National Science Foundation • Office of Inspector General
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MEMORANDUM

Date: March 31, 2015

To: Mary F. Santonastasso, Director
Division of Institution and Award Support

Karen Tiplady, Director
Division of Grants and Agreements

From: Dr. Brett M. Baker
Assistant Inspector General for Audit

Subject: Audit Report No. 15-1-004
University of Florida

WithumSmith+Brown (WSB) revised its incurred cost audit report of the University of Florida, which we had previously issued to your office (NSF OIG Audit Report 15-1-004, dated March 19, 2015). The revision was necessary to make minor technical corrections within the report. The findings, conclusions, and recommendations remain unchanged. We are providing you with WSB's revised audit report (attached) and our revised transmittal memo.

As stated in our original transmittal memo dated March 19, 2015, this letter transmits WSB's report for the audit of costs totaling $112 million charged by the University of Florida (UF) to its sponsored agreements with NSF during the period April 1, 2010 through March 31, 2013. The objectives of the audit were to (1) identify and report on instances of unallowable, unallocable, and unreasonable costs from the transactions tested; (2) to identify and report on instances of noncompliance with regulations, federal financial assistance requirements, and provisions of the NSF award agreements as they relate to the transactions tested; and (3) determine the reasonableness, accuracy, and timeliness of the awardee's ARRA quarterly reporting, including reporting of jobs created under ARRA and grant expenditures for the most recent quarters.

The auditors determined that $992,462 in costs that UF charged to its NSF sponsored agreements did not always comply with applicable Federal requirements. Specifically, the auditors questioned $867,188 in senior personnel salary that exceeded NSF's two-month limit; $42,958 for travel expenses and services performed after award expiration, $32,822 in unsupportable or unallocable expenses; $27,331 in unreasonable equipment; $7,880 in student stipend advances; $7,160 in unallowable meals and associated services; $5,495 in unreasonable travel expenses; and a $1,628 foreign currency conversion error.

The auditors also found that UF properly accounted for and segregated NSF ARRA funded awards in its accounting system. Additionally, UF's ARRA reports were reasonable, accurate,

and timely. For the quarters ending December 31, 2012 and March 31, 2013, expenditures and jobs creation were verified without exception. However, the auditors found that $97,353 in unallowable costs (of the $992,462 in total questioned costs) were charged to 7 ARRA awards.

The auditors recommended that NSF address the findings by requiring UF to resolve the questioned costs of $992,462 and strengthen administrative and management processes and controls. UF did not agree with all the findings and recommendations. UF's response, described in the report, is included in its entirety in Appendix A.

Appendices C and D contain summaries of the unallowable items that were questioned. Additional information concerning the questioned items was provided separately by the OIG to the Division of Institution and Award Support, Cost Analysis and Audit Resolution Branch. Please coordinate with our office during the six month resolution period, as specified by OMB Circular A-50, to develop a mutually agreeable resolution of the audit findings. Also, the findings should not be closed until NSF determines that all recommendations have been adequately addressed and the proposed corrective actions have been satisfactorily implemented.

OIG Oversight of Audit

To fulfill our responsibilities under generally accepted government auditing standards, the Office of Inspector General:

- Reviewed WSB's approach and planning of the audit;
- Evaluated the qualifications and independence of the auditors;
- Monitored the progress of the audit at key points;
- Coordinated periodic meetings with WSB officials, as necessary, to discuss audit progress, findings, and recommendations;
- Reviewed the audit report, prepared by WSB to ensure compliance with generally accepted government auditing standards; and
- Coordinated issuance of the audit report.

WSB is responsible for the attached auditor's report on UF and the conclusions expressed in the report. We do not express any opinion on the conclusions presented in WSB's audit report.

We thank your staff for the assistance that was extended to our auditors during this audit. If you have any questions regarding this report, please contact Louise Nelson at 303-844-4689 or Ken Lish at 303-844-4738.

Attachment

cc: Michael Van Woert, Executive Officer, NSB
Ruth David, Audit & Oversight Committee Chairperson, NSB
Dale Bell, Deputy Division Director, BFA/ DIAS
Jamie French, Director of Operations, BFA/DGA
Alex Wynnyk, Branch Chief, BFA/ DIAS
Rochelle Ray, Team Leader, BFA/ DIAS
Joanne Rom, Deputy Assistant Director, BFA/OAD

University of Florida
Audit of Incurred Costs for
National Science Foundation Awards
For the Period April 1, 2010 to March 31, 2013

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ACRONYMS

AAG	Award & Administrative Guide
ARRA	American Reinvestment and Recovery Act of 2009
CFR	Code of Federal Regulation
CHEMS	Center for Energy Harvesting Materials and Systems
DIAS	Division of Institution and Award Support
FAQ	Frequently Asked Questions
FFR	Federal Financial Report
GPG	Grant Policy Guide
IPA	Intergovernmental Personnel Act
MTDC	Modified Total Direct Costs
NSF	National Science Foundation
OIG	Office of Inspector General
OMB	Office of Management and Budget
PI	Principal Investigator
UF	University of Florida

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Independent Auditors' Report

The National Science Foundation (NSF) is an independent federal agency created by the National Science Foundation Act of 1950 (P.L. 810-507). Its mission is "to promote the progress of science; to advance the national health, prosperity, and welfare; and to secure the national defense." The Foundation is also committed to ensuring an adequate supply of the Nation's scientists, engineers, and science educators. NSF funds research and education in science and engineering by awarding grants and contracts to educational and research institutions in all parts of the United States. Through grants, cooperative agreements, and contracts, NSF enters into relationships with non-federal organizations to fund research education initiatives and assist in supporting internal program operations. University of Florida (UF) is an NSF grant recipient.

