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University of California, Berkeley Research Management Services Audit Report

National Science Foundation Office of Inspector General

May 21, 2003
OIG 03-1-008

NATIONAL SCIENCE FOUNDATION
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MAY 21 2003

OFFICE OF
INSPECTOR GENERAL

MEMORANDUM

To: Donna Fortunat, Director
Division of Acquisition and Cost Support

Mary Santonastasso, Director
Division of Grants and Agreements

From: Deborah H. Cureton
Associate Inspector General for Audit

Subject: Audit Report 03-1008: Audit of Research Management Services at the University of California, Berkeley.

Attached is the final report on our audit of Research Management Service (RMS) costs at the University of California, Berkeley (the University) from July 1, 1994, to April 30, 2001. The University incurred RMS costs in carrying out administrative functions such as payroll, purchasing, and travel. We questioned all RMS costs totaling $1,428,971 because the costs were unallowable according to OMB Circular A-21, *Cost Principles for Educational Institutions.* In particular, we found RMS activity included administrative services, which already were recovered by the University through the application of its approved facilities and administrative (F&A) cost rate. The recovery of both F&A costs and RMS costs resulted in unallowable charges to NSF.

In response to the audit, the University stated that it did not agree with the dollar amount questioned and maintains that many of the costs incurred between 1994 to 1997 were consistent with OMB Circular A-21 guidance and were budgeted accordingly. However, the University concurred with our recommendation to discontinue the practice of direct charging RMS costs to NSF awards.

In accordance with OMB Circular A-50, *Audit Followup,* and NSF's Standard Operating Guidance 2001-4, *Policies and Procedures to Audit Reports Issuance and Resolution of Audit Findings Contained in Audits of NSF Awardees,* we request that NSF submit a written corrective action plan to our office identifying the specific actions and milestone dates for addressing our recommendations.

In addition, we request that the Cost Analysis and Audit Resolution Branch coordinate with the Department of Health and Human Services the audit resolution activities necessary to resolve the RMS cost issue.

We thank you and your staff for the cooperation extended to us during this audit. If you have any questions about this report, please contact James Noeth on extension 5005, or William Harrison, on extension 4992.

EXECUTIVE SUMMARY

This report provides the results of our audit of Research Management Services (RMS) costs charged by the College of Engineering at University of California at Berkeley (the University). The audit objective was to determine whether the RMS costs were allowable as direct charges to NSF awards.

The University incurs RMS costs in carrying out administrative functions such as payroll, purchasing, and travel-forms processing, award-expenditure monitoring, project accounting, and the receiving and inventorying of supplies. Although federal regulations consider RMS costs to be indirect costs recoverable by an institution through its facilities and administrative (F&A) rate, the University charged these costs separately as direct costs of federal awards. As a result, the University inappropriately recovered administrative and clerical costs greater than the maximum allowed under federal regulations.

NSF first questioned the appropriateness of the University adding RMS charges as direct costs to NSF award proposals in July 1994. In July 1995, NSF directed the University to obtain written approval from the Department of Health and Human Services (HHS) before including RMS charges on future proposals. In January 1997, HHS concluded that the University's RMS costing methodology was not in compliance with OMB Circular A-21, *Cost Principles for Educational Institutions*, for direct-charging administrative and clerical costs to federal awards.

Contrary to both NSF and HHS instructions, the University continued to direct-charge RMS to NSF awards while simultaneously recovering the full amount of administrative support service costs allowed through its approved F&A cost rate on the total award. As a result, the University inappropriately charged NSF awards approximately $1.43 million for RMS and its associated F&A cost from July 1994 through April 2001.

In response to our audit, the University agreed to repay $247,991 of the RMS charged to NSF awards approved after March 1997, the date the University told HHS that RMS costs would no longer be charged. For the remaining $1.18 million, the University believes these costs are allowable because the RMS charges were included in award budgets that were approved by NSF before the HHS decision.

