



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

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May 25, 2018

Ms. Deborah Talley  
Sponsored Programs Consultant  
University of Michigan  
5000 Wolverine Tower  
3003 S. State Street  
Ann Arbor, MI 48109

**Re: Audit Report No. 16-1-023**

Dear Ms. Talley:

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 Michigan during the period October 1, 2011 to September 30, 2014.

The audit report identified a total of \$2,710,238 in questioned costs and recommended that the University strengthen its administrative and management controls over the areas reviewed. Because of NSF's audit resolution efforts, including the review and analysis of the applicable federal and NSF requirements, and documentation provided by the University, NSF has determined \$2,710,238 of costs questioned by the auditors will be allowed, and that \$218,349 will be disallowed, as summarized in the following table:

<b>Finding</b>	<b>Description</b>	<b>Questioned</b>	<b>Disallowed</b>	<b>Allowed</b>
1	Salary Costs Exceeding NSF's Allowable Limits	\$2,242,477	\$0	\$2,242,477
2	Unsupported ACM\$ Requests	\$360,908	\$135,884	\$225,024
3	Unallowable Equipment Purchases	\$57,355	\$33,355	\$24,000
4	Unallowable Travel Expenses	\$20,656	\$20,656	\$0
5	Unsupported Travel Expenses	\$2,635	\$2,635	\$0

<b>Finding</b>	<b>Description</b>	<b>Questioned</b>	<b>Disallowed</b>	<b>Allowed</b>
6	Unallowable Airfare and Entertainment Expenses	\$8,905	\$8,905	\$0
7	Indirect Costs Improperly Claimed on Participant Support Costs	\$7,203	\$7,203	\$0
8	Unallowable Additional Compensation	\$6,603	\$6,603	\$0
9	Unallowable Visa Expenses	\$3,496	\$3,108	\$388
<b>Total</b>		<b>\$2,710,238</b>	<b>\$218,349</b>	<b>\$2,491,889</b>

To resolve the audit findings and questioned costs, NSF conducted careful review 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: Salary Costs Exceeding NSF's Allowable Limits**  
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 \$2,242,477 questioned as excess senior salaries are allowable costs and no further action is required by the University.
- Finding 2: Unsupported ACM\$ Requests**  
NSF partially sustains the finding. For five awards where costs were questioned, the University demonstrated that funds drawn down were utilized within the period of performance, and that funds not used within the period of performance were promptly returned to NSF. However, for one award NSF found the University expended \$135,884 in funding after the expiration of the appropriation. Because the expenditures were incurred after September 30, 2013, the costs are unilaterally disallowed.
- Finding 3: Unallowable Equipment Purchases**  
NSF partially sustains the finding because the University did not provide adequate documentation to demonstrate that equipment purchased two months prior to the award end date were reasonable, necessary, and allocable. As a result, NSF has disallowed \$33,355. The remaining \$24,000 in questioned costs for purchase and transfer of a research vessel will be allowed, as NSF determined that evidence provided demonstrated the purchase was reasonable, necessary, allocable, and adhered to established University policies and procedures.

- **Finding 4: Unallowable Travel Expenses**  
NSF sustains the finding based on University concurrence, and has disallowed the entire \$20,656 in questioned costs.
- **Finding 5: Unsupported Travel Expenses**  
NSF sustains the finding based on University concurrence, and has disallowed the entire \$2,635 in questioned costs.
- **Finding 6: Unallowable Airfare and Entertainment Expenses**  
NSF sustains the finding based on the University's concurrence and inability to provide documentation that demonstrated the costs charged were reasonable, necessary, and allocable. As a result, NSF has disallowed the entire \$8,905 in questioned costs.
- **Finding 7: Indirect Costs Improperly Claimed on Participant Support Costs**  
NSF sustains the finding based on University concurrence, and has disallowed the entire \$7,203 in questioned costs.
- **Finding 8: Unallowable Additional Compensation**  
NSF sustains the finding based on University concurrence, and has disallowed the entire \$6,603 in questioned costs.
- **Finding 9: Unallowable Visa Expenses**  
NSF sustains the finding based on the University's inability to provide adequate documentation that demonstrated visa expenses charged to the NSF award were reasonable, necessary, and allocable. As a result, NSF has disallowed \$3,108. The remaining \$388 in questioned costs was allowed because the University provided sufficient evidence that a portion (11.1%) of the visa costs were necessary and allocable to the subject award.

Please be aware that the University's right to appeal cost disallowances by NSF is outlined in Chapter VII.B of the NSF Award Administration Guide (AAG), which may be found online at:

[https://www.nsf.gov/publications/pub\\_summ.jsp?ods\\_key=papppg](https://www.nsf.gov/publications/pub_summ.jsp?ods_key=papppg).

The total disallowed amount is \$218,349. The University provided evidence that \$12,541 was repaid via offset of additional expenditures not reimbursed by NSF and that \$432 associated with Finding 6 has been credited to the award via ACM\$. NSF will work with the University to determine the appropriate form of repayment for the remaining disallowed amount of \$205,376. Please note that repayments in the form of a check must be sent to attention of the "NSF Cashier" at the address below. Please reference "OIG Audit Report No. 16-1-023" in the comment section.

Attn: NSF Cashier - National Science Foundation  
Division of Acquisition and Cooperative Support  
2415 Eisenhower Ave.  
Alexandria, VA 22314

Regarding the audit recommendations to enhance compliance and internal controls over the areas reviewed, because eight of the nine findings identified by the audit have been sustained or partially sustained, NSF recommends the University consider sending reminders or providing additional training to staff who work on federal awards to reinforce the importance of adhering to policies and procedures established by the University to ensure compliance.

Based on the above, NSF considers all findings and questioned costs resolved. Upon verification that repayment of the remaining disallowed amount of \$205,376 has been completed, the audit report will be fully closed out by NSF.

The University's timely responses, patience, and 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, Chief

Resolution and Advanced Monitoring Branch

Division of Institution & Award Support