UF is a comprehensive learning institute built on a land-grant foundation. UF states its faculty and staff are dedicated to the common pursuit of the university's threefold mission: teaching, research and scholarship, and service. These three interlocking elements span all the university's academic disciplines and represent the university's commitment to lead and serve the State of Florida, the nation and the world by pursuing and disseminating new knowledge while building upon the experiences of the past. The university aspires to advance by strengthening the human condition and improving the quality of life.

UF generated $697 million in research and development expenditures in 2012, ranking 23rd in the nation. Each year, the university receives thousands of awards to conduct research from an ever-expanding base of sponsors. Because UF is one of the largest recipients of NSF award dollars, NSF-OIG selected the UF for audit.

WithumSmith+Brown, under contract with the NSF-OIG, audited the costs claimed by UF to NSF for the period beginning April 1, 2010 and ending March 31, 2013. Our audit objectives were to: (1) identify and report on instances of unallowable, unallocable, and unreasonable costs; (2) identify and report on instances of noncompliance with regulations, federal financial assistance requirements, and the provisions of the NSF award agreements related to the transactions selected; and to (3) determine the reasonableness, accuracy and timeliness of the awardee's American Reinvestment and Recovery Act of 2009 (ARRA) quarterly reporting, including reporting the jobs created under ARRA and grant expenditures for the two most recent quarters.

We conducted this performance audit in accordance with generally accepted government auditing standards which require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that

the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our objectives, scope, methodology, and criteria are more fully detailed in Appendix B.

Results in Brief

To aid in determining reasonableness, allowability, and allocability of costs, we obtained from UF all awards for which costs were reported to NSF during the period of April 1, 2010 and ending March 31, 2013. This provided an audit universe of approximately $112 million, in more than 346,000 transactions, across 677 individual NSF awards.

Of the $112 million in the universe, our audit questioned $992,462 of costs claimed on 90 NSF awards because UF did not comply with federal and NSF award requirements. Specifically, we noted: $867,188 of senior personnel charges that exceed the NSF two-month salary limit; $42,958 for travel expenses and services performed after award expiration, $32,822 in unsupportable or unallocable expenses; $27,331 in unreasonable equipment; $7,880 in student stipend advances; $7,160 in unallowable meals and associated services; $5,495 in unreasonable travel expenses; and a $1,628 foreign currency conversion error. The questioned costs resulted in eight areas identified where UF controls could be improved to ensure compliance with laws and regulations.

The universe of NSF ARRA-funded awards included approximately $14 million of expenditures, in more than 47,000 transactions, across 40 NSF awards. Our review found that UF properly accounted for and segregated NSF ARRA-funded awards in the accounting system. Additionally, the ARRA reports were reasonable, accurate, and timely. For the quarters ending December 31, 2012 and March 31, 2013, expenditures and jobs creation were verified without exception. The allowability of costs reported for these awards were tested in conjunction with the other NSF awards. We did question $97,353 in 7 ARRA awards with expenditures related to senior personnel that exceeded the two-month NSF salary limit, and $1,219 for an unsupportable transaction.

UF reviewed and agreed with the facts via email for $100,443 in questioned costs: 1) $42,958 for expenses after award expiration; 2) $32,822 for unsupportable or unallocable transactions; 3) $7,075 for unreasonable equipment; 4) $7,880 for student stipend advances; 5) $2,585 for unallowable meals and associated services; 6) $5,495 for unreasonable travel expenses; and 7) $1,628 for a foreign currency conversion error. The University did not agree with $892,019: 1) $867,188 for senior salaries exceeding NSF limit; 2) $20,256 for unreasonable equipment; and 3) $4,575 for unallowable meals. The findings are outlined in our report and presented by award in Appendix C.

Findings and Recommendations

Finding 1 – Exceeded NSF Limits on Senior Salary

Our review of the accounting and reporting of NSF senior salary costs revealed that UF does not adequately track/monitor senior personnel costs relative to the NSF two-month salary limit. Our review identified senior personnel whose salary exceeded the NSF two-month salary limit.

Per NSF grant terms and conditions, grantees are fully responsible for the adherence to NSF policies. One such condition relates to senior personnel. Per NSF Award & Administrative Guide (AAG), Chapter V, Allowability of Cost, Section 1, Salaries, Wages, and Fringe Benefits, "NSF normally limits salary compensation for senior project personnel on awards made by the Foundation, to no more than two months of their regular salary in any one year. This limit includes salary received from all NSF funded grants…any ***compensation for such personnel in excess of two months must be disclosed in the***

proposal budget, justified in the budget justification, and must be specifically approved by NSF in the award notice."

Using data analytics, we extracted employees appearing to exceed the two-month NSF senior salary limitation. We provided the list of potential salary overcharges to UF for review. UF's Office of Contracts and Grants identified and excluded employees: 1) exempt from the two-month limit because they were Intergovernmental Personnel Act assignments (IPAs) representing employees detailed to the Foundation and remaining on UF's payroll while assigned to NSF; and 2) not senior personnel per the award documentation. UF also reviewed and corrected the salary rates as necessary. After completing their review, UF provided a final list of individuals exceeding the two-month limit totaling $481,323, excluding applicable fringe benefits and overhead (see Appendix C for detail by award).

