspector General and Cotton & Company to examine our research accounting practices. UI takes seriously our obligation to administer all sponsored awards in compliance with all applicable laws, policies, and requirements. UI believes that one of the positive outcomes of an audit is the opportunity to improve and enhance our practices, policies and procedures. We will work with NSF during the resolution process to enhance our compliance environment.

UI has already reimbursed NSF \$24,744 via ACM\$ credits and agrees to reimburse NSF another \$111. We do not agree with \$502 of questioned costs.

Sincerely,

Deborah N. Shaver, CRA

Deborah N. Shaver, CRA
Associate VP, Research Administration and Director, OSP

Linda C Campos, CPA

Linda C. Campos, CPA
Associate Vice President for Finance

University of Idaho NSF Audit Report Response

Finding 1: Unallowable Expenses

University of Idaho (UI) has internal controls in place that reasonably assure that expenses charged to sponsored award are allowable, allocable, reasonable and necessary. Our controls also ensure that costs are allowable based on sponsor regulations and UI policies. Several areas identified during this audit will be evaluated and improved and necessary training will be provided as indicated below.

| NSF Award No. | Unallowable Total | UI Response |
|---------------|-------------------|---|
| ██████ | \$9,552 | UI reimbursed NSF via ACM\$ on 11/26/21. UI will strengthen controls on documenting refunds received on expenditures in Banner text so that reimbursed expenses are not subject to reallocation. |
| ██████ | \$111 | UI will reimburse NSF for this expense. UI will implement reviews of expense transfers that cross fiscal years to ensure that the F&A rate used for the original charge is the same one used for the expense transfer. |
| ██████ | \$9,100 | UI reimbursed NSF via ACM\$ on 1/19/22. This was a very unique situation and the UI Principal Investigator and Department have been informed that this type of transaction will not be allowed in the future. |
| ██████ | \$3,092 | UI reimbursed NSF via ACM\$ on 1/5/22. UI will strengthen controls on documenting the cost comparison between charter flights and commercial airfare. |
| ██████ | \$3,000 | UI reimbursed NSF via ACM\$ on 1/19/22. UI will work with our Principal Investigators to educate them on the importance of monitoring their expenses especially when the results of their research cause a shift in the direction of the project. |

Finding 2: Inappropriate Award Cash Management Service (ACM\$) Drawdown

| NSF Award No. | Unallowable Total | UI Response |
|---------------|-------------------|---|
| ██████ | (\$5,446) | UI refunded \$5,446 on ACM\$ on 10/1/21. The University will strengthen their procedures on ACM\$ draws. The Financial Unit will compare the available award balances in ACM\$ with balance on the draw spreadsheet prior to drawing funds. The Asst. Director, Sponsored Accounting will reconcile the draw spreadsheet with the ACM\$ award balances on a monthly basis to ensure funds were drawn for the correct award. |
| ██████ | \$5,446 | UI drew \$5,446 on ACM\$ on 10/1/21. See UI Response for ██████ above. |

Finding 3: Inappropriately Allocated Publication Expense

| NSF Award No. | Unallowable Total | UI Response |
|---------------|-------------------|--|
| [REDACTED] | \$502 | <p>UI disagrees with this finding. Our interpretation of this situation is that any references to [REDACTED] and [REDACTED] are in recognition of the science developed as a foundation to support the research performed for [REDACTED] and subsequently publicized. Although the costs associated with this finding are minimal, we are concerned about the precedent that could be set from an assumption that any award mentioned in a publication could be interpreted as a contribution rather than a citation/recognition.</p> <p>The performance periods of these three awards do not support the premise that award [REDACTED] publication costs should have been allocated between [REDACTED], [REDACTED] and [REDACTED]. As stated above, we submit that any references to the other awards were included in the manner of a citation and not because they played a material role in the publication for [REDACTED]. A review of all three awards indicates that [REDACTED] had terminated 2/28/16 which was well before the article was constructed and that the costs could not have been allocated as suggested in the audit finding, as that project was closed, therefore supporting our claim. Subsequently [REDACTED] was closed on 1/28/22 at which time we were in the process of reviewing the finding. These funds are no longer available for allocation as suggested in the audit finding.</p> |