However, the manner in which the University presented its budget information made it difficult to identify the unallowable charges. RMS charges were either inaccurately proposed in the budget or not specifically identified at all. Additionally, the University has the ultimate responsibility for ensuring that its award proposals only request funds that "are not precluded by specific program guidelines or applicable cost principles." Therefore, we recommend that NSF's Division of Grants and Agreements and Division of Acquisition and Cost Support direct the University to repay NSF the remaining $1.18 million of questioned RMS and related F&A costs claimed from July 1994 to April 2001 (see Appendix A).

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ACRONYMS

DA	Departmental administration (costs)
F&A	Facilities and administrative (costs)
DHHS	Department of Health and Human Services
ORU	Organized Research Units
OMB	Office of Management and Budget
PI	Principal Investigator
RMS	Research Management Services (costs)

INTRODUCTION

Background

The University of California at Berkeley (the University) is one of NSF's top 50 funded institutions receiving approximately $67 million annually in research, education, and major research equipment support from the NSF. Further, for the 3-year period ended June 30, 2000, the University's College of Engineering (the College) had active NSF awards totaling approximately $90 million.

To facilitate and administer this significant research funding, the College has established five Organized Research Units (ORUs), which according to University policy "provide a supportive infrastructure for interdisciplinary research complementary to the academic goals of departments of instruction and research." The Colleges five ORUs are the Earthquake Engineering Research Center, the Engineering Systems Research Center, Electronics Research Laboratory, Institute for Environmental Science and Engineering, and the Institute of Transportation Studies.

Research Management Services (RMS) are part of the "supportive" infrastructure of each ORU. RMS are routine administrative services such as payroll, accounting, purchasing, and receiving and inventorying of equipment and supplies that are provided to all research awards in the College. The University directly charged RMS costs to some but not all of the College's awards through the application of a University approved recharge percentage rate applied to an awards' direct salaries and wages. However, although charged directly, RMS functions are similar to Departmental Administration (DA) costs that are already recovered by the University through the application of a F&A allocation added to each NSF award.

From July 1, 1994, to April 30, 2001, the University charged approximately $5.7 million for RMS to the awards of 20 federal agencies, including the Department of Defense, National Aeronautics and Space Agency, and the Department of Justice. NSF was charged $1,428,971, or 25 percent of the total amount.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether the University's RMS costs were allowable as direct charges to NSF awards. Initially, our audit included all active NSF awards managed by the College's five ORUs during the 3-year period ending June 30, 2000. However, based on information obtained in reviewing these awards, we expanded the audit scope to include all RMS charges to active NSF awards from July 1, 1994, to April 30, 2001.

To address the audit objective, we reviewed NSF award files, University expenditure report summaries, correspondence concerning RMS costing, prior OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and University internal audit reports, and other documentation. We interviewed both University and NSF staff who oversee the financial and administrative aspects of the

awards. Our review of internal controls applicable to direct and indirect charges to NSF awards was limited to gaining an understanding of the RMS direct-costing methodology and other related University policies and procedures.

We conducted our audit in accordance with the Comptroller General's *Government Audit Standards* and included such tests of accounting records and other auditing procedures, as we considered necessary to fully address the audit objectives.

AUDIT RESULTS

Contrary to OMB requirements and NSF and HHS instructions, the University charged RMS costs as direct costs to NSF awards while simultaneously recovering such support service costs through the application of its approved Facilities & Administrative (F&A) rate to each NSF award. As a result, from July 1994 to April 2001, the University inappropriately charged NSF awards approximately $1.43 million for RMS and associated F&A costs.

OMB Policy for Administrative and Support Services Costs

Educational institutions recover routine administrative and support service costs through an F&A cost allocation added to each award. OMB Circular A-21, *Cost Principles for Educational Institutions,* defines F&A as "costs that are incurred for common or joint objectives and, therefore, cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity.'" An important component of F&A costs is departmental administration expenses (DA). Specifically, DA costs are those "incurred for administrative and supporting services that benefit common or joint department activities or objectives in academic Deans' offices, academic departments and divisions, and **organized research units "** [emphasis added].

