



NATIONAL SCIENCE FOUNDATION
Division of Institution & Award Support

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December 2, 2021

Elizabeth Peloso
 Associate Vice President and
 Associate Vice Provost
 University of Pennsylvania
 Office of Research Services
 5th Floor, Franklin Building
 3451 Walnut Street
 Philadelphia, PA 19104-6205

Reference: OIG Report No. 19-1-013

Dear Ms. Peloso:

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 Pennsylvania (UPenn) during the period of March 1, 2014, through February 28, 2017.

The audit report identified a total of \$265,957 in questioned costs claimed on NSF awards and recommended that UPenn strengthen its administrative and management controls over the areas in which findings and questioned costs were identified. NSF sustains \$257,004 of the questioned costs identified; however, based on alternative documentation reviewed and accepted during resolution, NSF will require repayment of only \$191,839. In addition, NSF identified unallowable costs of \$238 that are also disallowed. The table below summarizes the allowed and disallowed costs by finding number:

Finding	Audit Report Description	Questioned	Sustained	Allowed	Disallowed
1	Unsupported Expenses	\$ 149,765	\$ 145,023	\$ 59,742	\$ 90,023
2	Inappropriate Application of Indirect Costs	\$ 56,475	\$ 56,475	\$ 0	\$ 56,475
3	Unallowable Expenses	\$ 50,360	\$ 46,149	\$ 14,376	\$ 35,984
4	Expenses Not Appropriately Allocated to NSF Awards	\$ 8,853	\$ 8,853	\$ 0	\$ 8,853
5	Incorrect Application of Fringe Benefits	\$ 504	\$ 504	\$ 0	\$ 504
SUBTOTALS:		\$ 265,957	\$ 257,004	\$ 74,118	\$ 191,839
1	Additional Disallowed - Award No. 1138996				\$ 238
TOTAL DISALLOWED:					\$ 192,077

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

- **Finding 1: Unsupported Expenses**
NSF sustains the finding and agrees with \$145,023 of the questioned amount. However, based on NSF's review of alternative documentation and the specific circumstances involving two questioned transactions, NSF determined to disallow only \$90,023 of the sustained, questioned costs. NSF also identified additional unallowable costs of \$238 that are disallowed. NSF's management decision is to disallow \$90,261 and to allow \$59,742.
- **Finding 2: Inappropriate Application of Indirect Costs**
NSF sustains the finding. Based upon UPenn's concurrence, it is NSF's management decision to disallow \$56,475.
- **Finding 3: Unallowable Expenses**
NSF sustains the finding and agrees with \$46,149 of the questioned amount. However, based on NSF's review of alternative documentation and the specific circumstances involving one of the questioned transactions, NSF determined to disallow only \$35,984 of the sustained, questioned costs. NSF's management decision is to disallow \$35,984 and to allow \$14,376.
- **Finding 4: Expenses Not Appropriately Allocated to NSF Awards**
NSF sustains the finding. Based upon UPenn's concurrence, it is NSF's management decision to disallow \$8,853.
- **Finding 5: Incorrect Application of Fringe Benefits**
NSF sustains the finding. Based upon UPenn's concurrence, it is NSF's management decision to disallow \$504.
- **Finding 6: Improperly Approved Subaward Payments**
NSF sustains the finding. Final action will be complete upon a determination by NSF that corrective actions taken are responsive to the compliance and internal control recommendation.
- **Finding 7: Incorrect Application of Proposed Indirect Cost Rates**
NSF does not sustain the finding. NSF's policy requires grantees to budget indirect costs using current indirect cost rates in accordance with PAPPG Chapter II, Section C.2.g(viii), Indirect Costs. However, during the award performance period, Grantees may provide voluntary uncommitted cost sharing at any time consistent with OMB's clarification Q-132, 2 CFR Frequently Asked Questions dated 5/3/2021 and PAPPG Chapter II, Section C.2.g(xii), Cost Sharing. Also see NSF's Cost Sharing Policy at <https://www.nsf.gov/bfa/dias/policy/>. Accordingly, NSF does not agree with the recommendation to direct UPenn to strengthen the administrative and management controls and processes over establishing indirect cost rates for NSF awards to ensure that it applies costs at the rates in effect at the time of the initial award.

However, NSF does agree that grantees must have internal controls in place to ensure that the rates applied do not exceed the rates in effect at the time of the award, thereby avoiding overcharges of indirect costs to NSF awards. Final action will be complete upon a determination by

NSF that UPenn has implemented adequate internal controls to ensure that awards are not charged indirect costs in excess of the rate(s) in effect at the time of the award.

- **Finding 8: Non-Compliance with UPenn Travel Policies**

NSF sustains the finding. Final action will be complete upon a determination by NSF that corrective actions taken are responsive to the compliance and internal control recommendation.

The compliance and internal control recommendations under Findings 1 through 8 have not been adequately addressed. Corrective actions and updated policies in response to the recommendations are required within 90 days from the date of this letter. **Final action will be considered complete upon NSF's determination that corrective actions taken are responsive to the report recommendations.**

Based on the above, the total disallowed amount is \$192,077. **Repayment of \$192,077 must be made via www.pay.gov.** Please reference OIG Audit Report No. 19-1-013. Any necessary adjustments to ACM\$ because of the repayment will be made by the NSF Division of Financial Management.

Please be aware that UPenn'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.

NSF considers all audit report findings and questioned costs resolved. Upon verification that repayment of all disallowed costs has been completed and that corrective actions taken are responsive to the compliance and internal control recommendations, the audit report will be fully closed out by NSF.

UPenn'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 me at 703-292-4579.

Sincerely,

Carrie Davison

Carrie Davison, Team Lead – Audit Resolution
Resolution and Advanced Monitoring Branch
Division of Institution and Award Support