Salary	Fringe Benefit	Overhead	Total Over
$ 481,323	$ [redacted]	$ [redacted]	$ 867,188

The following schedule shows the breakout of questioned costs by the number of months in excess of the NSF senior salary policy (see Appendix D for detail by instance).

Unallowable Months	Instances Over	Salary	Fringe Benefit	Overhead	Total Over
0 – 0.9	52	$ 256,031	$ [redacted]	$ [redacted]	$ 464,268
1 – 1.9	6	$ 122,622	$ [redacted]	$ [redacted]	$ 211,868
2 – 2.9	1	$ 36,395	$ [redacted]	$ [redacted]	$ 68,408
5 – 5.9	1	$ 25,775	$ [redacted]	$ [redacted]	$ 46,521
6 – 6.9	1	$ 40,500	$ [redacted]	$ [redacted]	$ 76,123
	61	$ 481,323	$ [redacted]	$ [redacted]	$ 867,188

The final list of individuals confirmed by UF was examined, and the facts were verified with the award documentation and salary support.

These overcharges were due to a lack of effective monitoring caused by an over-reliance on rebudgeting authority. As a result, $867,188 in salary, fringe benefits and overhead on 70 NSF awards is questioned. Had UF effectively monitored their senior personnel salary costs, these overcharges would not have occurred. Without a process in place to ensure that senior personnel do not exceed the NSF two-month limit, there is the increased risk that funds may not be spent in accordance with NSF requirements.

UF relied on an informal November 2010 Frequently Asked Questions (FAQ) document on Proposal Preparation and Award Administration which states "NSF did not change the terms and conditions or any of our post-award prior approval requirements. Therefore, under the normal rebudgeting authority, an awardee could internally approve an increase of salary after an award is made." However, the FAQ document is non-authoritative and contradicts the NSF requirement per the AAG which was in effect during the audit period. Therefore, we question the $867,188 in overcharges that NSF did not approve.

UF's administrative and management controls were not adequately designed to facilitate monitoring of senior personnel salary limits which resulted in unallowable costs.

Recommendation 1:

We recommend that the NSF's Director of the Division of Institution and Award Support (DIAS) address and resolve the following UF recommendations:

a. Work with NSF to resolve the $867,188 of questioned costs; and
b. Strengthen the administrative and management controls and processes for senior personnel to ensure NSF salary limits are not exceeded.

Awardee Response:

UF does not concur with this finding, totaling $867,188. Per UF, the NSF Senior Project Personnel rule for certain classes of faculty is unclear that this rule is applicable to most of the personnel costs in question. In particular, NSF policy states "NSF regards research as one of the normal functions of faculty members at institutions of higher education. Compensation for time normally spent on research within the term of appointment is deemed to be included within the faculty member's regular organizational salary…." The majority of the questioned costs relate to employees who do not have, any component of their organizational salary allocated as compensation for time spent on research. These faculties do not have university appointments in which compensation for research is part of their regular organizational salary, as referenced in the NSF Policy, and as such should not be constrained by the two-month salary rule.

Additionally, UF believes that, NSF has published consistent policy guidance related to Senior Personnel, including, "... under the normal rebudgeting authority, an awardee can internally approve an increase 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 rule. No prior approval from NSF is necessary." UF states that the remaining question costs are a result of the UF's budgeting under this authority. UF believes that the charges in question are consistent with the express guidance provided by NSF Policy Office, and the audit finding is inconsistent with this guidance.

Auditor Comments:

Per the GPG Exhibit II-7, senior personnel are defined by NSF as PIs, Co-PIs, or faculty, are jointly responsible for the direction of the project. These individuals, identified by UF on the award budget, are the senior personnel responsible for the project and subject to the two-month salary limit.

Although UF agreed that these individuals' salaries exceeded the NSF approved salary limit, their reliance on rebudgeting authority resulted in questioned costs based on the official NSF policy applicable during the audit period. UF interpreted the November 2010 Frequently Asked Questions (FAQ) on Proposal Preparation and Award Administration which states, NSF has not "changed the terms and conditions or any of our post-award prior approval requirements. Therefore, under the normal rebudgeting authority, an awardee can internally approve an increase of salary after an award is made," to mean the two-month salary limit on senior personnel could be disregarded post award. However, the FAQ made no mention of the ability to disregard or violate the NSF Award & Administrative Guide (AAG) and rebudget authority does not apply to questioned costs. Furthermore, informal communication in a FAQ does not supersede the official policy per the AAG. Therefore, the report finding remains as previously stated.

Finding 2 – Travel and Services Performed After Award Expiration

We questioned $42,958 in unreasonable expenditures, related to three NSF awards including travel expenses that occurred after award expiration ($17,958) and services performed after award expiration ($25,000).

According to 2 CFR 220, Appendix A, Section C, to be allowable for a federal grant, a cost must be allocable to the federal award and be necessary and reasonable for the administration and performance of the award.

Additionally, per NSF Award & Administrative Guide (AAG), Chapter V, Section A.2.c, Post Expiration Costs, "NSF funds may not be expended subsequent to the expiration date of the grant except to liquidate valid commitments that were made on or before the expiration date."