Effective October 1, 1991, OMB Circular A-21 limited the administrative portion of F&A cost recovery to 26 percent of modified total direct costs. In 1993, Circular A-21 was updated and specified in Section F.6.b. that "salaries of administrative and clerical staff [in academic departments] should normally be treated as F&A costs." Direct charging of these costs may be appropriate where ... the support is significantly greater than the routine level. The section provides examples of such circumstances and requires that the costs meet criteria and that the grantee (1) explicitly budgets these costs, (2) identifies the individuals involved with the specific project or activity, and (3) justifies the direct charges to the satisfaction of the awarding agency.

The Cost Accounting Standards Board applied four standards to all federal grants and contracts at Universities in 1996. Relevant to our review is CAS 9905.502, which is reflected in Circular A-21, Section C.11., which states **"no final cost objective shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included in any F&A cost pool to be allocated to that or any other final cost objective"** [emphasis added].

F&A costs are synonymous with the term "indirect costs."

Inconsistent Costing Leads to Excessive Charges

Contrary to federal regulations, the University added administrative and clerical costs as RMS charges directly to NSF awards. At the same time, the University recovered similar administrative support service costs on those same awards through the application of its approved F&A rate.

Each of the College's five ORU managers and University documents described RMS-funded personnel as performing routine administrative functions. These services included:

- Processing forms and ensuring policy compliance with policies and procedures for purchasing, travel, and other expenses;
- Preparing payroll forms, collecting time cards, recording and reconciling leave accrual;
- Receiving and preparing inventory of equipment and supplies; and,
- Project accounting activities, including maintaining detailed records of project costs, preparing expense, cost-sharing, and final project close-out reports, developing monthly financial statements, and conducting audits for grant compliance, cost sharing reports and final close-out reports.

In other academic units, the University supported these same administrative services through its F&A cost recovery. Even the RMS staff job descriptions were in the standard administrative and financial series included in the University's F&A pool, i.e., financial assistants, administrative assistants, clerks, work-study clerk/secretary, and payroll/personnel assistant. Therefore, because administrative "costs incurred for the same purpose, in like circumstances, have been included in [the University's] F&A cost pool," the RMS direct-charging practices used by the College were not in compliance with OMB Circular A-21 and the Cost Accounting Standards.

During the audit period, the administrative component of the University's F&A rate was capped at 26 percent of MTDC as required by OMB Circular A-21, and therefore, the University recovered its full allocation of DA-type administrative costs through the application of its F&A rate. However, in addition to the F&A cost recovery, the College charged NSF awards directly for RMS administrative and clerical costs. Therefore, the recovery of both indirect F&A costs and direct RMS costs resulted in excessive charges to NSF because the University exceeded the administrative cost limitation imposed by OMB. Further, the re-allocation of RMS costs to the DA administrative pool of the University F&A rate would not result in the University recouping more indirect costs from the government because the administrative component of the F&A is by regulation capped at 26 percent.

NSF Questions Appropriateness of RMS Costs in 1995

NSF first questioned the appropriateness of the University's RMS charges in July 1994 when it requested that the University provide documentation supporting the RMS rate used for allocating such costs to a specific award proposal under review. In a July

13, 1995 letter, the University described the College's RMS costs and requested that NSF allow RMS costs as an Other Direct Costs line item in the College's awards. Their position was that "from a functional standpoint the costs associated with these offices are separate and distinct from departmental administrative costs as defined in section F.6 of OMB Circular A-21..."

In a July 20, 1995, response, NSF officials stated the Foundation " ... **will consider funding these costs for future awards when we have written approval from your cognizant negotiation agency (DHHS) of the appropriateness of the method** [emphasis added] used by the College in accounting for costs that appear to be similar to departmental administration costs included in the regular university rate which under OMB A-21 cost principles is currently capped at 26%." In response, the University submitted a RMS proposal to HHS, the Federal agency authorized to approve the University's award costing plans.

