Report on Research Compliance Volume 16, Number 4. April 01, 2019 Slew of NSF OIG Audits Features 'Emphatic' Disagreement By CSU

By Theresa Defino

Findings of four recent audits released by the National Science Foundation (NSF) Office of Inspector General (OIG) again reinforce the idea that expenditures must be properly timed to benefit a particular award.

But the audits also contain some unusual features—for example, a university was called out because a principal investigator (PI) failed to acknowledge NSF support in a published paper—and there was some unusually strong pushback from universities against repayment recommendations.

None of the audit findings have yet been resolved with NSF, so it remains to be seen whether the agency will confirm or turn aside OIG's recommendations.

Historically, NSF has tended to side with awardee institutions, particularly when they mount strong opposition to a finding or, as happened in the recent past, NSF concludes that OIG has "misinterpreted" one of its policies. This has not always been the case, of course.

In November, for example, NSF disallowed nearly $80,000 for equipment, materials and supplies that it said the University of California San Diego Scripps Institute of Oceanography (SIO) purchased too near the end of five awards. In its resolution of the 2017 audit, NSF disallowed a total of $95,882, permitting just $15,634 of $111,516 auditors questioned regarding costs claimed from April 1, 2012, to March 31, 2015. NSF said its decision was based on regulatory requirements and SIO's "concurrence," but in responses to the auditors' draft report, officials said the purchases were reasonable and necessary ("NSF Disallows Majority of Questioned Costs at Scripps Institute, Mostly Sides with USC," *RRC E-Alert*, Nov. 29, 2018).

The following are details of the recent audits.

University of Wyoming (UW)

- Date of audit: Dec. 21, 2018
- Audit period: Oct. 1, 2011, to Sept. 30, 2014
- Tested amounts: 248 transactions totaling $2.3 million
- OIG financial recommendation: repay $441,683
- University response: agreed to repay $206,279

Issued late last year, the UW audit set the tone for the group in terms of rebuttals to at least some of OIG's claims of unallowable costs. Auditors reported that they "found $44,330 in unallowable payroll and non-payroll costs incurred due to lack of supporting documentation, $15,581 in unallowable relocation costs, and $381,772 of inadequate support for transfer of transactions between awards within and outside of [the] period of performance."

The transfer charges questioned stemmed from "transactions where the costs were transferred from one cost center of a different award to an NSF award outside the required 90-day close-out period," OIG said. UW "did not provide the appropriate documentation to validate the reasonableness of the transfer, and we were unable to determine through other means that such transferred costs represented allowable costs," the auditors said.

UW "provided support for the expenditures [but] did not provide support that the expenditures related to the applicable NSF award." OIG deemed the relocation costs unallowable because UW failed to "name a specific person in its grant proposal for whom relocation expenses would be incurred."

Further, the auditors noted three "internal control deficiencies:"

- "Personnel Activity Reports (PAR)/timesheets not properly approved;
- PAR document submitted more than 60 days after period of performance; and
- Purchase card (P-card) transaction limit of $1,500 exceeded without proper approval."

Auditors said NSF should require UW to take steps to:

- "Ensure that all timesheets, PARs, or other acceptable documentation is available for all employee time charges to the grant and that this documentation be retained and available in accordance with applicable requirements.
- Ensure that all budget amendments necessary to reflect such relocation expenses reimbursement be approved prior to payment.
- Ensure that grant proposals include specific named individuals for whom relocation costs will be incurred.
- Implement a policy requiring that all cost transfers are performed within 90 days of the end of the award period, and that such documentation be maintained.
- Strengthen its existing policies and procedures to include trainings to ensure that all PARs are completed and submitted with at least one signature, and timesheets are signed by both employee and supervisor in a timely manner. In addition, the University should have a process that flags and tracks unsigned timesheets to ensure they are being signed by the appropriate person in a timely fashion.
- Enforce internal review and approval processes of P-card limits and obtain/maintain supporting documentation to support management's approval of increased thresholds. In addition, we recommend that individuals reviewing and approving the P-card transactions receive relevant training to ensure that appropriate support is being maintained and reviewed along with purchases."

UW agreed to make repayment of costs that lacked documentation, saying it concurred with the need to strengthen procedures and ensure all timesheets and PAR reports "are documented and properly retained." UW also planned to implement a new human capital management system to "replace paper timesheets," as well as a new effort reporting system.

But it took issue with the recommendations regarding expenditures over allowable limits on P-cards, saying such amounts were approved. "The only way a transaction is allowed to process on a P-card that exceeds the threshold is with the review, approval and physical override in the P-card provider bank site by an authorized procurement department staff member," UW explained. Documentation of approvals was lost when the bank's software was changed, it said.