During our audit, we noted the following unallowable costs:

- $13,818 for an apartment rental in Barcelona from June 8, 2012 through August 14, 2012 on an award that expired on July 31, 2012. UF agreed that the expenses for the entire period should be removed from the award;
- $2,500 for airfare from Gainesville, FL to Brazil departing August 29, 2011 on an award that expired August 31, 2011. UF agreed that the expenses should be removed from the award;
- $1,640 for airfare from Gainesville, FL to Florence, Italy departing October 13, 2012 on an award that expired September 30, 2012. UF agreed that the expenses should be removed from the award; and
- $25,000 for DNA Barcode Analysis of plant samples on an award that expired on August 31, 2011, the same date as the invoice. Per the PI, the complete results of the genetic analysis were not available until several months after the grant expired. However, the genetic analysis could not benefit this NSF award as the results of the DNA analysis were not received until months after the award expiration and after the final report was submitted to NSF; and therefore, the costs will be questioned.

UF personnel did not adequately review the expenditures charged to NSF awards which resulted in unallowable costs. Without a process in place to ensure the proper monitoring of travel and service expenses near award expiration, there is the increased risk that funds may not be spent in accordance with federal requirements.

Recommendation 2:

We recommend that the NSF's Director of the DIAS address and resolve the following UF recommendations:

a. Work with NSF to resolve the $42,958 of questioned costs; and
b. Strengthen the administrative and management controls and processes for reviewing expenses for travel and services occurring near or after award expiration.

Awardee Response:

The UF concurs with this finding. UF believes its systems of compliance controls are effective and efficient. Expenses charged to all federal awards, including expenses occurring near or after award

expiration, are reviewed at least annually and at close-out by UF's Office of Contracts and Grants. These reviews have been reemphasized over the past year, and UF believes that these errors would have been discovered in the current control environment. Because these awards have closed, UF will seek guidance from NSF on how to return these funds.

Auditor Comments:

UF's comments are responsive to the issue noted in this finding. Once NSF determines that the recommendation has been adequately addressed and the questioned costs have been returned, this finding should be closed.

Finding 3: Unsupportable and Unallocable Transactions

We found $32,822 in unsupportable or unallocable transactions related to eleven awards which were not in accordance with 2 CFR 220, Appendix A, Section C.4 which states a "…cost is allocable to a sponsored agreement if it is incurred solely to advance the work under the sponsored agreement; it benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods…The recipient institution is responsible for ensuring that costs charged to a sponsored agreement are allowable, allocable, and reasonable under these cost principles." Section A states that "the accounting practices of individual colleges and universities must support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to sponsored agreements."

- $8,896 for travel expenses were charged to the wrong NSF awards. UF discovered the error when providing audit documentation and has taken corrective action to move the $8,896 to the appropriate NSF awards; and
- $648 for the purchase of an iPAD was charged 100 percent to an NSF award when it was only used 50 percent on the NSF award. UF agreed that $648 should be removed from the award for the iPad that cost $1,296.

The UF agreed that they could not support the following charges totaling $23,278 and agreed that they were questioned costs.

- $274 for lodging and mileage; UF has taken corrective action to remove the charges;
- $5,261 for a journal entry to transfer funds between a non-NSF award to an NSF award;
- $598 for truck repairs. The receipt for the repair was misplaced;
- $3,333 for the purchase of 91 gift cards. Twenty-one of the gift cards were not disbursed and are being held by the department and the University could not locate support for seventy of the gift cards disbursed;
- $2,066 for travel expenses charged to one NSF award and transferred to another NSF award. UF could not provide support for the expenses;
- $6,820 in unsupported materials purchases being transferred from one NSF award to another; and
- $4,926 in unsupported materials purchases being transferred from one NSF award to another.

Recommendation 3:

We recommend that the NSF's Director of the DIAS address and resolve the following UF recommendations:

a. Work with NSF to resolve the $32,822 of questioned costs; and
b. Strengthen the administrative and management controls and processes for reviewing and approving expenses and expense transfers charged to NSF awards.

Awardee Response:

The UF concurs with this finding. UF believes its systems of compliance controls are effective and efficient. Controls over cost transfers, gift cards, computing devices, and expenditure reviews have all been enhanced in recent years. UF believes that these errors would have been discovered in the current control environment. UF has removed $9,170 of these costs and will seek guidance from NSF on how to return the remaining funds.

Auditor Comments:

UF's comments are responsive to the issue noted in this finding. Once NSF determines that the recommendation has been adequately addressed and the questioned costs have been returned, this finding should be closed.

Finding 4 – Unreasonable Equipment Charges

We found that equipment expenses totaling $27,331 charged to six NSF awards were not necessary or reasonable in accordance with 2 CFR 220.

According to 2 CFR 220, Appendix A, Section C, to be allowable for a federal grant, a cost must be allocable to the federal award and be necessary and reasonable for the administration and performance of the award. Furthermore, Section C.3 provides that a reasonable cost is one that a "prudent person" would have incurred under similar circumstances.

We questioned $7,075 for purchases of equipment that did not appear to benefit the award or that did not appear necessary for the administration of the award. In some cases, the purchase appears to be general purpose computers not primarily or exclusively used in the actual conduct of the proposed research.