HHS Denies the University's RMS Proposal

HHS reviewed the proposal and, on January 15, 1997, concluded that the RMS costing methodology was not in compliance with OMB Circular A-21, *Cost Principles for Educational Institutions,* for direct charging these research support costs to Federal awards. Specifically, HHS found that the College's five ORUs did not constitute a "major project" as required by A-21 for direct-charging additional administrative support. In addition, HHS stated that direct charging of administrative costs to federal awards must "be justified to the satisfaction of the awarding agency" and be supported by adequate time and efforts records.

The University did not meet these conditions. NSF's "satisfaction" could not be attained because the manner in which the University presented its budget cost information did not allow for RMS costs to be readily recognized by NSF reviewers in 79 percent of the NSF-approved award budgets. RMS charges were either inaccurately proposed or were not explicitly identified. Additionally, because RMS costs were pooled and allocated by the University to NSF awards using a percentage calculation, the RMS charges were not supported by time and effort records supporting the RMS costs as direct charges to specific awards.

Specifically, we reviewed how RMS costs had been represented in the 276 budgets of the 107 active University awards in the three-year period ending June 30, 2000. Our analysis disclosed that 30 percent of the budgets inaccurately included RMS costs as part of Personnel costs. However, the University did not charge these costs as direct personnel costs, but instead, pooled the RMS costs and charged a percentage to NSF awards as Other Direct Costs. As such, the University's method to propose the RMS charges was inconsistent with how RMS costs were charged to NSF awards. Additionally, another 49 percent of the award budgets did not identify or describe the RMS charges in any way. Consequently, NSF was not aware of the specific RMS charges that were added to its awards.

As a result, the University improperly charged $1,015,967 for RMS costs and recovered another $413,004 through the application of its approved F&A rate to the RMS

charged (see Appendix A). Thus, the University charged a total of $1,428,971 in unallowable RMS and related F&A costs to NSF awards from July 1, 1994 through April 30, 2001.

In response to our audit, the University agreed to repay $247,991 of the $1,428,971. This amount represents the RMS charged to NSF awards approved after March 3, 1997, the date the University told HHS that the charging of RMS to federal awards was discontinued. However, the University considers the remaining $1,180,980 allowable because RMS charges were included in NSF-approved award budgets before the HHS decision date.

We do not agree with the University. Because most of the University's proposed award budgets either did not include or inaccurately reflected the RMS charges, it was difficult, if not impossible to determine that the proposals included unallowable RMS charges.

NSF's grant conditions state "the awardee has full responsibility for the conduct of the ... award and for adherence to the award conditions. Although the awardee is encouraged to seek the advice and opinion of NSF on special problems that may arise, such advice does not diminish the awardee's responsibility for making sound scientific and administrative judgments and should not imply that the responsibility for operating decisions has shifted to NSF." Thus, the University ultimately is responsible for the grant costs claimed and should not attempt to shift the responsibility for the unallowable RMS costs to NSF grants officials.

The underlying managerial cause for adding administrative charges to awards was that the University had under-funded the cost of award administration at the College despite recovering the full administrative F&A costs allowed by OMB Circular A-21 from the awards. To cover the shortfall in their budgets for administrative personnel costs, the ORUs added RMS charges to the awards. The University justified the RMS charges by claiming the personnel were not covered by the DA component of the F&A cost rate, thus misrepresenting the services to NSF and HHS as distinct from routine award administration. By not categorizing its costs properly as department administration, the University violated the requirements of OMB Circular A-2 1.

Finally, the University certifies to NSF that each award proposal is accurate and complete and agrees to accept the obligation to comply with award terms and conditions. NSF's Grant Proposal Guide specifies that "the proposal may request funds under any of the categories listed so long as the time and amount are considered necessary to perform the proposed work and are not precluded by specific program guidelines or applicable cost principles." RMS charges clearly are precluded by the applicable cost principles as a direct charge to NSF awards. Therefore, the University did not exercise its responsibility for ensuring that the award administration costs were properly categorized and funded, and that the proposal only requested costs allowed by applicable cost principles.

Recommendations: We recommend that the Division of Grants and Agreements and Division of Acquisition and Cost Support direct the University to:

1. Repay $1,428,971 of questioned RMS and related F&A costs claimed for the period July 1, 1994, through April 30, 2001.

2. Discontinue the practice of direct charging routine administrative and clerical services costs to NSF awards unless the specific requirements of OMB Circular A-21, Section F.6.b. are met and justified to the satisfaction of the awarding agency.