The university was in partial agreement with the finding on cost transfers, saying it has since adopted a requirement that PIs provide a written explanation for the need for the cost transfer, and implemented a "deadline of 90 days for cost transfers to be submitted from the original date of the expenditure."

In disputing $234,407 in questioned costs, UW referred to these as "receipt corrections" that it said were made in compliance with an FAQ issued by NSF.

UW did not respond to *RRC*'s request for comment on the audit.

Link to UW audit: http://bit.ly/2M17r7F

Colorado State University (CSU)

- Date of audit: Feb. 25, 2019
- Audit period: Oct. 1, 2012, to Sept. 30, 2015
- Tested amounts: 250 transactions totaling $3 million
- OIG financial recommendation: repay $19,365
- University response: disagreed with all of the findings

In contrast to UW, CSU "disagreed with all of the findings" in a Feb. 25 audit that recommends that CSU repay $19,365 of costs. These consist of "$10,989 in unsupported costs, $2,376 in improperly allocated costs, and $6,000 in costs improperly transferred between awards." In its response to draft findings, CSU argued all costs were allowable.

The $10,989 was "charged to the same NSF award, by the same person, for travel expenses to" a location that auditors redacted. These costs, auditors said, were incurred in violation of CSU's policies because receipts were lacking. Of this amount, $2,307 was for a cash advance for which there were "no original receipts." The balance was related to travel expenses that OIG disallowed because CSU "did not provide receipts that were legible."

In response, CSU argued that the original documentation was left behind in a foreign country and that "scanned copies were sent back to CSU." Further, it is "not unusual for receipts from foreign countries to be presented in the language of that country and universities rely on the PI to notate costs," it said. CSU also conducted an internal review at the time and approved the costs.

OIG pulled out another $2,376 in travel expenses it said were unallowable because they were not spread across more than one award. CSU said the same PI was on both awards and that officials are "convinced the PI appropriately allocated the charges to correct awards."

But CSU reserved its strongest objections to OIG's determination that a $6,000 transfer between two awards that were part of a graduate research fellowship program was unallowable, stating officials "emphatically disagree" with the auditors' assessment. Auditors erroneously concluded the funds were part of a research award, CSU said, when in reality such transfers are permitted as part of the fellowship program.

OIG said NSF should, in addition to seeking repayment:

- "Direct CSU to strengthen its policies and procedures to ensure acceptable documentation is available and reviewed for all charges to the grant and that this documentation be retained and available in accordance with applicable requirements.
- Direct CSU to strengthen policies relating to internal review of travel charges, which are made by people

that are on the payroll report for the award being charged.

- Direct CSU to strengthen its policies and procedures to ensure documentation is maintained to support allocation of costs incurred when employees are included on multiple awards.
- Direct CSU to strengthen procedures relating to internal review of transfers between awards, especially between expired and active awards."

RRC reached out to CSU for an update on the resolution of the findings, as well as for general comment on the audit.

"CSU is currently involved with the NSF audit resolution process with NSF's Division of Institution and Award Support, Resolutions and Advanced Monitoring Branch, and we respect the NSF's need to diligently follow established protocols during this process," said Mike Hooker, CSU director of public affairs and communications. "CSU is proud of the fact that, as stated in the report, the auditors tested more than $3 million of $97 million of claimed cost from NSF grants for a period of three years, yet only questioned three specific transactions with costs of less than $20,000."

Hooker said CSU officials "stand behind our responses provided to auditors and look forward to resolving these findings" with NSF.

Link to CSU audit: http://bit.ly/2SMIyOI

Princeton University

- Date of audit: Feb. 28, 2019
- Audit period: Nov. 1, 2013, to Oct. 31, 2016
- Tested amounts: 250 transactions totaling $8.6 million
- OIG recommendation: repay $436,021
- University response: agreed to repay $13,063

Overall, auditors deemed $433,819 in expenses among seven Princeton awards "unallocable and/or unreasonable" because they occurred "near award expiration." Of the total, approximately $364,000 was associated with a single award and PI who purchased "capital equipment" and "infrastructure items" that did not benefit the specific award because they occurred too close to its end and should have been allocated to other awards, according to OIG.

Auditors also flagged $2,202 of travel costs, of which $1,638 was for upgrades to first class plane tickets. The report also contained the unusual finding that a PI did not acknowledge NSF support in a paper, which auditors said was a violation of NSF award terms and conditions. Auditors cited $154,581 associated with this issue. OIG is not recommending repayment of this amount.