- $2,940 for a MacBook Pro; UF agreed that these costs should be removed from the award and has taken corrective action to remove the charges;
- $1,208 for an iPAD; UF agreed that these costs should be removed from the award;
- $1,609 for a Lenovo ThinkPad Laptop that appears to be a general purpose computer, not exclusively used on the award. Additionally, the budget justification details the computer access already available at UF for administration of the award; and
- $1,318 for an iPAD, iPAD cover and iPAD doc connector. The Principal Investigator (PI) stated that he used the iPAD over 90 percent for document storage and retrieval related to the research activities of the NSF award. However, our review of the payroll database found that from the date the iPAD was purchased, September 1, 2010, through 2012 the PI's time was charged 100 percent to non-NSF awards. Therefore, we question the allocation of the cost of the laptop to the

NSF award when the PI was working 100% on non-NSF awards. UF agreed that these costs should be removed and has taken corrective action.

We questioned $4,033 for the purchase of a [redacted] Digital Camera Body and Lens purchased on February 14, 2011 on a multi-year award that expired February, 28 2011. The camera was only available for use for 1 percent of the grant life (14 out of 1,376 days).

We questioned $16,223 charged in major car repairs to one NSF award. The vehicle was purchased for $55,000 on a previous NSF award, and was being used in Kenya. A post-doc tried to cross a river during heavy rains resulting in the need for major bodywork, as well as a complete engine overhaul and rebuild. There was insurance on the vehicle, but a mechanic had already substantially started the repairs before the insurance company could assess the damages, leading to a breach of the insurance contract. The UF settled with the insurance company for $3,994, which UF states has been returned to the grant. We are questioning the total cost of repairs of $16,223 due to the imprudent actions of the post-doc when operating the NSF-purchased vehicle and the breach of the insurance contract.

Recommendation 4:

We recommend that the NSF's Director of the DIAS address and resolve the following UF recommendations:

a. Work with NSF to resolve the $27,331 of questioned costs; and
b. Strengthen the administrative and management controls and processes for reviewing and approving equipment charged to NSF awards.

Awardee Response:

UF does not concur with the findings for $4,033 and $16,223.

The finding of $4,033 was for the purchase of a digital camera and video camera. These items were detailed out in the budget justification and were needed for use in the dissemination of the research results. These dissemination activities typically occur at the end of the grant, hence the timing of these purchases.

The finding for $16,223 was for vehicle repairs that were essential to meet the research aims. Under OMB A-21 section 1.30 Maintenance and Repairs Costs, repairs are an allowable cost and allocable under these circumstances. The all-terrain vehicle got stuck when crossing a riverbed and subsequent rainfall caused the river to rise, flooding and damaging the vehicle.

The UF concurs with the remainder of this finding. UF believes its systems of compliance controls are effective and efficient. Controls over computing devices and expenditure reviews have been enhanced in recent years. UF believes that these errors would have been prevented or discovered in the current control environment. UF has removed $4,258 of these costs and will seek guidance from NSF on how to return the remaining funds.

Auditor Comments:

The purchase of a digital camera and video camera were detailed in the budget justification, but they were to be purchased in year 1 of the award. It is not clear how the purchase of the digital camera and video

camera were primarily or exclusively used in actual conduct of the scientific research when 99 percent of the award period had already lapsed. Therefore, the report finding remains as previously stated.

UF had insurance on the vehicle, but breached their insurance contract by substantially starting repairs prior to allowing the insurance company to assess damages. As a result of the breach of contract, the insurance company settled for less than 25 percent of the cost of the repairs charged to NSF. The report finding remains as previously stated.

UF's comments on the remaining items are responsive to the issues noted in this finding. Once NSF determines that the $7,075 in questioned costs have been returned, these issues should be closed.

Finding 5: Unallowable Student Advances

We found $7,880 in student stipends related to two awards that were not appropriately distributed to students.

2 CFR 220, Appendix A, Section C.4 states that a "…cost is allocable to a sponsored agreement if it is incurred solely to advance the work under the sponsored agreement; it benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods…. The recipient institution is responsible for ensuring that costs charged to a sponsored agreement are allowable, allocable, and reasonable under these cost principles." Section A states that "the accounting practices of individual colleges and universities must support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to sponsored agreements."

- $3,556 of stipends recorded in the general ledger was not disbursed to students. UF identified the error when providing documentation for audit; and
- $4,324 of stipends recorded in the general ledger was not disbursed to students. This resulted from an overestimate of financial aid transferred from the grant to a financial aid account which disbursed the scholarships to students. UF identified the error when providing documentation for audit and has taken corrective action to appropriately disburse the $4,324 to students.

Recommendation 5:

We recommend that the NSF's Director of the DIAS address and resolve the following UF recommendations:

a. Work with NSF to resolve the $7,880 of questioned costs; and
b. The practice of estimating financial aid transfers should be discontinued and transfers should only be made for actual charges.

Awardee Response:

The UF concurs with this finding. UF believes its systems of compliance controls are effective and efficient. Controls have been implemented in the last year which requires student advances to be reviewed by UF's office of Contracts and Grants. UF believes that these errors would have been prevented in the current control environment. UF has corrected $4,324 of these costs and will seek guidance from NSF on how to return the remaining funds.

Auditor Comments:

UF's comments are responsive to the issue noted in this finding. Once NSF determines that the recommendation has been adequately addressed and the questioned costs have been returned, this finding should be closed.

Finding 6 – Unallowable Meal Expenses and Associated Services

We found that meals and associated services totaling $7,160 charged to five awards were not necessary or reasonable in accordance with 2 CFR 220.

According to 2 CFR 220, Appendix A, Section C, to be allowable for a federal grant, a cost must be allocable to the federal award and be necessary and reasonable for the administration and performance of the award. Furthermore, Sections C.2 and C.3 state that a reasonable cost is one that a "prudent person would have incurred under similar circumstances."