Finding 4: Non-Compliance with UI Policies

| NSF Award No. | Policy Compliance Exception | UI Response |
|---------------|---|---|
| [REDACTED] | Late Effort Report Creation and Certification | UI agrees with this finding. UI has created a report that will be reviewed monthly by the Cost Accounting Unit to make sure that all employees who are required to complete an effort report have an effort report generated in the electronic effort reporting system. |
| [REDACTED] | Purchase Not Competitively Bid | UI agrees with this finding. University Contract and Purchasing Services will strengthen controls which require competitive bids on all service contracts greater than \$25,000 or properly documented bid waivers. |

Finding 5: Insufficient Controls Related to the Application of Indirect Cost Rates

| NSF Award No. | Compliance Exception Identified | UI Response |
|---------------|---|---|
| [REDACTED] | Provisional Indirect Cost Rates Not Adjusted-FY15 to FY21 | UI disagrees with this finding. UI award setup procedures include using indirect cost rates in the NICRA which were in effect at the date of each sponsored award. Our application of indirect cost rates is covered in our F&A FAQs located at https://www.uidaho.edu/research/faculty/resources/f-and-a-rates specifically in the "Which awards will be subject to the new rate agreement?" question. |
| [REDACTED] | Provisional Indirect Cost Rates Not Adjusted-FY16 to FY21 | UI disagrees with this finding. UI award setup procedures include using indirect cost rates in the NICRA which were in effect at the date of each sponsored award. Our application of indirect cost rates is covered in our F&A FAQs located at https://www.uidaho.edu/research/faculty/resources/f-and-a-rates specifically in the "Which awards will be subject to the new rate agreement?" question. |

APPENDIX B: OBJECTIVES, SCOPE, AND METHODOLOGY

discrepancies resulted in **Finding 2: Inappropriate ACM\$ Drawdown**; however, we found UI's computer-processed data to be sufficiently reliable for the purposes of the audit, as the discrepancies only related to 2 of the 50 awards. We did not identify any issues with the parameters that UI used to extract the accounting data.

- 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 NSF's databases or the controls over NSF's databases were accurate or reliable; however, the independent auditor's report on NSF's financial statements for FY 2021 found no reportable instances in which NSF's financial management systems did not substantially comply with applicable requirements.
- UI provided detailed transaction-level data to support \$42,678,502 in costs charged to NSF awards during the period, which was greater than the \$42,669,670 UI claimed in ACM\$ for the 50 awards. This data resulted in a total audit universe of \$42,678,502 in expenses claimed on 50 NSF awards.
 - Although UI did provide explanations for the variances identified, 2 of the 50 awards had differences because UI drew down funds on the incorrect award. This resulted in questioned costs, as cited in **Finding 2: Inappropriate ACM\$ Drawdown**.
- Obtaining and reviewing all available accounting and administrative policies and procedures, external audit reports, desk review reports, and other relevant information that UI and NSF OIG provided, as well as any other relevant information that was available online.
- Summarizing our understanding of federal, NSF, and UI-specific policies and procedures surrounding costs budgeted for or charged to NSF awards and identifying the controls in place to ensure that costs charged to sponsored projects were reasonable, allocable, and allowable.
 - In planning and performing this audit, we considered UI's internal controls, within the audit's scope, solely to understand the directives or policies and procedures UI has in place to ensure that charges against NSF awards complied with relevant federal regulations, NSF award terms, and UI policies.
- Providing UI with a list of 44 transactions that we selected based on the results of our data analytics and requesting that UI provide documentation to support each transaction.

- Reviewing the supporting documentation UI provided and requesting additional documentation as necessary to ensure we obtained sufficient, appropriate evidence to assess the allowability of each sampled transaction under relevant federal,²¹ NSF,²² and UI policies.²³
- Holding virtual interviews and walkthroughs with UI in December 2021 to discuss payroll (including effort reporting), fringe benefits, travel, participant support costs, procurement, equipment (including an inventory check), Graduate Research Fellowship Program, other direct costs (e.g., patent, relocation, recruiting, interest, advertising/public relations, **entertainment**, fundraising, lobbying, selling/marketing, and training costs), grant close-out procedures, subawards, ACM\$ processing, indirect costs, and other general policies (e.g., pre- and post-award costs, program income, whistle-blower information, research misconduct, and conflict of interest policies).
- Summarizing the results of our fieldwork and confirming that we did not identify any extraordinary circumstances that justified the need for a second audit phase.²⁴

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 UI personnel to ensure that UI 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 in accordance with *Generally Accepted Government Auditing Standards*, 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.