OIG recommended that NSF, in addition to seeking repayment:

- "Direct Princeton to ensure purchases are made timely within the award period of performance to allow the purchases to be fully utilized in support of the award.
- Direct Princeton to strengthen administrative and management controls to ensure compliance with Princeton policies over reviewing the allowability, allocability, and reasonableness of costs claimed on NSF

awards. Processes could include enhancing controls over properly allocating unallowable travel expenses (e.g., business class upgrades).

- Direct Princeton to encourage compliance with travel policies by providing additional support, training, and educational resources to employees.
- Direct Princeton to strengthen and enforce communication over current policies and procedures to enhance controls over expense classifications."

In their seven-page response to draft findings, Princeton officials said they were "pleased to learn there were no financial findings reported for 244 of 250" transactions sampled by OIG, and called the lack of publication acknowledgement "an unfortunate oversight" that was corrected in the online version of the paper.

Princeton disagreed with OIG regarding $363,766 in costs associated with equipment purchases, offering a detailed timeline that indicated NSF approval had been granted. The auditors, Princeton said, knew that equipment had to be reordered because the first delivery was "defective." Regarding other costs, Princeton agreed to repay $13,063 resulting from some disallowed amounts for certain travel and equipment. The university also said it would "focus training topics on the recommended items" in the audit.

Princeton officials declined to answer questions posed by *RRC*, stating they did not "have anything to add beyond our written response to the audit findings." Among the questions *RRC* asked was how the auditors caught the lack of acknowledgement by the PI.

Link to Princeton audit: http://bit.ly/2TBPh2A

University of Tennessee Knoxville (UTK)

- Date of audit: March 13, 2019
- Audit period: July 1, 2013, to June 30, 2016
- Tested amounts: 250 transactions totaling $2.9 million
- OIG financial recommendation: repay $34,094
- University response: agreed to repay $34,094

The audit of UTK is the most recent to be issued. Unlike the others, UTK agreed with all of OIG's recommendations. In this case, OIG made three primary sets of findings.

"We noted one transaction totaling $16,549 related to a maintenance contract of which approximately 8 months were outside of the award period. The result is $14,282, which included indirect costs of $2,947, of the total contract being outside of the award period," the auditors said. "Although the maintenance costs were approved under the award budget to support all hardware and software costs including related maintenance, the term of the maintenance contract extended beyond the award period. UTK management did not have a control in place to ensure costs were assigned to awards relative to the benefits received, which resulted in unallocable costs." These charges were considered to be "not fully supporting the award during the award period."

Although it agreed with the finding and "the amount of questioned costs to be returned," UTK nevertheless said the expense was approved by NSF. The expense was the result of "an annual maintenance contract on a computer which was extended beyond the period of performance," and was "processed at the guidance of the NSF Program Officer as it was believed that this award would receive a no cost extension." UTK called the item "an isolated incident that requires no further action."

Secondly, auditors said they found unallowable payroll expenditures related to "four transactions totaling $11,528, which includes $3,791 of associated indirect costs, charged to separate awards for moving costs and bonuses/incentives not approved in the budget. Service awards are typically not considered reasonable and necessary for the operation of the grant."

Specifically, OIG disallowed $2,800 it said UTK incurred "related to a service and for honorable recognition for a paper that was named `best paper awarded in [redacted].'" In agreeing with the finding, UTK said it added "another approval level for service awards and [for] moving allowances in the accounting system to prevent further inappropriate expenditures." Further, UTK said its Sponsored Projects Accounting Department "will be included in the electronic approval path after the department approval level when these expenses are entered for payment on a sponsored project."

Thirdly, OIG flagged as a "late charge" to an award a transaction of "$6,675 that included indirect costs of $2,134…for supplies that were not received until 10 days before the end of the project. This occurred because UTK management did not identify the expenses as no longer benefitting the grant. According to UTK, based on the timing of the receipt of the supplies, there was no direct benefit to the award."

Auditors did not specify what the supplies were for. UTK said it would "enhance" its training programs to address this issue and provide "guidance on best practice in assessing how the timing of supply purchases affects the direct benefit to awards."

In addition to repayment, OIG recommended that NSF:

- "Direct UTK to strengthen the administrative and management controls to ensure reimbursed costs are not only incurred within the award period, but also benefit the award relative to amounts claimed.
- Direct UTK to ensure a full assessment of all incurred costs to ensure that they are both ordinary and necessary in supporting the nature of the related award(s)."

Link to UTK audit: http://bit.ly/2Y0kz2J