

Performance Audit of Incurred Costs – Cal Poly Corporation

REPORT PREPARED BY COTTON & COMPANY ASSURANCE AND
ADVISORY, LLC

NATIONAL SCIENCE FOUNDATION
OFFICE OF INSPECTOR GENERAL

June 21, 2022
OIG 22-1-006





AT A GLANCE

Performance Audit of Incurred Costs – Cal Poly Corporation

Report No. OIG 22-1-006

June 21, 2022

AUDIT OBJECTIVE

The National Science Foundation Office of Inspector General engaged Cotton & Company Assurance and Advisory, LLC (C&C) to conduct a performance audit of costs that the Cal Poly Corporation (Cal Poly) incurred on 49 NSF awards during the period of performance from each award's inception date through September 2, 2021. The auditors tested more than \$830,000 of the approximately \$15 million of costs claimed to NSF. The audit objective was to determine if costs claimed by Cal Poly on NSF awards were allowable, allocable, reasonable, and in compliance with NSF awards terms and conditions and federal financial assistance requirements. A full description of the audit's objective, scope, and methodology is attached to the report as Appendix B.

AUDIT RESULTS

The report highlights concerns about Cal Poly's compliance with certain federal and NSF award requirements, NSF award terms and conditions, and Cal Poly policies. The auditors questioned \$30,177 of costs claimed by Cal Poly during the audit period. Specifically, the auditors found \$12,238 in unallowable expenses, \$9,059 of inappropriately allocated expenses, \$4,699 of indirect costs inappropriately applied, and \$4,181 of inadequately supported expenses. The auditors also identified one compliance related finding for which there were no questioned costs: non-compliance with Cal Poly policies. C&C is responsible for the attached report and the conclusions expressed in it. NSF OIG does not express any opinion on the conclusions presented in C&C's audit report.

RECOMMENDATIONS

The auditors included 5 findings in the report with associated recommendations for NSF to resolve the questioned costs and to ensure Cal Poly strengthens administrative and management controls.

AUDITEE RESPONSE

Cal Poly disagreed with some of the findings in the report. Cal Poly's response is attached in its entirety as Appendix A.

FOR FURTHER INFORMATION, CONTACT US AT OIGPUBLICAFFAIRS@NSF.GOV.



National Science Foundation • Office of Inspector General
2415 Eisenhower Avenue, Alexandria, Virginia 22314

MEMORANDUM

DATE: June 21, 2022

TO: Dale Bell
Director
Division of Institution and Award Support

Jamie French
Director
Division of Grants and Agreements



FROM: Mark Bell
Assistant Inspector General
Office of Audits

SUBJECT: Audit Report No. 22-1-006, Cal Poly Corporation

This memorandum transmits the Cotton & Company Assurance and Advisory, LLC (C&C) report for the audit of costs charged by the Cal Poly Corporation (Cal Poly) to its sponsored agreements with the National Science Foundation on 49 NSF awards during the period of performance from each award's inception date through September 2, 2021. The audit encompassed more than \$830,000 of the approximately \$15 million of costs claimed to NSF during the period. The audit objective was to determine if costs claimed by Cal Poly on NSF awards were allowable, allocable, reasonable, and in compliance with NSF awards terms and conditions and federal financial assistance requirements. A full description of the audit's objective, scope, and methodology is attached to the report as Appendix B.

Please coordinate with our office during the 6-month resolution period, as specified by OMB Circular A-50, to develop a mutually agreeable resolution of the audit findings. 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 the Audit

C&C is responsible for the attached auditors' report and the conclusions expressed in this report. We do not express any opinion on the conclusions presented in C&C's audit report. To fulfill our responsibilities, we:

- reviewed C&C'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 C&C, as necessary, to discuss audit progress, findings, and recommendations;
- reviewed the audit report prepared by C&C; and
- coordinated issuance of the audit report.

We thank your staff for the assistance that was extended to the auditors during this audit. If you have any questions regarding this report, please contact Billy McCain at 703.292.7100 or OIGpublicaffairs@nsf.gov.

Attachment

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EXECUTIVE SUMMARY

The Cotton & Company audit team determined that the Cal Poly Corporation (Cal Poly) needs improved oversight of the allocation and documentation of expenses charged to NSF awards to ensure costs claimed are reasonable, allocable, and allowable in accordance with all federal and NSF regulations, NSF award terms and conditions, and Cal Poly policies. Specifically, the audit report includes five findings and a total of \$30,177 in questioned costs.

