



NATIONAL SCIENCE FOUNDATION
Division of Institution & Award Support

4201 Wilson Boulevard – Suite I-485
Arlington, VA 22230
(703) 292-8244
(703) 292-9171 FAX

June 13, 2014

Henry T. Yang, Chancellor
University of California, Santa Barbara
Office of the Chancellor
Santa Barbara, CA 93106-2030

Re: Audit Report No. 12-1-005

Dear Chancellor Yang:

The National Science Foundation (NSF) has completed its review of audit report 12-1-005 pertaining to costs incurred under NSF awards for the period January 1, 2008 to December 31, 2010. The auditors identified questioned costs of \$6,325,483 related to 6 audit findings.

This letter summarizes the NSF management decisions for five of the six findings. Finding number three, *Cost Transfers*, is hereby considered administratively closed as it relates to audit report 12-1-005.

After careful review and consideration of the documentation provided by the University, NSF has determined that it will allow \$5,785,466 of the costs questioned in the audit report and disallow \$43,551, as indicated in the table below. The Management Decision Summary (Attachment 1), provides the details of the NSF audit resolution review and determinations.

Finding	Description	Questioned	Allowed	Disallowed
1	Summer Salaries	\$1,913,473	\$1,913,473	\$0
2	Unfulfilled Cost Sharing	\$2,821,676	\$2,821,676	\$0
3	Cost Transfers	\$496,466	n/a	n/a
4	Indirect Costs	\$473,465	\$468,234	\$5,231
5	Unallowable Costs	\$440,148	\$401,828	\$38,320
6	Fellowship Funds	\$180,255	\$180,255	\$0
	TOTALS	\$6,325,483	\$5,785,466	\$43,551

As a result of the above management decisions, the disallowed amount of \$43,551 must be refunded to NSF. Attachment 2 (Repayment of Disallowed Costs) summarizes the specific amounts

required to be repaid by award number. For awards financially closed prior to the University's conversion to the Award Cash Management Service (ACM\$) must be repaid by check. Please remit a check for \$39,804 made payable to NSF Cashier and sent to:

National Science Foundation
NSF Cashier Room 475
4201 Wilson Blvd.
Arlington, VA 22230

The remaining \$3,747 must be repaid by downward adjustments to the affected awards using ACM\$. Please reference audit report number 12-1-005 and the amounts credited by award number in the remarks section when the adjustments are made.

Please be aware that the University's rights to appeal are set forth in Chapter VII.B of NSF's Award Administration Guide, which may be found at:

http://www.nsf.gov/pubs/policydocs/pappguide/nsf14001/aag_7.jsp#VIIB

NSF hereby considers findings 1, 2, 4, 5, and 6 and the associated questioned costs fully resolved; and as stated above, finding number 3 has been administratively closed under this audit report. Upon verification that all of the disallowed costs outlined above have been remitted, NSF will consider final action complete and the audit report will be fully closed out.

The University's patience, cooperation, and timely responses have been greatly appreciated. In the event that you have questions concerning this letter, please feel free to contact Carrie Davison at 703-292-4579.

Sincerely,

Rochelle Ray
Team Lead for Audit Resolution
Cost Analysis and Audit Resolution Branch

Attachments:

1. Management Decision Summary
2. Repayment of Disallowed Costs

cc: Pam Lombardo, Acting Associate Vice Chancellor, UCSB

**12-1-005 University of California, Santa Barbara
Management Decision Summary**

NSF has completed the resolution of the findings and questioned costs identified in the Office of the Inspector General (OIG) audit report number 12-1-005, dated September 28, 2013. The audit covered active NSF awards issued to the University of California, Santa Barbara (UCSB) for the period January 1, 2008 to December 1, 2010. The audit report identified questioned costs totaling \$6,325,484 under 6 findings.

This summary sets forth the basis for the NSF management decisions for five of the six findings. Finding number three, *Cost Transfers*, is hereby considered administratively closed as it relates to audit report 12-1-005.

After NSF review and consideration of the additional documentation provided by UCSB, the Agency's management decision is to allow \$5,785,466 of the costs questioned by the auditors and to disallow \$43,551 as summarized below.