University Comments

The University did not concur with the dollar amount questioned. The University maintains that many of the costs incurred from 1994 to 1997 were consistent with OMB Circular A-21 guidance and were budgeted accordingly. Further, the 1997 HHS guidance was silent regarding the treatment of pre-1997 RMS costs. The University also disagreed with our statement that the underlying managerial cause for this issue was under-funding the cost of award administration at the College.

The University concurred with Recommendation 2 stating that it implemented the recommendation in August 2000 during audit fieldwork.

The University's full response is at Appendix B to this report.

OIG Response

The University did not explain how the RMS costs were consistent with OMB guidance. The applicable OMB Circular A-21 guidance provides three critical factors in determining whether departmental administration is allowable as a direct charge to federal awards. First, the federally funded project must require "an extensive amount of administrative or clerical support which is **significantly greater than the routine level of such services** provided by academic departments." [Emphasis added]. Second, the individual involved must be specifically identified with the project. Finally, the awardee project must explicitly budget for the administrative services in the federal project budget.

We maintain that RMS administrative services were not greater than the routine level of such services provided by academic departments. Our conclusion is based on both written and oral descriptions of RMS activity provided by the University and the fact that other academic units on campus recover the cost of these services through the application of the federally-approved F&A rate. In addition, RMS staff cannot be specifically identified with individual projects because the University did not maintain activity reports documenting this activity by award. Finally, in only 8 of the 107 NSF awards reviewed were RMS costs explicitly budgeted. Therefore, we do not believe the University substantially met any of the three critical factors for allowability.

Finally, OMB Circular A-21 limits administrative cost recovery to 26 percent of modified total direct costs. Because the University recovered the cost of administrative services both directly as RMS and indirectly as F&A, it exceeded the limitation imposed by OMB. Therefore, because the University did not satisfy the applicable criteria necessary to

establish cost allowability and exceeded the administrative cost limitation imposed by OMB, the questioned costs remain unchanged.

National Science Foundation Office of Inspector General
University of California at Berkeley

Schedule of Questioned RMS and Related F&A Costs
For the Period July 1, 1994, through April 30, 2001

Award Number	RMS Charges	Related Indirect Costs	Total
Identifiable NSF Awards			
MIP - 8958568	$ 2,308	$ 23I	$ 2,539
CMS - 8996309	199	-	199
CCR - 9005448	(75)	(37)	(112)
DMR - 9010908	2,733	1,368	4,101
CTS - 9057258	3,456	-	3,456
DES - 9057298	2,884	-	2,884
CTS - 9057420	2,828	-	2,828
MIP - 9057466	2,418	242	2,660
IM - 9058427	2,369	237	2,606
CCR - 9058440	872	87	959
CMS - 9I00386	I,618	807	2,425
MIP - 9114168	1,172	584	1,756
MIP - 91I6578	4,847	2,418	7,265
IRI - 91I6860	2,81I	1,401	4,212
CCR - 91I7028	4,432	2,211	6,643
MIP - 9117328	2,27I	1,132	3,403
CMS - 911993I	865	303	1,168
CMS - 912I943	5,969	2,987	8,956
DMR - 9123279	I51	75	226
ECS - 94I7370	2,783	1,387	4,170
IRI - 9157051	2,074	5I9	2,593
ECS - 9157089	1,235	124	1,359
ECS - 9196076	2,940	716	3,656
CCR - 920I092	1,49I	742	2,233
MIP - 9201605	325	162	487
CCR - 92I0260	I,238	124	I,362
IRI- 9210327	27	-	27
ECS - 9211025	4I6	I04	520
IRI - 92I1512	4,118	2,055	6,I73
CMS - 92I2737	I,718	857	2,575
DMR - 92I4370	852	425	1,277
MIP - 9214951	2,654	I,323	3,977
CCR - 92I4963	2,106	I,050	3,156
CTS - 9215617	26	13	39
CTS - 92I5889	3,976	1,982	5,958
CMS - 9216069	8,335	4,168	12,503