NSF Award & Administrative Guide (AAG), Chapter V, Section C.5, Meetings and Conferences states, "NSF funds are not to be spent for meals or coffee breaks for intramural meetings of an organization or any of its components, including, but not limited to, laboratories, departments and centers…. When certain meals are an integral and necessary part of a conference (e.g., working meals where business is transacted), grant funds may be used for such meals."

During our audit we noted the following unallowable meal charges:

- $157 in unallowable meal related charges. UF agreed that these costs should be removed from the award;
- $821 charged to one award for various meals and associated services. UF agreed that these costs should be removed from the award;
- $207 charged for a meal at a restaurant for students was not necessary for the administration and performance of the award;
- $1,400 charged to NSF for meals related to lunch receptions and field trips. The project proposal specifically stated that the center would absorb the cost of food; and therefore, it is unreasonable that amounts for food were charged to NSF. UF agreed that $29 of the $1,400 should be removed from the award; and
- $4,575 in meals expenditures to host a two-day conference at a Miami hotel with sixteen attendees. Specifically, $3,829 ($239/attendee) was spent to provide breakfast, lunch and breaks during the two day conference. Additionally, we found that $746 ($47/person) was spent on dinner for the attendees when the conference agenda specifically states that per diem would be provided for dinner. UF per diem policy states that the State of Florida reimbursement rate for dinner on UF domestic travel is $19/person. These charges are excessive and unreasonable, and therefore are questioned.

Recommendation 6:

We recommend that the NSF's Director of the DIAS address and resolve the following UF recommendations:

a. Work with NSF to resolve the $7,160 of questioned costs; and

b. Strengthen the administrative and management controls and processes for reviewing and approving costs charged to NSF awards for meal and associated services expenditures.

Awardee Response:

The UF does not concur with finding of $4,575 in meal expenditures for a two day conference, $3,829 for 2 breakfasts, 2 lunches, and 3 conference breaks for each of the 16 attendees. The $746 dinner cost for 16 attendees, is in line with UF's re-budgeting authority. Re-budget authority would allow the flexibility to decide to offer dinner at this conference instead of providing each attendee a per diem as stated in the conference agenda.

UF concurs with the other items of this finding. UF believes its systems of compliance controls are effective and efficient. Controls over meal expenses and expenditure reviews have been enhanced in recent years. UF believes that these errors would have been prevented or discovered in the current control environment. Because these awards have closed, UF will seek guidance from NSF on how to return these funds.

Auditor Comments:

We believe that spending $286 per attendee to host a two-day conference, where two breakfast, two lunch, one dinner and breaks were provided is excessive and unreasonable. The report finding remains as previously stated.

UF's comments on the remaining items are responsive to the issues noted in this finding. Once NSF determines that the $2,585 in questioned costs have been returned, these issues should be closed.

Finding 7 – Unreasonable Travel Expenses

We found $5,495 in unreasonable travel expenses related to two NSF awards, including a rental home in [redacted] to host a one-week conference ($5,420) and no show/cancellation fees ($75). UF agreed that these costs should be removed from the awards.

2 CFR 220, Appendix A, Section C.4 states that a "…cost is allocable to a sponsored agreement if it is incurred solely to advance the work under the sponsored agreement; it benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods…. The recipient institution is responsible for ensuring that costs charged to a sponsored agreement are allowable, allocable, and reasonable under these cost principles." Section A states that "the accounting practices of individual colleges and universities must support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to sponsored agreements."

Recommendation 7:

We recommend that the NSF's Director of the DIAS address and resolve the following UF recommendations:

a. Work with NSF to resolve the $5,495 of questioned costs; and

b. Strengthen the administrative and management controls and processes for reviewing and approving travel expenses charged to NSF awards.

Awardee Response:

The UF concurs with this finding. UF believes its systems of compliance controls are effective and efficient. Expenses charged to all federal awards are reviewed at least annually and at close-out by UF's Office of Contracts and Grants. These reviews have been reemphasized over the past year and UF believes that these errors would have been discovered in the current control environment. Because these awards have closed, UF will seek guidance from NSF on how to return these funds.

Auditor Comments:

UF's comments are responsive to the issue noted in this finding. Once NSF determines that the recommendation has been adequately addressed and the questioned costs have been returned, this finding should be closed.

Finding 8 – Foreign Currency Conversion Error

UF claimed excess costs of $1,628 to one NSF award. The overcharge occurred because UF failed to convert Namibian dollars to US Dollars before the costs were charged to the award. UF identified the error when providing documentation for audit.

2 CFR 220, Appendix A, Section C.4 states that a "…cost is allocable to a sponsored agreement if it is incurred solely to advance the work under the sponsored agreement; it benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods…. The recipient institution is responsible for ensuring that costs charged to a sponsored agreement are allowable, allocable, and reasonable under these cost principles." Section A states that "the accounting practices of individual colleges and universities must support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to sponsored agreements."

Without a process in place to ensure the proper charging of expenditures that require foreign currency conversion, there is an increased risk that funds may not be spent in accordance with federal regulations. UF personnel did not adequately monitor the expenditures requiring foreign currency conversion charged to NSF awards which resulted in unallowable costs.

Recommendation 8:

We recommend that the NSF's Director of the DIAS address and resolve the following UF recommendations:

a. Work with NSF to resolve the $1,628 of questioned costs; and
b. Strengthen the administrative and management controls and processes for reviewing and approving costs charged to NSF awards that require foreign currency conversion.