²¹ We assessed UI'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 [OMB] Circular A-21), as appropriate.

²² We assessed UI's compliance with NSF PAPPs 15-1, 16-1, 17-1, 18-1, 19-1, and 20-1 and with NSF award-specific terms and conditions, as appropriate.

²³ We assessed UI's compliance with internal UI policies and procedures surrounding costs budgeted for or charged to NSF awards.

²⁴ Based on the areas of elevated risk of noncompliance identified during the initial phase, we determined that there was no need for any expanded audit phase.

APPENDIX C: SUMMARY OF QUESTIONED COSTS

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

| Finding | Description | Questioned Costs | | Total |
|--------------|---|--------------------|------------------------|------------------------|
| | | <i>Unsupported</i> | <i>Unallowable</i> | |
| 1 | Unallowable Expenses | \$0 | \$24,855 | \$24,855 |
| 2 | Inappropriate Award Cash Management Service (ACM\$) Drawdown | - | 5,446 | 5,446 |
| 3 | Inappropriately Allocated Publication Expense | - | 5,015 | 5,015 |
| 4 | Non-Compliance with UI Policies | - | - | - |
| 5 | Insufficient Controls Related to the Application of Indirect Cost Rates | - | - | - |
| Total | | <u>\$0</u> | <u>\$35,316</u> | <u>\$35,316</u> |

Source: Auditor summary of questioned costs by finding.

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

| NSF Award No. | No. of Transaction Exceptions | Questioned Direct Costs | Questioned Indirect Costs | Questioned Total | UI Agreed to Reimburse |
|--------------------|-------------------------------|-------------------------|---------------------------|------------------------|------------------------|
| ██████ | 1 | \$0 | \$0 | \$0 | \$0 |
| ██████ | 1 | - | - | - | - |
| ██████ | 1 | - | - | - | - |
| ██████ | 1 | - | - | - | - |
| ██████ | 1 | - | - | - | - |
| ██████ | 1 | 6,476 | 3,076 | 9,552 | 9,552 |
| ██████ | 2 | 3,400 | 1,726 | 5,126 | 111 |
| ██████ | 1 | - | 9,100 | 9,100 | 9,100 |
| ██████ | 2 | 2,096 | 996 | 3,092 | 3,092 |
| ██████ | 1 | 3,000 | - | 3,000 | 3,000 |
| ██████ | 1 | 5,446 | - | 5,446 | 5,446 |
| Grand Total | <u>13</u> | <u>\$20,418</u> | <u>\$14,898</u> | <u>\$35,316</u> | <u>\$30,301</u> |

Source: Auditor summary of questioned costs by NSF award number.

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 | Total Questioned Costs | UI Agreed to Reimburse |
|--|-----------|--|-------------------------|---------------------------|------------------------|------------------------|
| 1) Unallowable Expenses | ██████ | June 2021 Reimbursed Software Expenses | \$6,476 | \$3,076 | \$9,552 | \$9,552 |
| | ██████ | June 2017 Cost Transfer | - | 111 | 111 | 111 |
| | ██████ | February 2018 Capital Asset | - | 9,100 | 9,100 | 9,100 |
| | ██████ | October 2018 Chartered Airfare | 2,096 | 996 | 3,092 | 3,092 |
| | ██████ | May 2019 Equipment | 3,000 | - | 3,000 | 3,000 |
| 2) Inappropriate Award Cash Management Service (ACM\$) Drawdown | ██████ | Inappropriate ACM\$ Drawdown | 5,446 | - | 5,446 | 5,446 |
| 3) Inappropriately Allocated Publication Expenses | ██████ | June 2019 Publication | 3,400 | 1,615 | 5,015 | - |
| 4) Non-Compliance with UI Policies | ██████ | Non-Compliance with UI Effort Policy | - | - | - | - |
| | ██████ | Non-Compliance with UI Procurement Policy | - | - | - | - |
| 5) Insufficient Controls Related to the Application of Indirect Cost Rates | ██████ | Provisional Indirect Cost Rates Not Adjusted | - | - | - | - |
| | ██████ | | - | - | - | - |
| | ██████ | | - | - | - | - |
| | ██████ | | - | - | - | - |
| | | | <u>\$20,418</u> | <u>\$14,898</u> | <u>\$35,316</u> | <u>\$30,301</u> |

Source: Auditor summary of identified exceptions.