Award Number	RMS Charges	Related Indirect Costs	Total
ECS - 9217500	4,802	2,388	7,190
CMS - 9218300	1,369	356	1,725
ECS - 9220855	2,053	1,023	3,076
DMR - 9222644	2,709	1,351	4,060
CMS - 9222753	2,209	1,102	3,311
CCR - 9253705	(1,248)	(1,184)	(2,432)
CCR - 9257974	967	96	1,063
ECS - 9296058	310	-	310
DMI - 9300025	5,225	2,607	7,832
MM - 9301012	2,180	1,087	3,267
DMI - 9301269	4,549	2,267	6,816
CMS - 9301307	1,960	978	2,938
BCS - 9301989	1,582	784	2,366
ECS - 9302926	2,775	1,384	4,159
EAR - 9304481	3,504	1,749	5,253
MSS - 9308339	2,220	-	2,220
DMI - 9309430	1,207	121	1,328
CDA - 9309729	764	-	764
DDM - 9309925	107	53	160
CCR - 9310214	1,145	570	1,715
ASC - 9313958	5,245	2,617	7,862
CMS - 9314438	31,148	11,026	42,174
CTS - 9317708	3,666	1,827	5,493
IRI - 9319412	2,702	1,346	4,048
CCR - 9320588	4,862	2,424	7,286
MIP - 9321302	7,363	3,673	11,036
DMI - 9322807	747	373	1,120
CMS - 9358052	7,644	41	7,685
ECS - 9358284	12,764	1,276	14,040
CMS - 9396190	3,777	200	3,977
GER - 9396288	6,200	-	6,200
DMR - 9400439	2,493	1,243	3,736
IRI - 9400773	4,431	2,210	6,641
EIA - 9401156	(74)	-	(74)
DMS - 9401834	453	224	677
CTS - 9402911	3,940	1,964	5,904
ASC - 9404748	45	-	45
INT - 9408165	(400)	(104)	(504)
ECS - 9408957	3,280	1,637	4,917
ECS - 9409730	2,062	-	2,062
IRI - 9411334	157,120	78,601	235,721
INT - 9413186	339	169	508

Award Number	RMS Charges	Related Indirect Costs	Total
CTS - 9415686	6,364	3,133	9,497
CMS - 9416261	629	313	942
CMS - 9416265	557	278	835
CMS - 9416441	895	446	1,341
CMS - 9416457	796	396	1,192
CMS - 9416516	906	452	1,358
DMR - 9417185	200	100	300
DMR - 9417763	7,904	3,943	11,847
EEC - 9418534	8,819	4,392	13,211
ECS - 9419112	4,627	2,308	6,935
EEC - 9420604	(97)	-	(97)
DMI - 9421194	3,654	1,822	5,476
NCR - 9422513	10,499	5,245	15,744
AST - 9423305	2,749	1,372	4,121
CCR - 9453532	4,810	481	5,291
BES - 9457246	1,424	142	1,566
CCR - 9457812	836	661	1,497
CMS - 9504403	497	248	745
IRI - 9505561	14,725	7,358	22,083
PHY - 9505621	3,323	1,658	4,981
INT - 9507653	414	207	621
ECS - 9509539	1,280	639	1,919
ECS - 9509800	8,601	4,304	12,905
CDA - 9512332	478	239	717
CMS - 9520108	1,021	265	1,286
CMS - 9520204	429	112	541
CCR - 9520703	1,312	655	1,967
EEC - 9521232	974	-	974
DMR - 9522134	7,286	3,633	10,919
DMI - 9524972	192	96	288
CMS - 9525946	694	180	874
EEC - 9527545	1,425	4	1,429
ECS - 9527626	5,612	2,809	8,421
CTS - 9528351	1,297	647	1,944
ECS - 9529658	8,294	4,154	12,448
HS- 9531837	10,103	4,991	15,094
IRI - 9596025	13,738	6,906	20,644
IRI - 9596047	256	-	256
IRI - 9596091	6,578	658	7,236
EEC - 9603572	3,875	1,449	5,324
DMI - 9610046	1,969	983	2,952
CMS - 9612136	4,519	2,266	6,785