Awardee Response:

The UF concurs with this finding. UF believes its systems of compliance controls are effective and efficient. UF's Office of Contracts and Grants has made personnel enhancements to improve performance relative to review of foreign currency conversions. UF believes that these errors would have been prevented in the current control environment. Because these awards have closed, UF will seek guidance from NSF on how to return these funds.

Auditor Comments:

UF's comments are responsive to the issue noted in this finding. Once NSF determines that the recommendation has been adequately addressed and the questioned costs have been returned, this finding should be closed.

WithumSmith+Brown, PC

WithumSmith+Brown PC
January 23, 2015

APPENDICES

UF UNIVERSITY of FLORIDA

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October 10, 2014

WithumSmith + Brown
8403 Colesville Road, Suite 340
Silver Spring, Maryland 20910

Dear [redacted]

The University of Florida is in receipt of the draft report dated September 23, 2014 and entitled "University of Florida, *Audit of Incurred Costs for National Science Foundation Awards for the Period April 1, 2010 to March31, 2013*." Per your request, below please find the University's responses to each finding in sequence. The University appreciates the opportunity to provide its feedback in connection with this audit.

Finding 1: Exceeded NSF Limits on Senior Salary

The University of Florida does not agree with this finding. The rationale provided by NSF regarding the applicability of the NSF Senior Project Personnel rule to certain classes of employees makes it unclear that this rule is applicable to most of the personnel costs in question. In particular, NSF policy states "NSF regards research as one of the normal functions of faculty members at institutions of higher education. Compensation for time normally spent on research within the term of appointment is deemed to be included within the faculty member's regular organizational salary." See: (http://www.nsf.gov/pubs/policydocs/papp/gpg_2.jsp#IIC2gia). The majority of the questioned costs relate to employees who do not have, within their university-assigned function, any component of their organizational salary allocated as compensation for time spent on research. These employees are internally classified as faculty, but are not tenured or tenure-track faculty with University support for research as a regular function of their responsibilities. Instead, these are employees whose compensation is wholly dependent on external funding sources. The compensation provided through an NSF grant does not replace the faculty member's regular organizational salary. In short, these faculty do not have university appointments in which compensation for research is part of their regular organizational salary as referenced in the NSF Policy stated above, and as such should not be constrained by the 2 month salary rule.

In addition, since at least 2010, NSF has published consistent policy guidance related to Senior Personal at http://www.nsf.gov/pubs/policydocs/pappguide/faqs11_1.pdf?WT.mc_id=USNSF_80 and (http://www.nsf.gov/bfa/dias/policy/papp/papp13_1/faqs13_1.pdf . NSF's express guidance states "…under the normal rebudgeting authority, an awardee can internally approve an increase 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 2 month salary rule. No prior approval from NSF is necessary." A large portion of the remaining questioned costs are a result of the University of Florida rebudgeting under this authority. The charges in question are consistent with the express guidance provided by NSF Policy Office, and the audit finding is inconsistent with this guidance.

Finding 2: Travel and Services Performed After Award Expiration

The University of Florida concurs with this finding. UF believes its systems of compliance controls are effective and efficient. Expenses charged to all federal awards, including expenses occurring near or after award expiration, are reviewed at least annually and at close-out by UF's office of Contracts and Grants. These reviews have been reemphasized over the past year and UF believes that these errors would have been prevented or discovered in the current control environment. Because these awards have closed, UF will seek guidance from NSF on how to return these funds.

Finding 3: Unsupportable and Unallocable Transactions

The University of Florida concurs with this finding. UF believes its systems of compliance controls are effective and efficient. Controls over cost transfers, gift cards, computing devices, and expenditure reviews have all been enhanced in recent years. UF believes that these errors would have been prevented or discovered in the current control environment. UF has removed $9,170 of these costs and will seek guidance from NSF on how to return the remaining funds.

Finding 4: Unreasonable Equipment Charges

The University of Florida does not concur with the findings for $4,033 and $16,223. The finding of $4,033 was for the purchase of a digital camera and video camera. These items were detailed out in the budget justification and were needed to create both photo and video documentation of the habitats, focal species and interactions under study, for use in the dissemination of the end results of this research (presentations and for any media coverage). These dissemination activities typically occur at the end of the grant, hence the timing of these purchases.

The finding for $16,223 was for vehicle repairs to a vehicle used to carry out the field research in a remote location in Kenya. These repairs were absolutely essential to meet the research aims. Under OMB A-21 section J.30 *Maintenance and Repairs Costs,* repairs are an allowable cost and allocable under these circumstances. The incident occurred because the all-terrain vehicle got stuck when crossing a riverbed in a remote location. Subsequent rainfall caused the river to rise, flooding and damaging the vehicle. The decision to attempt to cross a riverbed is not unreasonable for transportation in such a remote area. The need to start repairs as soon as possible was also reasonable given the critical function of the vehicle. Even if it is determined that an error in judgment was made in attempting the riverbed crossing, such an error does not make the repair charge unallowable.

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The University of Florida concurs with the remainder of this finding. UF believes its systems of compliance controls are effective and efficient. Controls over computing devices and expenditure reviews have been enhanced in recent years. UF believes that these errors would have been prevented or discovered in the current control environment. UF has removed $4,258 of these costs and will seek guidance from NSF on how to return the remaining funds.

