



**NATIONAL SCIENCE FOUNDATION**  
**Division of Institution & Award Support**

2415 Eisenhower Avenue - Suite E 7400  
Alexandria, VA 22314  
(703) 292-8244

September 25, 2017

Robert Andresen  
Vice Chancellor for Finance and Administration  
University of Wisconsin - Madison  
Room 6310  
21 N Park Street  
Madison, WI 53715

**Re: Audit Report No. 15-1-014**

Dear Mr. Andresen,

The National Science Foundation (NSF) has completed the review and resolution of the Office of the Inspector General (OIG) audit report on costs incurred under NSF awards by the University of Wisconsin at Madison, during the period April 1, 2010 to March 31, 2013.

The audit report identified a total of \$1,669,588 in questioned costs claimed on NSF awards and recommended that the University strengthen its administrative and management controls for the areas in which findings were identified. As a result of its resolution efforts, NSF has determined that \$1,535,074 will be allowed, and that \$134,514 will be disallowed. The table below summarizes the disallowed and allowed costs by finding number:

<b>Finding</b>	<b>Description</b>	<b>Questioned</b>	<b>Disallowed</b>	<b>Allowed</b>
1	Senior Personnel Exceeded NSF's Two-Month Maximum for Salary Allocation	\$1,276,668	\$0	\$1,276,668
2	Leave Accrual Payouts Unreasonably Allocated to NSF Awards	\$192,707	\$0	\$192,707
3	Methodology Used to Allocate Equipment Expenses Not Proportional to the Benefits Received	\$70,189	\$70,189	\$0
4	Expenses Incurred After the Grant's Period of Performance has Expired	\$56,965	\$56,965	\$0
5	Unreasonable Consulting Expenses	\$35,592	\$0	\$35,592
6	Unreasonable Relocation Expenses	\$30,107	\$0	\$30,107
7	Unreasonable Travel Expenses	\$7,360	\$7,360	\$0
<b>Total</b>		<b>\$1,669,588</b>	<b>\$134,514</b>	<b>\$1,535,074</b>

To resolve the audit findings and questioned costs, NSF conducted careful reviews of applicable federal and NSF requirements, proposal and award information maintained by NSF, and documentation provided by the University. The following provides the basis for the management decisions reached by NSF:

- **Finding 1: Senior Personnel Exceeded NSF's Two-Month Maximum for Salary Allocation**  
NSF does not sustain the finding. As stated in the NSF Proposal & Award Policies and Procedures Guide (PAPPG) Chapters VII and X, an awardee can internally approve an increase or decrease in person months devoted to the project after an award is made, even if doing so results in salary support for senior personnel exceeding the two month salary policy. No prior approval from NSF is necessary as long as that change would not cause the objective or scope of the project to change. Therefore, it is the NSF management decision that the \$1,276,668 questioned as excess senior salaries are allowable costs and no further action is required by the University.
- **Finding 2: Leave Accrual Payouts Unreasonably Allocated to NSF Awards**  
NSF does not sustain the finding. The basis of the audit finding was that leave accrual payouts should have been charged to NSF awards using the accrual method for charging annual leave, rather than the cash basis. It is inappropriate for NSF to impose a cost accounting methodology on an organization that differs from the approved cost methodology by its cognizant federal agency. The University consistently applied a cash basis to account for leave payouts, as acknowledged in the audit report. Therefore, NSF accepts that the cash basis for expensing leave payouts resulted in an equitable allocation of costs as a cumulative process across all awards and cost objectives, rather than isolated instances as presented in the audit report. As a result, it is the NSF management decision that associated questioned costs of \$192,707 are allowable, based on the University's approved cost methodology that was consistently applied.
- **Finding 3: Methodology Used to Allocate Equipment Expenses Not Proportional to the Benefits Received**  
NSF sustains the finding. The University did not provide documentation to support a reasonable and rational allocation methodology for equipment expenses. Therefore, NSF has disallowed the entire \$70,189 in questioned costs.
- **Finding 4: Expenses Incurred After the Grant's Period of Performance has Expired**  
NSF sustains the finding. NSF determined that expenses for purchase orders placed after the award expiration date are unallowable and disallowed the entire \$56,965.
- **Finding 5: Unreasonable Consulting Expenses**  
NSF does not sustain the finding. The basis for questioning costs was a determination that two consultant payments were made as a matter of convenience, which is prohibited under 2 CFR 220, Appendix A, Section C.4.b. However, NSF determined that the services were award related, provided within the performance period, and that the obligations were liquidated within the 90 day close out. Therefore, NSF's management decision is to allow the entire \$35,592 in questioned costs.
- **Finding 6: Unreasonable Relocation Expenses**  
NSF does not sustain the finding. NSF determined that under normal rebudgeting authority, awardees may internally approve relocation expenses after an award is made. As of PAPPG 15-1, NSF has clarified the PAPPG language to align NSF guidance with the OMB cost principles. During resolution, NSF determined that: (1) the University followed its own policies and procedures for

charging relocation costs directly to the NSF award in question; (2) the University's policies and procedures aligned with the Federal Cost Principles; and (3) the documentation provided by the University that supports the allocability and allowability for directly charging the relocation costs was reasonable and adequate. Therefore, NSF's management decision is to allow the entire \$30,107 of questioned costs.

- **Finding 7: Unreasonable Travel Expenses**

NSF sustains the finding based on University concurrence, and has disallowed the entire \$7,360 of questioned costs.

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](https://www.nsf.gov/publications/pub_summ.jsp?ods_key=pappg).

As of the date of this letter, the University has provided evidence for the repayment of \$7,360 of the \$134,514 disallowed. **The remaining disallowed amount of \$127,154 may be repaid via [www.pay.gov](http://www.pay.gov).** Any necessary adjustments to ACM\$ as a result of the pay.gov payment will be made by the NSF Division of Financial Management.

In reference to compliance and internal control recommendations in the audit report, NSF accepts the University's stated corrective actions as responsive and considers the recommendations to be resolved and closed.

Based on the above, NSF considers all findings and questioned costs resolved. Upon verification that repayment of the remaining \$127,154 has been completed, the audit report will be fully closed out by NSF.

The University's timely responses and full 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 Carrie Davison at (703) 292-4579.

Sincerely,

*Rochelle D. Ray*

Rochelle D. Ray, Branch Chief  
Resolution and Advanced Monitoring Branch  
Division of Institution & Award Support