AUDIT OBJECTIVES

The National Science Foundation Office of Inspector General engaged Cotton & Company Assurance and Advisory, LLC to conduct a performance audit of costs that Cal Poly incurred on 49 awards that either ended or were close to the end of their period of performance. The audit objectives included evaluating Cal Poly's award management environment to determine whether any further audit work was warranted and performing additional audit work, as determined appropriate. We have attached a full description of the audit's objectives, scope, and methodology as [Appendix B](#).

AUDIT CRITERIA

The audit team assessed Cal Poly's compliance with relevant federal regulations (i.e., 2 Code of Federal Regulations [CFR] 200 and 2 CFR 220); NSF Proposal and Award Policies and Procedures Guides (PAPPGs) 14-1, 15-1, 16-1, 17-1, 18-1, 19-1, and 20-1; NSF award terms and conditions; and Cal Poly policies and procedures. The audit team included references to relevant criteria within each finding and defined key terms within the Glossary located in [Appendix E](#).

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards (GAGAS)* issued by the Comptroller General of the United States.

AUDIT FINDINGS

As summarized in [Appendix C](#), the auditors identified and questioned \$30,177 of direct and indirect costs that Cal Poly inappropriately claimed during the audit period, including:

- \$12,238 of unallowable expenses
- \$9,059 of inappropriately allocated expenses
- \$4,699 of indirect costs inappropriately applied
- \$4,181 of inadequately supported expenses

The audit report also includes one compliance-related finding for which the auditors did not question any costs:

- Non-compliance with Cal Poly policies

RECOMMENDATIONS

The audit report includes 13 recommendations for NSF's Director of the Division of Institution and Award Support related to resolving the \$30,177 in questioned costs and ensuring Cal Poly strengthens its award management environment, as summarized in [Appendix D](#).

AUDITEE RESPONSE

Cal Poly disagreed with some of the findings included in the audit report. Specifically, while Cal Poly agreed to reimburse NSF for \$14,635 in questioned costs, it disagreed with the remaining \$15,542. Cal Poly's response will be attached, in its entirety, to the report as [Appendix A](#).

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Abbreviations

ACM\$	Award Cash Management Service
Cal Poly	Cal Poly Corporation
CSU	California State University
CFR	Code of Federal Regulations
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
GL	General Ledger
IBS	Institutional Base Salary
IHE	Institute of Higher Education
MTDC	Modified Total Direct Costs
NICRA	Negotiated Indirect Cost Rate Agreement
[REDACTED]	[REDACTED]
NSF	National Science Foundation
OIG	Office of Inspector General
PAPPG	Proposal and Award Policies and Procedures Guide
PI	Principal Investigator
POP	Period of Performance

BACKGROUND

The National Science Foundation is an independent federal agency created “to promote the progress of science; to advance the national health, prosperity, and welfare; to secure the national defense; and for other purposes” (Pub. L. No. 81-507). NSF funds research and education in science and engineering by awarding grants and contracts to educational and research institutions throughout the United States.

Most federal agencies have an Office of Inspector General that provides independent oversight of the agency’s programs and operations. Part of NSF OIG’s mission is to conduct audits and investigations to prevent and detect fraud, waste, and abuse. In support of this mission, NSF OIG may conduct independent and objective audits, investigations, and other reviews to promote the economy, efficiency, and effectiveness of NSF programs and operations, as well as to safeguard their integrity. NSF OIG may also hire a contractor to provide these audit services.

NSF OIG engaged Cotton & Company Assurance and Advisory, LLC (referred to as “we”) to conduct a performance audit of costs incurred by the Cal Poly Corporation (Cal Poly). Cal Poly is the service auxiliary for the California Polytechnic State University, a public university located in San Luis Obispo, California. In fiscal year 2020-2021, Cal Poly reported \$89 million in revenue sources, with \$35.2 million of that coming from two primary sources - sponsored research and campus programs. Figure 1 below shows that \$23.9 million (68 percent) of the 35.2 million in primary sources of revenue were from sponsored research, which includes funding from NSF.

Figure 1: Cal Poly’s FY 2020-2021 Primary Revenue Sources



Source: The chart data is available on the Cal Poly Corporation’s website (<https://www.calpolycorporation.org/organization-profile/governance/financials/>). The photo of California Polytechnic State University’s campus is publicly available on Cal Poly’s website (<https://www.calpolycorporation.org/calendar/board-of-directors-meeting/>).