Finding 5: Unallowable Student Advances

The University of Florida concurs with this finding. UF believes its systems of compliance controls are effective and efficient. Controls have been implemented in the last year which requires student advances to be reviewed by UF's office of Contracts and Grants. UF believes that these errors would have been prevented in the current control environment. UF has corrected $4,324 of these costs and will seek guidance from NSF on how to return the remaining funds.

Finding 6: Unallowable Meal Expenses and Associated Services

The University of Florida does not concur with finding of $4,575 in meal expenditures for a two-day conference. $3,829 of the cost which was the rate established by the hotel for 2 breakfasts, 2 lunches, and 3 conference breaks for each of the 16 attendees. The $746 dinner cost was also for 16 attendees at a hotel in a major city. Also, UF's re-budgeting authority would provide the flexibility to decide to provide dinner at this conference instead of providing each attendee a per diem as stated in the conference agenda.

UF concurs with the other items of this finding. UF believes its systems of compliance controls are effective and efficient. Controls over meal expenses and expenditure reviews have been enhanced in recent years. UF believes that these errors would have been prevented or discovered in the current control environment. Because these awards have closed, UF will seek guidance from NSF on how to return these funds.

Finding 7: Unreasonable Travel Expenses

The University of Florida concurs with this finding. UF believes its systems of compliance controls are effective and efficient. Expenses charged to all federal awards are reviewed at least annually and at close-out by UF's office of Contracts and Grants. These reviews have been reemphasized over the past year and UF believes that these errors would have been discovered in the current control environment. Because these awards have closed, UF will seek guidance from NSF on how to return these funds.

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October 10, 2014
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Finding 8: Foreign Currency Conversion Error

The University of Florida concurs with this finding. UF believes its systems of compliance controls are effective and efficient. UF's office of Contracts and Grants has made personnel enhancements to improve performance relative to review of foreign currency conversions. UF believes that these errors would have been prevented in the current control environment. Because these awards have closed, UF will seek guidance from NSF on how to return these funds.

Sincerely,

[redacted]

Vice President for Research

APPENDIX B

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit included assessing the allowability, allocability and reasonableness of costs claimed by UF on the quarterly Federal Financial Reports (FFR) for the three-year period beginning April 1, 2010 and ending March 31, 2013. We also reviewed the accuracy, reasonableness, and timeliness of UF's ARRA reporting.

The audit was performed in accordance with *Government Auditing Standards* for performance audits. The audit objectives were to:

1. Identify and report on instances of unallowable, unallocable, and unreasonable costs from the transactions tested;

2. Identify and report on instances of noncompliance with regulations, Federal financial assistance requirements (e.g. OMB Circulars), and the provisions of the NSF award agreements as relates to the transactions tested; and

3. Determine the reasonableness, accuracy, and timeliness of the awardee's ARRA quarterly reporting, including reporting of jobs created under ARRA and grant expenditures for the two most recent quarters.

To accomplish our objectives, we assessed the reasonableness, accuracy, and timeliness of the awardee's ARRA quarterly reporting, including reporting of jobs created under ARRA and grant expenditures for the two most recent quarters, by (1) recomputing the number of jobs created or retained in compliance with OMB Memorandum M-10-08, *Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates*; (2) reconciled expenditures per the general ledger to the ARRA expenditures; and (3) reviewed the ARRA reporting submission dates.

To aid in determining reasonableness, allowability, and allocability of costs, we obtained from NSF all awards for which costs were reported to NSF during the period of April 1, 2010 and ending March 31, 2013. This provided an audit universe of approximately $112 million, in more than 346,000 transactions, across 677 individual NSF awards.

Our work required reliance on computer-processed data obtained from UF and NSF. At our request, UF provided detailed transaction data for all costs charged to NSF awards during our audit period. We also obtained award data directly from NSF which was collected by directly accessing NSF's various data systems. To select transactions for further review, we designed and performed automated tests of UF and NSF data to identify areas of risk and conducted detailed reviews of transactions in those areas.

We assessed the reliability of the data provided by UF by: (1) comparing costs charged to NSF award accounts within UF's accounting records to reported net expenditures, as reflected in UF's quarterly financial reports submitted to NSF for the corresponding periods; (2) performing general ledger to sub-ledger reconciliations of accounting data; and (3) reviewing and testing the parameters UF used to extract transaction data from its accounting records and systems.

Based on our testing, we found UF computer-processed data sufficiently reliable for the purposes of this audit. We did not review or test whether the data contained in, or controls over, NSF's databases were accurate or reliable; however the independent auditors' report on NSF's financial statements for fiscal

years 2010 and 2011 found no reportable instances in which NSF's financial management systems did not substantially comply with applicable requirements.

In assessing the allowability of costs reported to NSF by UF, we also gained an understanding of the internal controls applicable to the scope of this audit through interviews with UF, review of policies and procedures, and conducting walkthroughs as applicable and reviews.

We assessed UF's compliance with the University's internal policies and procedures, as well as the following:

- Public Law 111-5, *American Recovery and Reinvestment Act of 2009*;
- OMB Circular A-21, *Cost Principles for Educational Institutions* (2 C.F.R., Part 220);
- OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations* (2 C.F.R., Part 215);
- OMB Memorandum M-10-08, *Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates*;
- NSF Proposal and Award Policies and Procedures Guide, Part II: Award and Administration Guide
- NSF Award Specific Terms and Conditions; and
- NSF Federal Demonstration Partnership Terms and Conditions.

The remaining attachments contain non-public material and are not posted.