Award Number	RMS Charges	Related Indirect Costs	Total
IRI - 9612491	1,117	557	1,674
CMS - 9612670	41,365	14,593	55,958
EEC - 9615468	210	105	315
EEC - 9615774	8,926	4,481	13,407
CCR - 9616139	344	172	516
DMR - 9617392	4,273	2,145	6,418
CMS - 9617547	87	23	110
ACI - 9619020	34,223	-	34,223
CMS - 9622284	4,898	2,454	7,352
BES - 9623385	-	100	100
CMS - 9623979	1,072	525	1,597
CMS - 9624978	6,627	-	6,627
CMS - 9624980	1,912		1,912
EEC - 9625456	24,709	4,669	29,378
CDA - 9625910	775	-	775
CCR - 9626361	11,876	5,956	17,832
CMS - 9626586	*6,269*	3,148	9,417
EAR - 9628306	2,079	1,046	3,125
ECS - 9628420	8,615	4,321	12,936
NCR - 9628818	16,360	8,199	*24,559*
CCR - 9632345	10,195	5,107	15,302
ECS - 9632707	1,877	937	2,814
CMS - 9632828	1,225	611	1,836
11S- 9634215	6,762	3,385	10,147
ECS - 9634217	7,383	3,716	11,099
IRI - 9696061	2,631	-	2,631
ECS - 9696063	1,891	189	2,080
CTS - 9696085	3,097	1,550	4,647
CCR - 9696091	2,790	1,402	4,192
CCR - 9696122	4,516	452	4,968
CMS - 9696241	639	173	812
EEC - 9701568	216	81	297
CMS - 9703000	375	187	562
DMR - 9703427	125	62	187
ECS - 9704415	2,184	-	2,184
CDA - 9705022	110	-	110
CTS - 9705584	-	(2)	(2)
IRI - 9712131	-	(12)	(12)
BES - 9712179	2,619	1,320	3,939
CCR - 9712410	1,118	560	1,678
EEC - 9712750	5,628	2,831	8,459
EEC - 9714141	426	-	426

Award Number	RMS Charges	Related Indirect Costs	Total
INT - 9725220	3,273	1,631	4,904
CDA - 9726362	(1)	-	(1)
EIA - 9726389	(13,202)	(6,654)	(19,856)
CMS - 9727002	2,398	480	2,878
ANI - 9734515	1,294	652	1,946
CTS - 9796132	7,620	2,657	10,277
EIA - 9802069	1	149	150
CMS - 9812531	3,516	1,752	5,268
EEC - 9813302	3,038	1,531	4,569
IIS - 9817353	(1)	34	33
ECS - 9873086	2	1	3
IIS - 9873759	1,381	696	2,077
BCS - 9906691	(1,293)	-	(1,293)
CMS - 9988883	4,996	2,491	7,487
CMS - 0085298	281	61	342
Subtotal	**$ 779,949**	$ 307,745	$ **1,087,694**
Unidentifiable NSF Awards :			-
140-20402	1,382	690	2,072
ECS-00012	143	71	214
19-000083	1,557	785	2,342
533593-55660	3,766	1,880	5,646
94-147	6,028	3,006	9,034
A-100035	521	262	783
CG-9518	276	138	414
Cornell-19579-5072	12,456	5,537	17,993
F000439	2,551	1,279	3,830
FD94-37102-0840	307	-	307
R91167	1,195	596	1,791
R91168	699	349	1,048
R91241	1,863	930	2,793
	$ 32,744	$ 15,523	$ 48,267

Award Number	RMS Charges	Related Indirect Costs	Total
	$ 812,693	**$ 323,268**	**$ 1,135,961**
Add: FY 2001 UCB Adjustments (1)	104,685	43,413	148,098
Add: FY 1995 - Extrapolated (2)	98,589	46,323	144,912
Total Questioned Costs	**$ 1,015,967**	**$ 413,004**	**$ 1,428,971**

(1) Credit adjustments for amounts UCB determined to be incorrectly charged.