AUDIT SCOPE

This performance audit—conducted under Order No. 140D0421F0616—was designed to meet the objectives identified in the Objectives, Scope, and Methodology section of this report (**Appendix B**) and was conducted in accordance with *Generally Accepted Government Auditing Standards*, issued by the Comptroller General of the United States.

The objectives of this performance audit were to evaluate Cal Poly’s award management environment, determine whether any further audit work was warranted, and perform any additional audit work, as determined appropriate. **Appendix B** provides detailed information regarding the audit scope and methodology used for this engagement.

As illustrated in Figure 2, Cal Poly provided general ledger (GL) data to support the approximately \$15 million in expenses it claimed on 49 NSF awards from each award’s inception through September 2, 2021.

Figure 2: Costs Cal Poly Claimed on 49 NSF Awards¹



Source: Auditor analysis of accounting data Cal Poly provided, illustrating the total costs (\$14,982,490) by expense type, using financial information to support costs incurred on NSF awards during the audit period.

We judgmentally selected 50 transactions totaling \$830,407² (see Table 1) and evaluated supporting documentation to determine whether the costs claimed on the NSF awards were **allocable**, **allowable**, and **reasonable**, and whether they were in conformity with NSF award terms and conditions, organizational policies, and applicable federal financial assistance requirements.

¹ The total award-related expenses that Cal Poly reported in its GL exceeded the \$14,966,612 reported in NSF’s Award Cash Management Service (ACM\$). However, because the GL data materially reconciled to NSF’s ACM\$ records, we determined that the GL data was appropriate for the purposes of this engagement.

² The \$830,407 represents the total value of the 50 transactions selected for transaction-based testing. It does not represent the dollar base of the total costs reviewed during the audit.

Table 1: Summary of Selected Transactions

Budget Category	Transaction Count	Expense Amount ³
Consultant Services	5	\$191,084
Subawards	3	159,861
Equipment	5	158,159
Other Direct Costs	11	139,551
Travel	9	65,535
Materials and Supplies	6	41,763
Salaries and Wages	6	29,492
Fringe Benefits	2	23,636
Indirect Costs	1	13,951
Publications	2	7,375
Total	<u>50</u>	<u>\$830,407</u>

Source: Auditor summary of selected transactions.

AUDIT RESULTS

We identified and questioned \$30,177 in costs that Cal Poly charged to four NSF awards. We also identified expenses that Cal Poly charged to four NSF awards that did not result in questioned costs, but resulted in non-compliance with Cal Poly-specific policies and procedures. See Table 2 for a summary of questioned costs by finding area, [Appendix C](#) for a summary of questioned costs by NSF award, and [Appendix D](#) for a summary of all recommendations.

Table 2: Summary of Questioned Costs by Finding Area

Finding Description	Questioned Costs
Unallowable Expenses	\$12,238
Inappropriately Allocated Expenses	9,059
Indirect Costs Inappropriately Applied	4,699
Inadequately Supported Expenses	4,181
Non-Compliance with Cal Poly Policies	-
Total	<u>\$30,177</u>

Source: Auditor summary of findings identified.

We made 13 recommendations for NSF's Director of the Division of Institution and Award Support related to resolving the \$30,177 in questioned costs and ensuring Cal Poly strengthens its administrative and management policies and procedures for monitoring federal funds. We communicated the results of our audit and the related findings and recommendations to Cal Poly and NSF OIG. We included Cal Poly's response to this report in its entirety in [Appendix A](#).

³ The expense amounts reported represent the total dollar value of the transactions selected for our sample; they do not include the total [fringe benefit](#) or [indirect costs](#) applied to the sampled transactions, which we also tested for [allowability](#).

FINDING 1: UNALLOWABLE EXPENSES

Cal Poly charged two NSF awards a total of \$12,238 in expenses incurred for **consultant** and **travel** costs that are unallowable under federal regulations⁴ and NSF Proposal and Award Policies and Procedures Guides (**PAPPGs**).⁵

Unallowable Consultant Expense

Cal Poly charged one NSF award for \$12,022 in intra-Institution of Higher Education (IHE) consulting expenses that Cal Poly did not include in its NSF award budget or obtain NSF's written approval to incur, as required for the costs to be allowable per federal regulations.⁶

Table 3: Unallowable Consultant Expense

Expense Date	NSF Award No.	Unallowable Expense	Unallowable Expenses Associated With:	Notes
June 2020	██████████	\$12,022	Intra-IHE Consulting	a

Source: Auditor summary of identified exception.