APPENDIX D: SUMMARY OF RECOMMENDATIONS AND CONSIDERATIONS

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

- 1.1. Direct UI to provide documentation supporting that it has repaid or otherwise credited the \$24,855 in questioned costs for which it has agreed to reimburse NSF.
- 1.2. Direct UI to strengthen its administrative and management procedures to ensure that it reimburses the original funding source(s) charged for costs ultimately reimbursed by other funding sources.
- 1.3. Direct UI to strengthen its monitoring procedures and internal control processes for applying indirect costs to federal awards. Updated procedures should ensure:
 - UI applies the appropriate indirect cost rates to cost transfers processed in a different fiscal year than the year in which UI originally incurred the expense.
 - UI appropriately accounts for equipment purchases as capital assets.
- 1.4. Direct UI to strengthen its administrative and management processes for ensuring that its chartered airfare cost comparisons are accurate and complete, and that it only charges NSF awards for costs associated with the most economical travel option. Specifically, UI's updated processes should ensure that UI removes all costs associated with serving alcohol prior to reserving chartered flights.
- 1.5. Direct UI to strengthen its administrative and management processes for ensuring that it only charges equipment to the award(s) that benefit from the purchase.
- 2.1. Direct UI to provide documentation that it has repaid or otherwise credited the \$5,446 in questioned drawdowns for which it has agreed to reimburse NSF.
- 2.2. Direct UI to strengthen its policies and procedures and internal controls to ensure it draws down funds on the correct NSF awards in ACM\$.
- 3.1. Resolve the \$5,015 in questioned publication costs for which UI has not agreed to reimburse NSF and direct UI to repay or otherwise remove the sustained questioned costs from its NSF award.
- 3.2. Direct UI to strengthen its policies and procedures and internal controls to ensure it documents the allocation methodology used to allocate publication costs across the sponsored awards acknowledged in the publication.
- 4.1. Direct UI to strengthen its administrative and management procedures for effort reporting to ensure that it creates and certifies each individual's effort report consistent with its effort reporting policies.

- 4.2. Direct UI to strengthen its administrative and management procedures to require the procurement office to confirm that it competitively bid consultant services before executing consulting agreements for services in excess of \$25,000.
- 5.1 Direct UI to develop and implement controls to update the indirect cost rates applied to grants awarded during provisional rate periods upon receiving the approved negotiated rates for those periods.

APPENDIX E: GLOSSARY

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.
- (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).

Return to the term's initial use.

Allocation. *Allocation* means the process of assigning a cost, or a group of costs, to one or more cost objective(s), in reasonable proportion to the benefit provided or other equitable relationship. The process may entail assigning a cost(s) directly to a final cost objective or through one or more intermediate cost objectives. (2 CFR § 200.4) and (2 CFR Revision § 200.1).

Return to the term's initial use.

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 (GAAP) 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 Asset means tangible or intangible assets used in operations having a useful life of more than one year which are capitalized in accordance with GAAP. Capital assets include

- (a) land, building (facilities), equipment, and intellectual property (including software)

whether acquired by purchase, construction, manufacture, lease-purchase, exchange, or through capital leases; and (b) additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations or alterations to capital assets that materially increase their value or useful life (not ordinary repairs and maintenance). (2 CFR § 200.13).

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.

Consultant Services (Professional Service costs). This refers to costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the non-federal entity, are allowable, subject to paragraphs (b) and (c) when reasonable in relation to the services rendered and when no contingent upon recovery of the costs from the federal government.

In determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative; however, the following factors are relevant:

- 1) The nature and scope of the service rendered in relation to the service required.
- 2) The necessity of contracting for the service, considering the non-federal entity's capability in the particular area.
- 3) The past pattern of such costs, particularly in the years prior to federal awards.
- 4) The impact of federal awards on the non-federal entity's business.
- 5) Whether the proportion of federal work to the non-federal entity's total business is such as to influence the non-federal entity in favor of incurring the cost, particularly where the services rendered are not of a continuing nature and have little relationship to work under federal awards.
- 6) Whether the service can be performed more economically by direct employment rather than contracting.
- 7) The qualifications of the individual or concern rendering the service and the customary fees charged, especially on non-federally funded activities.
- 8) Adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions) (2 CFR § 200.459) and (2 CFR Revision § 200.459).