(2) RMS costs reported by UCB included extrapolated charges for the period July 1, 1994, to June 30, 1995, based on actual costs for June 1995 only. The NSF portion of FY 1995 RMS costs is based on the percentage of RMS charged to NSF relative to all federal agencies (22.77 percent of total reported RMS costs).

((22.77 percent * $811,156) - $39,788))

APPENDIX B'

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[redacted]

BERKELEY, CALIFORNIA 94720-1100

March 25, 2003

Ms. Jayne Hornstein
National Science Foundation
Office of the Inspector General, Office of Audit
4201 Wilson Boulevard, Room 1135S
Arlington, VA 22230

Re:. Response to Draft Audit Report Entitled, "University of California, Berkeley Research Management Services."

Dear Ms. Hornstein:

I am writing to you in response to the National Science Foundation (NSF) draft audit report entitled, "University of California, Berkeley Research Management Services." This audit covered the period from July 1994 through April 2001 and focused on-direct charges for research management services (RMS) at the College of Engineering. The primary issues in the findings and recommendations in the draft report focus on interpretations of the 1994 revisions to OMB Circular A-21, Section F.6.b, pertaining to the classification of departmental administration expenses, and the subsequent incorporation of Cost Accounting Standards in OMB Circular A-21 on May 8, 1996.

'Me :following represents the University of California, Berkeley's response to portions of the audit results section of the report and to the specific recommendations contained therein.

Audit Results

The audit paraphrases paragraph (2) of Section F.6.b of OMB Circular A-21 as the basis for the report's primary finding regarding the disallowance of direct charges for research management services costs. The actual paragraph states that *"The salaries of administrative and clerical staff should. normally he treated as T &A costs. Direct charging of these costs may be appropriate*

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where a major project or activity explicitly budgets for administrative or clerical services and individuals involved can be specifically identified with the projector activity. `Major project' is defined as a project that requires an extensive amount of administrative or clerical support, which is significantly greater than the routine level of such services provided by academic departments. " The campus maintains that many of the costs that were incurred from 1994-1997 were consistent with this definition and were budgeted accordingly.

As noted in the report, NSF first questioned RMS charges in July 1994. In July 1995, NSF informed the University that it would consider funding of such costs if we obtained written approval from our cognizant negotiation agency. The University restructured its research support operations within the College of Engineering organized research units and sought approval from Health and Human Services (HHS) for its redesigned charging methods. HHS informed the University in January 1997 that RMS charges were unallowable unless specifically approved on a case-by-case basis by the awarding agency. The notice was silent regarding the treatment of such costs during the period from July 1994 to January 1997. It was not clear to the University that such costs during the intervening period would be disallowed.

The Audit Results section of the draft report includes a sentence that states "the underlying managerial cause for adding administrative charges to awards was that the University had under-funded the cost of award administration at the College despite recovering the full administrative F&A costs allowed by OMB Circular A-21 from the awards." We do not concur with this finding, nor do we believe that it is factual. The comment is apparently based on the opinions of some of the staff within the organized research units who were interviewed during the audit. The auditors did not verify these assertions with. University management.

Response to the Recommendations

1. Based on our disagreement with some of the audit results, we do not concur with the dollar amount cited in this recommendation. As noted in the report, we have already repaid a portion of the disallowed costs that were incurred after January 1997. We are committed to reviewing the questioned costs and mitigating circumstances surrounding them in order to reach an appropriate resolution to this matter.

2. We concur with the recommendation to discontinue the practice of direct charging for routine administrative and clerical services costs. We implemented this recommendation in August 2000 through a communication to the campus during the field work of this audit. We believe that the University is in compliance with the specific requirements of OMB Circular A-21 relative to the direct charging of administrative costs to federal awards.

Please contact me regarding this response to the draft audit report. The University is committed to resolving these matters as expeditiously as possible.

Sincerely,

[redacted]

cc: