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February 9, 2018

Jeffrey A. Silber
 Senior Director
 Sponsored Financial Services
 Cornell University
 341 Pine Tree Road
 Ithaca, NY 14850

Re: Resolution of NSF OIG Audit Report No. 13-1-004

Dear Mr. Silber,

The National Science Foundation (NSF) has completed its review and resolution of the NSF Office of the Inspector General’s (OIG) report on costs incurred by Cornell University (Cornell), under NSF awards for the period April 1, 2008 through June 30, 2011.

The audit report identified a total of \$794,221 in questioned costs, including statistical projections, and recommended the University adhere to its policies and procedures for charging costs to NSF awards. As a result of its audit resolution efforts, NSF has determined to allow \$755,858 and to disallow questioned costs in the amount of \$38,363 as summarized in the table below:

Finding	Description	Projected Questioned	Allowed	Disallowed
1	Unallowable Supplies	\$660,699	\$660,126	\$573
2	Unallowable Recharge Center Costs	\$75,312	\$47,696	\$27,616
3	Unallowable General Expenses	\$34,085	\$30,493	\$3,592
4	Unallowable Foreign Travel	\$17,544	\$13,422	\$4,122
5	Unallowable Clerical & Administrative Salaries	\$6,581	\$4,121	\$2,460
	Totals:	\$794,221	\$755,858	\$38,363

To resolve the questioned costs, NSF selected judgmental samples of the transactions tested by auditors for each category of cost questioned and conducted careful reviews of documentation provided by Cornell to the auditors, applicable federal and NSF requirements, and specific proposal and award information maintained at NSF. The following provides the basis for the management decisions reached by NSF for each area of cost:

- 1) **Supplies** – NSF does not sustain the finding. The auditors identified \$660,699 in estimated questioned costs, stating that Cornell improperly charged supply costs that should have been treated as Facilities and Administrative (F&A) costs because it did not always adhere to its established policies. NSF disagrees that costs *normally* treated as F&A cannot qualify as direct costs [OMB A-21, F.6(b)(1) and (3); A-21, Appendix D.1.]. Based on a review of documentation for nine of the 21 auditor-sampled costs, NSF found each of the costs to be reasonable,



necessary, allocable and allowable as charges to the applicable NSF awards. Therefore, NSF's management decision is to allow \$660,126 of the costs questioned and to disallow \$573 in costs submitted to by Cornell in their response to the draft audit report dated April 29, 2013. NSF considers this finding resolved.

- 2) **Recharge Centers** – NSF sustains the finding. The auditors identified \$75,312 in estimated costs because Cornell improperly charged recharge center costs to NSF awards that should have been treated as F&A. Cornell concurred that 13 of 15 transactions tested and reviewed by the auditors were unallowable, and agreed to improve training for staff in this area of compliance. For the two remaining transactions, \$87 for supplies were determined by NSF to be eligible as direct costs, as the awards in question are considered “major projects” in accordance A-21, Appendix A, F.6.b(1). It is the NSF management decision that \$27,616 in recharge costs agreed to by Cornell is disallowed, and the remaining \$47,696 in projected questioned costs will be allowed. NSF considers the finding resolved.
- 3) **General Expenses**– NSF partially sustains the finding. The auditors identified \$34,085 in estimated general expenses and office supplies that Cornell improperly charged to NSF awards and directly charged costs that should have been treated as F&A. Cornell agreed with three of the 32 exceptions noted by the auditors. NSF selected four samples and reviewed alternative documentation for participant support costs questioned by the auditors. Via NSF project reports and publications, NSF verified participation of the trainees. However, NSF agrees that a \$500 increase in compensation for a non-faculty administrator based on verbal agreement only is not adequate documentation and will disallow the costs. In addition, review of the allocation of \$2,703 in compensation under two NSF awards for an undergraduate found that although not documented, the allocation was reasonable with the exception of \$450 which will be disallowed. It is the NSF management decision that the remaining \$30,493 will be allowed. NSF considers the finding resolved.
- 4) **Foreign Travel** – NSF sustains the finding based on Cornell's concurrence with seven of 11 (64%) sampled transactions. The auditors estimated that Cornell improperly claimed \$17,544 in foreign travel and associated F&A costs. NSF reviewed documentation to support \$600 in per diem paid to a field researcher and determined that the costs, were improperly categorized, given that only employees of NSF grants in travel status are eligible to receive per diem. However, based on contributions of the individual to facilitate field research in a foreign country, NSF finds it was reasonable to pay \$600 for services that benefitted the grant, albeit not as per diem. NSF recommends that Cornell strengthen controls over payments to non-employee contributors to ensure proper categorization and documentation of costs. It is the NSF management decision to disallow \$4,122 concurred to by Cornell, and to allow the remaining \$13,422 of questioned costs. This finding is considered resolved.
- 5) **Clerical and Administrative Salaries** – NSF partially sustains the finding. The questioned \$6,581 in clerical and administrative salaries charged to NSF awards, stating that the salaries “should have been treated as F&A costs”. During the audit, Cornell concurred with \$2,460 of the costs in question. For the remaining clerical and administrative salaries questioned by the auditors NSF found that the costs were approved by NSF, and were reasonable and allocable because the awards in question were major projects. Further, NSF found the University's policies and procedures to be compliant with federal and NSF requirements for charging administrative salaries under federal awards. Therefore it is the NSF management decision to disallow \$2,460 and allow the remaining \$4,121. This finding is considered resolved.



Please be aware that the University's right to appeal cost disallowances by NSF is outlined in Chapter XII.B of the NSF Proposal and Award Policies and Procedures Guide (PAPPG), which may be found online at: https://www.nsf.gov/publications/pub_summ.jsp?ods_key=pappg.

As of the date of this letter, the University has provided evidence that repayment of \$855 (award IOS-0965336) of the \$38,363 disallowed has been completed. **Specific instructions on remittance of the remaining \$37,508 are provided in Attachment 1.**

Based on the above, NSF considers all findings and questioned costs resolved. Upon verification that repayment of the remaining \$37,508 has been completed, the audit report will be fully closed out by NSF.

The University's patience, timely response, and overall cooperation with the NSF audit resolution process have been greatly appreciated. Should you have any questions regarding this letter or the NSF audit resolution process, please contact me at (703) 292-4827.

Sincerely,

Rochelle D. Ray

Rochelle D. Ray, Team Lead
Cost Analysis and Audit Resolution Branch
Division of Institution and Award Support