Return to the term's initial use.

Entertainment. Costs of entertainment, including amusement, diversion, and social activities and any associated costs are unallowable, except where specific costs that might otherwise be considered entertainment have a programmatic purpose and are authorized either in the approved budget for the federal award or with prior written approval of the federal awarding agency. (2 CFR § 200.438) and (2 CFR Revision § 200.438).

Return to the term's initial use.

Equipment. Tangible personal property—including information technology (IT) systems—having a useful life of more than 1 year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-federal entity for financial statement purposes, or \$5,000 (2 CFR § 200.33).

Return to the term's initial use.

Fringe Benefits. Allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave (vacation, family-related, sick, or military), employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable provided that the benefits are reasonable and are required by law, non-federal entity-employee agreement, or an establishment policy of the non-federal entity.

Leave is the cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, family-related leave, sick leave, holidays, court leave, military leave, administrative leave, and other similar benefits, are allowable if all of the following criteria are met:

- 1) They are provided under established written leave policies.
- 2) The costs are equitably allocated to all related activities, including federal awards.
- 3) The accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the non-federal entity or specified grouping of employees (2 CFR § 200.431) and (2 CFR Revision § 200.431).

Return to the term's initial use.

Indirect (F&A) Costs. This refers to 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.

Modified Total Direct Cost (MTDC). This refers to 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 (POP) 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) and (2 CFR Revision § 200.1).

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

Negotiated Indirect Cost Rate. Generally charged to federal awards through the development and application of an indirect cost rate. 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 (HHS) in the case of colleges and universities (NSF Office of Budget, Finance, and Award Management).

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

Participant Support Costs. This refers to direct costs for items such as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with conferences or training projects (2 CFR § 200.75).

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

Period of Performance (POP). 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 POP in the federal award (2 CFR § 200.77).

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

Proposal & Award Policies & Procedures Guide (PAPPG). Comprises documents relating to NSF'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 NSF'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.](#)

Publication Costs. Costs for electronic and print media, including distribution, promotion, and general handling, are allowable. If these costs are not identifiable with a particular cost objective, they should be allocated as indirect costs to all benefiting activities of the non-federal entity.

Page charges for professional journal publications are allowable where:

- (1) The publications report work supported by the federal government.
- (2) The charges are levied impartially on all items published by the journal, whether or not under a federal award.
- (3) The non-federal entity may charge the federal award before closeout for the costs of publication or sharing of research results if the costs are not incurred during the POP of the federal award (2 CFR § 200.461).

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

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.](#)

Salaries and Wages. Compensation for personal services includes all remuneration, paid currently or accrued, for services of employees rendered during the POP under the federal award, including but not necessarily limited to wages and salaries. Costs of compensation are allowable to the extent that they satisfy the specific requirements of this Part, and that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established written policy of the non-federal entity consistently applied to both federal and non-federal activities.
- (2) Follows an appointment made in accordance with a non-federal entity's laws or rules or written policies and meets the requirements of federal statute, where applicable.
- (3) Is determined and supported as provided in Standards for Documentation of Personnel Expenses, when applicable (2 CFR § 200.430).

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

Subawards. An award provided by a pass-through entity to a subrecipient for the subrecipient to carry out part of a federal award received by the pass-through entity. It does not include payments to a contractor or payments to an individual that is a beneficiary of a federal program. A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract (2 CFR § 200.92) and (2 CFR Revision § 200.1).

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

Supplies. All tangible personal property other than those described in § 200.33 Equipment. A computing device is a supply if the acquisition cost is less than the lesser of the capitalization level established by the non-federal entity for financial statement

purposes or \$5,000, regardless of the length of its useful life (2 CFR § 200.94).

Return to the term's initial use.

Travel costs. Expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the non-federal entity. Such costs may be charged on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip and not to selected days of the trip, and results in charges consistent with those normally allowed in like circumstances in the non-federal entity's non-federally funded activities and in accordance with non-federal entity's written travel reimbursement policies. Notwithstanding the provisions of § 200.444 *General costs of government*, travel costs of officials covered by that section are allowable with the prior written approval of the federal awarding agency or pass-through entity when they are specifically related to the federal award (2 CFR § 200.474).

Return to the term's initial use.



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