Finding	Description	Questioned	Allowed	Sustained
1	Summer Salaries	\$1,913,473	\$1,913,473	\$0
2	Unfulfilled Cost Sharing	\$2,821,676	\$2,821,676	\$0
3	Cost Transfers	\$496,466	n/a	n/a
4	Indirect Costs	\$473,465	\$468,234	\$5,231
5	Unallowable Costs	\$440,148	\$401,828	\$38,320
6	Fellowship Funds	\$180,255	\$180,255	\$0
	TOTALS	\$6,325,483	\$5,785,466	\$43,551

Finding 1: Overcharged Summer Salaries

The audit report cited \$1,913,473 in questioned overcharged summer salaries because: (1) Personnel Activity Reports (PARs) did not reflect actual labor worked; (2) UCSB's methodology for calculating summer salaries based on a 19 day month resulted in many monthly salary charges exceeding one-ninth of the annual rates; and, (3) UCSB failed to follow its policies for summer compensation.

The NSF understanding of UCSB policies and procedures for accounting for and documenting summer salary differs significantly from what was communicated in the audit report. Specifically, based on its review, NSF determined that:

- The UCSB summer academic term is split between the two PARs, spring and summer. In order to obtain an accurate accounting of actual effort worked and certified for the summer academic term, both spring and Summer PARs must be reviewed.
- UCSB's policy for summer compensation is based on a full term of 57 days, where two-thirds of a term equals 38 days and one-third of a term equals 19 days. A 57 day summer term is reasonable and consistent with UCSB's academic terms, and is consistent with UCSB's policy that one-third of a summer term is 19 days (vs. a 30-day month).
- Per UCSB's policies and procedures compensation charges for one-third of the 57 day summer term worked on an NSF grant is equivalent to one-ninth of the academic year compensation, and that compensation charges for two-thirds of the summer term worked is equivalent to charges for two-ninths of the academic year compensation.

- Although the audit report indicated that the summer salaries for most faculty were calculated using a daily rate based on a 19 day month, UC's policy allows for this method to be used for part-time employees or when the labor effort contributed during the summer period will be irregular. Further, UC's policy permits faculty to select the specific days that will be worked to fulfill research commitments on NSF awards throughout the summer term. As a result, NSF determined that faculty scheduled to work irregularly (by selecting specific days) in the summer to fulfill labor effort contributions during the period mid-June to mid-September is reasonable and consistent with UC's stated policies.

Based on a thorough review and understanding of the UCSB policies and procedures, and the supporting documentation for selected samples of actual UCSB Summer salaries charged to NSF awards, it is the NSF management decision that the UCSB's methodology was compliant with the requirements for charging Summer compensation consistently to Federal awards, as set forth in the cost principles. As a result, the NSF management decision is to allow the entire questioned amount at \$1,913,473.

Finding 2: Unfulfilled Cost Sharing Requirement

The audit report questioned \$2,821,676 for unfulfilled cost sharing based on UCSB's: (1) inability to provide verifiable documentation tracked on a project-by-project basis through its accounting system; (2) failure to require certified labor effort reports; and (3) failure to follow UC policy for tracking cost sharing data.

NSF determined that OMB Circular 2 CFR 215 states that cost sharing must be "verifiable from the recipient's records." However, OMB guidance does not require that cost sharing be tracked in the accounting system. As a result of the NSF review conducted of the University's policies and procedures, as well as supporting documentation from the affected departments:

- NSF determined that UCSB policy requires that verifiable records and documentation for cost share contributed to federal projects be maintained at the departmental level vs. at the central sponsored research or accounting level.
- NSF agrees that failure to maintain effort reports to document contributed salaries was indeed a compliance issue, but there was verifiable evidence to support (via the Annual Project Contribution Reports (APCRs), payroll ledgers and annual project reports) that the contributed salaries were in fact incurred under the awards reviewed. NSF notes that the UCSB cost sharing policy was revised as of July 2011 to require effort reports to document salaries contributed to federal awards as cost sharing.
- NSF has determined and accepts that the APCR's and departmental documentation to support the reports constitutes verifiable documentation to support cost sharing under NSF awards, (including effort contributed that was required to be documented with effort reports).
- NSF determined that UCSB was compliant with the UC policies on cost sharing in effect for the awards in question.

Based on the review and analysis conducted, the NSF management decision is to allow the entire questioned amount at \$2,821,676.

Finding 3: Inappropriate Cost Transfers

This finding is administratively closed under the subject audit report, 12-1-005.

