

NSF PERFORMANCE AUDIT OF INCURRED COSTS

BACKGROUND

Three UC Campuses were originally selected for the NSF Performance Audit of Incurred Costs in September 2010: UCSB, UCD and UCLA. UCB was added in 2013.

The audit objective was “to determine whether costs claimed by the University to NSF were allowable, reasonable, and in conformity with NSF award terms and conditions and applicable federal financial assistance requirements.”

- UCSB’s final report was issued in September 2012.
\$6.3 million in questioned costs.
Resolution in June 2014: \$43,551 disallowance.
- UCB’s final report was issued in March 2015.
\$1.8 million in questioned costs.
Currently in the resolution phase.
- UCD is still awaiting issuance of their final report.

BACKGROUND

UCLA Audit: September 2010 – May 2015

- The audit began in September 2010; however, after preliminary information and data was submitted, the audit was stopped in January 2011 in order for the NSF to concentrate on UCSB and UCD.
- UCLA's audit was restarted in August 2012.
- There was a lot of behind the scenes preparation required, including the download of all transactional data, and reconciliation of that data to the Federal Financial Reports (FFRs).
- Due to the staffing constraints, the NSF contracted with Cotton & Company, LLP (a CPA firm), to complete the testwork. They began their work in March 2013.
- The population included all expenditures charged to NSF awards from July 2009 through June 2012. Total expenditures exceeded \$226 million.

SAMPLE – USE OF DATA ANALYTICS

The NSF used “Data Analytics” to select their sample transactions. This is the science of examining raw **data** with the purpose of drawing conclusions about that information. This allowed the NSF to target unusual or unallowable items based on such things as expenditure date, object code, cost transfer information, and budget comparison.

Sample: 496 individual transactions were sampled across 40 departments

- 367 Non-Payroll transactions (~ \$3.7 million)
- 129 Payroll transactions (~ \$444,000)

DOCUMENTATION

UCLA was charged with providing supporting documentation for each transaction selected. Therefore, A&AS reached out to the 40 departments and applicable central units to gather the necessary information.

More documentation and explanations were repeatedly requested from the auditors during the audit process.

A **BIG** thank you to those who were called upon by Rachel Yglesias for the payroll transactions and by me for the non-payroll transactions. It was truly a team effort to complete this huge task!



RESULTS: AUDIT FINDINGS AND RESOLUTION

The final NSF audit report for UCLA included 9 audit findings with questioned costs of more than \$2.3 million (includes F&A).

Although only \$444,000 in payroll transactions were originally sampled, \$2.1 million of the questioned costs related to all summer salaries charged during the review period.

After completing the NSF resolution phase, UCLA successfully reduced the disallowance to \$130,469.



FINAL AUDIT RESULTS

Finding	Description	Questioned	Allowed	Sustained
1	Overcharged Summer Salary	\$2,111,653	\$2,111,653	\$0
2	Unsupported Per Diem Costs	\$131,139	\$86,792	\$44,347
3	Unallowable Visa Application Fees	\$73,135	\$0	\$73,135
4	Unreasonable Equipment Purchases Made at the End of the Grant Period	\$15,700	\$15,700	\$0
5	Unreasonable Salary Expense Charged to an Award	\$15,186	\$15,186	\$0
6	Unallocable Domestic Travel	\$6,104	\$0	\$6,104
7	Unallowable Application of Indirect Expenses	\$3,200	\$0	\$3,200
8	Unallowable Technology Infrastructure Fees	\$2,263	\$0	\$3,683
9	Late Effort Report Certifications	\$0	\$0	\$0
	Totals:	\$2,358,380	\$2,229,331	\$130,469

LESSONS LEARNED FROM AUDIT FINDINGS

FINDING 1: Overcharged Summer Salaries

Although we adequately defended UC's policy, a reminder that no more than 2 months of salary (the equivalent of 2/9^{ths} salary for academic faculty) may be charged to NSF awards, unless specifically approved.

FINDING 2: Unsupported Per Diem Costs

In December 2014, a Deans, Directors, et al., memorandum was distributed to the Campus, and in April 2015, UC BFB G-28, *Policy Regulations Governing Travel*, was also modified to state "Receipts that support the reimbursement claim for long-term foreign lodging that is charged to a federal fund source (whether reimbursed as a per diem or actual), should be kept on file within the department and retained for such periods as required by either the sponsor's retention policy or UC retention policy.

This change was made as a direct result of the NSF audit. The NSF was lenient, only disallowed half the lodging costs.

LESSONS LEARNED FROM AUDIT FINDINGS

FINDING 3: Unallowable Visa Application Fees

The NSF found that UCLA violated either federal policies or our own policies regarding the direct charging of visa application fees to NSF awards.

UCLA's guidance states: "Unless prohibited under sponsor policy, charges for immigration visa applications may be charged to contracts and grants *when justified*. These charges must be reasonable, necessary for the performance of the particular sponsored project(s), and consistently charged to the fund source(s) that supports the immigrant's salary. The need to hire someone with a particular expertise (i.e., demonstrated scientific need) **for whom relocation and immigration expenses are necessary**, rather than hiring someone who is already legally qualified to work in the United States must be well justified and documented."

The auditors pointed out that the individuals selected in the sample were not recruited, but were in fact already employees for many years. Additionally, UCLA did not properly allocate the fees across projects in proportion to each employee's effort. Extrapolation was used by the NSF to all visa application fee transactions over \$1,000 within the review period. UCLA decided to agree to the disallowance.

LESSONS LEARNED FROM AUDIT FINDINGS

FINDING 4: Unreasonable Equipment Purchases Made at the End of the Grant Period

Although the definition of equipment was explained to the auditors, the items deemed “unreasonable equipment” were all computers. As a reminder, campus departments should have detailed justifications or necessary sponsor approvals for any equipment or computers purchased during the last 90 days of a project. With exhaustive explanation by the PIs regarding why these computers were purchased at the end of their awards, UCLA prevailed on this finding.

FINDING 5: Unreasonable Salary Expenses Charged to an Award

A salary expense transfer was made 10 months after it occurred. While UCLA prevailed on this finding because the PI provided justification, UCLA should not engage in such late cost transfers. This issue was also brought to the forefront, because an effort report was never produced, so the PI never certified his time. ORA has now implemented an update to the effort reporting system so that all late pay transactions are captured.

LESSONS LEARNED FROM AUDIT FINDINGS

FINDING 6: Unallocable Domestic Travel

A domestic research trip was charged that was not planned or budgeted. The NSF program officer was also consulted during the audit resolution phase, and was determined that the trip was not necessary to accomplish the goals of the project. Additionally, the trip was not mentioned in the final progress report. When trips are not mentioned in the original proposal or included in the budget, please review these expenditures with your PIs and obtain agency approval when necessary.

FINDING 7: Unallocable Application of Indirect Expenses

F&A was inappropriately charged when transferring a cost from one account that did not assess F&A, to another account that did. The expense involved “participant costs.” Please always be cognizant when transferring costs what other issues should be taken into account, such as F&A.



LESSONS LEARNED FROM AUDIT FINDINGS

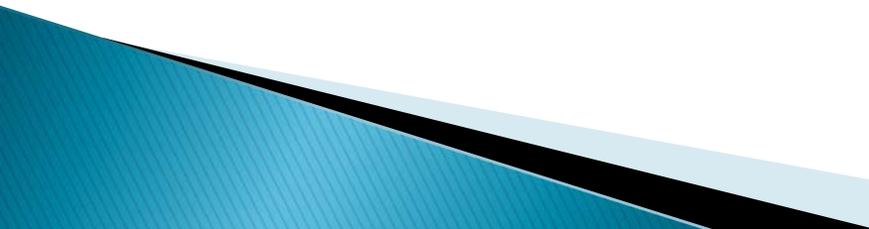
FINDING 8: Unallocable Technology Infrastructure Fee (TIF)

Please ensure that TIF is allowable on your awards. Two awards specifically stated that TIF was unallowable, yet it was charged.

FINDING 9: Late Effort Report Certification

50/93 effort reports reviewed were submitted late. While there was no disallowance associated with this finding, we encourage you to submit your effort reports in a timely manner so that we can achieve 100% compliance.

SUMMARY OF LESSONS LEARNED

- Review your award budgets to ensure that expenses are allowable, and obtain agency approvals where necessary. Don't assume that if a PI tells you to charge something to their award, that it is appropriate.
 - Ensure that all cost transfers are properly justified and explained. It is not adequate to say, "moving cost to correct fund." Auditors question why it was charged incorrectly in the first place.
 - Ensure that your transactions are timely. Late adjustments or cost transfers send up **RED** flags to the auditors, especially those that come at the end of the award period.
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DISALLOWED COSTS

EFM will be reaching out to the applicable departments to resolve the disallowed cost issues, and refund the NSF.

Should you have any questions, you may contact: Assistant Director Maurice Taylor at x42843, mtaylor@research.ucla.edu

FINAL REPORT AND RESOLUTION LETTER

Final NSF Report:

<https://www.nsf.gov/oig/reports/ucla.pdf>

Resolution Letter:

http://www.nsf.gov/bfa/dias/caar/docs/auditreports/auditrep141004_ucla.pdf

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