



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

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October 26, 2018

Daniel Shapiro  
 Director, Research Compliance  
 University of Southern California  
 3500 South Figueroa Street, #105  
 Los Angeles, CA 90089-8007

Reference: OIG Report No. 17-1-009

Dear Mr. Shapiro:

The National Science Foundation (NSF) has completed the review and resolution of the Office of Inspector General (OIG) audit report on costs incurred under NSF awards by the University of Southern California (USC) during the period of October 1, 2011 through September 30, 2014.

The audit report identified a total of \$639,479 in questioned costs claimed on NSF awards and recommended that USC 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 \$574,663 will be allowed and that \$64,816 will be disallowed. The table below summarizes the allowed and disallowed costs by finding number:

<b>Finding</b>	<b>Description</b>	<b>Questioned</b>	<b>Allowed</b>	<b>Disallowed</b>
1	Unreasonable Expenses Near Award Expiration	\$304,290	\$291,006	\$13,284
2	Misapplication of Indirect Costs on Subawards	\$217,387	\$187,674	\$29,713
3	Unsupported or Incorrect Charges to Participant Support	\$55,182	\$55,136	\$46
4	Unreasonable, Unallowable, or Unsupported Travel Costs	\$40,199	\$23,799	\$16,400
5	Unreasonable or Unallocable General Expense Charges	\$9,364	\$8,408	\$956
6	Untimely Posting of Travel Charges	\$8,640	\$8,640	\$0
7	Unreasonable Payroll Charges	\$4,417	\$0	\$4,417
	<i>Total</i>	\$639,479	\$574,663	\$64,816

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

- **Finding 1: Unreasonable Expenses Near Award Expiration**  
NSF partially sustains the finding. USC concurred that \$13,284 was not allocable to the respective awards and agreed to repayment. NSF determined that the remaining \$291,006 were allowable costs based upon the review and acceptance of additional documentation to justify that the equipment and supply purchases were necessary and reasonable for the completion of the corresponding awards. It is NSF's management decision to disallow \$13,284 and to allow \$291,006.
- **Finding 2: Misapplication of Indirect Costs on Subawards**  
NSF does not sustain the finding. NSF determined that it was reasonable for USC to award multiple, competitive subawards to accomplish the objectives of the NSF award and that indirect costs should be allowed on the first \$25,000 of each subaward, rather than limited to the first \$25,000 for each subawardee. However, NSF found instances where the \$25,000 threshold per subaward was exceeded resulting in over-recovered indirect costs of \$29,713. It is NSF's management decision to disallow \$29,713 and to allow \$187,674.
- **Finding 3: Unsupported or Incorrect Charges to Participant Support**  
NSF sustains the finding related to the misclassification of participant support costs. However, NSF determined that all questioned costs, with the exception of alcohol, were allowable costs upon reclassification to the correct accounts. It is NSF's management decision to disallow \$46 and to allow \$55,136.
- **Finding 4: Unreasonable, Unallowable, or Unsupported Travel Costs**  
NSF partially sustains the finding. USC concurred that \$16,400 was not allocable to the respective awards and agreed to repayment. NSF determined that the remaining \$23,799 were allowable costs based upon the review and acceptance of additional documentation to justify that the questioned travel costs were necessary and reasonable for the completion of the corresponding awards. It is NSF's management decision to disallow \$16,400 and to allow \$23,799.
- **Finding 5: Unreasonable or Unallocable General Expense Charges**  
NSF partially sustains the finding. USC concurred that \$956 was not allocable to the respective awards and agreed to repayment. NSF determined that the remaining \$8,408 were allowable costs based upon the review and acceptance of additional documentation to justify that the questioned costs were necessary and reasonable for the completion of the corresponding awards. It is NSF's management decision to disallow \$956 and to allow \$8,408.
- **Finding 6: Untimely Posting of Travel Charges**  
NSF does not sustain the finding. NSF determined that the posting of the travel expenses did not violate USC's travel policy. It is NSF's management decision to allow the questioned costs of \$8,640.
- **Finding 7: Unreasonable Payroll Charges**  
NSF sustains the finding. Based on USC's concurrence, NSF's management decision is to disallow the questioned costs of \$4,417.

NSF accepts USC's stated corrective actions as responsive to the compliance and internal control recommendations related to the audit findings and NSF considers the recommendations resolved and closed.

The total disallowed amount is \$64,816, of which USC has provided evidence of \$8,323 in repayment. Repayment of the remaining \$56,493 will be accomplished by a reversing journal entry for \$29,713 under open award 0939564, and \$26,780 under closed awards will be repaid via [www.pay.gov](http://www.pay.gov) or check payable to the National Science Foundation. Please reference OIG Audit Report No. 17-1-009. Any necessary adjustments to ACM\$ as a result of the check or [pay.gov](http://www.pay.gov) repayment will be made by the NSF Division of Financial Management. Mail checks to:

National Science Foundation  
Attention: NSF Cashier  
2415 Eisenhower Avenue  
Alexandria, VA 22314

Please be aware that USC' 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).

Based on the above, NSF considers all findings and questioned costs resolved. Upon verification that repayment of the remaining \$56,493 in disallowed costs has been completed, the audit report will be fully closed out by NSF.

USC'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 Chris Andall at 703-292-4565.

Sincerely,

***Carrie Davison***

Carrie Davison, Lead Analyst  
Resolution and Advanced Monitoring Branch  
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