Finding 4:

Indirect Cost Overcharges

The audit finding questioned 1,651 transactions as overcharged indirect costs based on UCSB's failure to comply with the indirect cost rate agreement negotiated with the Department of Health and Human Services (DHHS), and with NSF policy. The audit report cited UCSB as non-compliant with its indirect cost rate agreement and with NSF policy because: (1) the applicable UCSB negotiated indirect rate agreement(s) required the use of a modified total direct cost allocation base that excluded subawards, scholarships and fellowships from indirect cost calculations; and, (2) UCSB recovered the administrative allowance on participant support costs.

NSF staff reviewed awards that represented \$293,036 of the \$396,418 in costs questioned on the basis of overcharged indirect costs as follows:

- The awards were issued and/or supplemented under the following NSF programs:
 - Grant Opportunities for Academic Liaison with Industry (GOALI)
 - Integrative Graduate Education and Research Traineeship (IGERT)
 - Research Experiences for Undergraduates (REU)
 - Research Experiences for Teachers (RET)
- NSF determined that the University fully complied with the requirements of each program which were incorporated as terms and conditions of the awards, as required by NSF.
- NSF determined that \$5,231 in indirect costs applied by UCSB to rental facilities will be disallowed, as the award terms and conditions did not modify the allocation base. NSF agrees that UCSB should not have recovered indirect costs under these awards.

Based on the review and analysis conducted, the NSF management decision is to allow the \$391,187 and disallow \$5,231.

Direct Charging of Costs Typically Treated as Indirect Costs

The audit report states that UCSB "directly charged \$77,047 of indirect costs to its NSF grants for costs already reimbursed to UCSB through its Indirect Cost Rate and/or its Service Center Recharges." As criteria for this finding, the audit report cites 2 CFR 220 Section E.1, which defines facilities and administration costs (i.e., F&A or indirect costs) and states that "no final cost objective shall have allocated to it as a direct costs any cost, if other costs incurred for the same purpose, in like circumstances, have been included in any F&A cost pool to that or any other final cost object."

- Additional federal guidance included under 2 CFR 220, Section F.6.b(1), which addresses Departmental Administration Expenses, states:

*"In developing the departmental administration cost pool, special care should be exercised to ensure that costs incurred for the same purpose in like circumstances are treated consistently as either direct or F&A costs. For example, **salaries of technical staff, laboratory supplies (e.g., chemicals), telephone toll charges, animals, animal care costs, computer costs, travel costs, and specialized shop costs shall be treated as direct cost wherever identifiable to a particular cost objective. Direct charging of these costs may be accomplished through specific identification of individual costs to***

benefiting cost objectives, or through recharge centers or specialized service facilities, as appropriate under the circumstances.”

- NSF reviewed the purpose and goals of the awards in question and determined that funding was provided to create and/or continue support of large centers under programs like the Materials Research Science and Engineering Center (MRSEC), the Physics Frontier Center, and the Nanoscale Science and Engineering Research Centers.
- The above NSF programs were designed to establish and support the operations of large research centers where multidisciplinary research and widespread collaboration with industry and other educational institutions was both encouraged and required.
- Based on the program goals and attributes of the awards reviewed, as well as additional responses, clarification, and documentation from UCSB, the NSF determined that:
 - The projects reviewed qualified as major projects, in accordance with 2 CFR 220, Section F.6.b(2).
 - UCSB was in compliance with federal requirements as well as its own policies and procedures for direct charging of costs such as telephone, photocopying, etc., to the NSF awards.

Other Costs Questioned

Although these costs were grouped with indirect costs charged directly, upon further examination, NSF determined the following:

- User Defined Services/Temporary Services were clarified by UCSB to be compensation paid to long term visiting scientists from other universities.
 - NSF reviewed supporting documentation from UCSB and other alternative documentation to verify the above clarification from UCSB.
- University Garage Charges/Transportation Recharge costs were explained as “local transportation of workshop participants” by UCSB. The University stated that the costs should have been charged under participant support.
 - NSF’s review determined that these charges were reasonable and allocable, and were consistent with the planned activities for the project.
- Membership/subscription costs were explained by UCSB as “laboratory usage/instrument fee” for research conducted at the University of Sydney in Australia.
 - NSF’s review determined that the documentation provided by UCSB aligned with the purpose and activities of the award approved and funded by the Agency.
- Documentation provided by UCSB confirmed that questioned costs in the amount of \$11,441 for general purpose furniture were previously removed from the NSF award by UCSB in September 2009. As a result, NSF determined that these costs did not require resolution, as they were not charged to the award.

Based on the review and analysis conducted, the NSF management decision is to allow \$65,606 of the \$77,047 in questioned costs. The remaining \$11,441 represents furniture costs that were removed from the award in 2009 and therefore do not require NSF resolution.

Finding 5: Unallowable Costs Charged to NSF Awards

The audit report cited \$440,148 in unallowable charges to NSF awards in five categories as follows:

- \$48,328 for Apple computers – NSF’s review and analysis of UCSB’s explanations and documentation resulted in a determination to allow the entire amount questioned for Apple computer costs.
- \$6,085 for pizza charges to IGERT grant – NSF determined that the costs questioned were in line with activities described for the project. NSF determined to allow the questioned pizza charges.
- NSF determined to disallow the questioned \$3,166 in unapproved pre-award costs and UCSB concurred.
- \$177,573 was questioned as equipment that was purchased near the end of or after the award period as follows:
 - There were two questioned transactions with transaction dates after the award expiration dates. NSF determined to disallow the first transaction at \$3,581 and to allow the second transaction at \$8,124 based on the purpose and intent of the project as awarded, and based on UCSB providing evidence that the purchase order was placed before the award expiration.
 - The remaining equipment items totaling \$165,868 were questioned because they were purchased near the end of the award periods and, in some cases, were for general use equipment. NSF reviewed and considered UCSB’s explanations, the purpose and goals of the award, NSF’s equipment policy, and where necessary, obtained expert technical input concerning the reasonableness and allocability of the equipment purchases. As a result of the review conducted, NSF determined to allow \$134,295 and disallow \$31,573 of the questioned \$165,868 transactions.
- \$204,996 was questioned because amounts were not budgeted and in some cases were for general use equipment. NSF determined that three transactions totaling \$63,551 represented duplicate questioned costs. NSF further determined that equipment does not have to be budgeted to be reasonable, allowable and allocable under an NSF award, in accordance with NSF and federal policy. NSF considered UCSB’s explanations and documentation, the purpose and goals of the awards, NSF’s equipment policy, and where necessary, obtained expert technical input concerning the reasonableness and allocability of the purchases. NSF determined to allow the entire \$204,996.

Based on the review and analysis conducted, the NSF management decision is to allow \$401,828 and to disallow \$38,320.

Finding 6: Fellowship Funds for Non-Award Purposes

The audit report questioned costs awarded under NSF’s Graduate Research Fellowship Program (GRFP). These GRFP grants funded stipends and travel costs for fellows/students and provided a cost of education (COE) allowance to the institutions.

The audit cited \$180,255 in questioned Fellowship costs because the costs were claimed on the final Federal Financial Report (FFR) despite no actual costs having been incurred. NSF determined that the questioned transactions identified during the audit represented COE allowance costs that the University was eligible to recover under the NSF program. In accordance with the GRFP program requirements contained in NSF 97-26, “The actual use of the cost-of-education allowance is at the discretion of the affiliated institution.” These costs were awarded as an “allowance” based on the number of fellows tenured and enrolled and were not cost reimbursement items under the

grant. Accordingly, NSF determined that the COE allowance was properly charged to the NSF grant upon meeting the eligibility requirements.

Based on the review and analysis conducted the NSF management decision is to allow the entire questioned amount of \$180,255.

Repayment of Questioned Costs Under Finding 4: Indirect Costs

Award Number	ACM\$	Check
0336668		\$ 43
0440576	\$ 58	
0531184		\$ 3,371
0553768	\$ 90	
0620276	\$ 48	
0643840	\$ 255	
0824042		\$ 1,236
0826871	\$ 130	
Subtotal	\$ 581	\$ 4,650
Total Repayment under Finding 4:		\$ 5,231

Repayment of Questioned Costs Under Finding 5: Unallowable Costs

Award Number	ACM\$	Check
0231414		\$ 3,581
0434567		\$ 8,034
0444712		\$ 10,260
0454806		\$ 6,971
0524853		\$ 6,308
0832090	\$ 3,166	
Subtotal	\$ 3,166	\$ 35,154
Total Repayment under Finding 5:		\$ 38,320

Disallowed costs under awards closed prior to the Award Cash Management Service (ACM\$) conversion must be repaid by check. Otherwise, repayments must be made as adjustments to the respective award in ACM\$. Note that award 0643840 remains open. Please reference the audit report number (12-1-005) and the amounts credited by award number in the remarks section of the ACM\$ transaction.