- a) In June 2020, Cal Poly charged NSF Award No. ██████████ for \$12,022 in expenses incurred to obtain intra-IHE consulting services from a member of Cal Poly's faculty. Although the grant budget included funding for external consultants, Cal Poly neither requested nor received approval to pay a Cal Poly faculty member for work performed in addition to their regular responsibilities.

Further, we determined that Cal Poly did not use the employee's institutional base salary (IBS) to calculate the \$8,000 payment,⁷ nor was the payment consistent with the \$7,500 budgeted for external consultant services. This inconsistency occurred because the Principal Investigator (PI) elected to increase the amount paid to account for the taxes that would be taken out of the employee's paycheck. Additionally, we noted that Cal Poly inappropriately applied fringe benefits to this expense because it issued the consultant payment through its payroll subledger.⁸

⁴ According to 2 CFR § 200.403, *Factors affecting allowability of costs*, in order for a cost to be allowable, it must be necessary and reasonable for the performance of the federal award and be allocable thereto under these principles.

⁵ NSF PAPPGs 15-1 and 16-1, Part II, Chapter V, Section A, *Basic Considerations*, state that grantees should ensure that all costs charged to NSF awards meet the requirements of the applicable federal cost principles, grant terms and conditions, and any other specific requirements of both the award notice and the applicable program solicitation.

⁶ According to 2 CFR § 200.430, *Compensation – personal services*, (h)(3) and NSF PAPPG 15-1, Part II, Chapter V, Section B.2, *Intra-University (IHE) Consulting*, intra-IHE consulting by faculty is assumed to be undertaken as an IHE obligation that requires no compensation in addition to IBS. However, these costs can be allowable provided that such consulting arrangements are specifically provided for in the NSF award budget or approved in writing by NSF.

⁷ According to 2 CFR § 200.430, *Compensation – personal services*, (h)(2), charges for work performed on federal awards by faculty members are allowable at the IBS rate. In no event will charges to federal awards, irrespective of the basis of computation, exceed the proportionate share of the IBS for that period.

⁸ Cal Poly's NICRA dated May 22, 2015, states that the fringe benefit rate base shall only include **salaries and wages**.

Unallowable Travel Expense

Cal Poly charged one NSF award for \$216 in expenses incurred to obtain airfare upgrades that the travelers did not justify as allowable per NSF⁹ and federal regulations.¹⁰

Table 4: Unallowable Travel Expense

Expense Date	NSF Award No.	Unallowable Total	Unallowable Expenses Associated With:	Notes
November 2016	██████████	\$216	Upgraded Airfare	a

Source: Auditor summary of identified exception.

- a) In November 2016, Cal Poly charged NSF Award No. ██████████ for \$216 in costs incurred to upgrade two participant flights from economy to economy plus.

Conclusion

Cal Poly did not have sufficient policies and procedures or internal controls in place to ensure it only charged allowable costs to NSF awards. Specifically, Cal Poly’s procedures did not always ensure that it requested or received approval from NSF to pay employees as consultants, or that it removed expenses associated with unallowable airfare upgrades from federal awards.

We are therefore questioning \$12,238 of unallowable expenses charged to two NSF awards. Cal Poly concurred with \$216 of the questioned costs but disagreed with the remaining \$12,022, as illustrated in Table 5.

Table 5: Finding 1 Summary: Unallowable Expenses

NSF Award No.	Description	Fiscal Year	Questioned Costs			Cal Poly Agreed to Reimburse
			Direct	Indirect	Total	
██████████	June 2020 Intra-IHE Consulting	2020	\$8,680	\$3,342	\$12,022	\$0
██████████	November 2016 Upgraded Airfare	2017	216	-	216	216
Total			<u>\$8,896</u>	<u>\$3,342</u>	<u>\$12,238</u>	<u>\$216</u>

Source: Auditor summary of identified exceptions.

⁹ NSF PAPPG 16-1, Part I, Chapter II, Section C.2.g.(iv), *Travel*, (a) states that allowance for air travel normally will not exceed the cost of round-trip, economy airfares.

¹⁰ According to 2 CFR § 200.474, *Transportation Costs*, (d), airfare costs in excess of the basic, least-expensive unrestricted accommodations class offered by commercial airlines are unallowable except when such accommodations would require circuitous routing, require travel during unreasonable hours, excessively prolong travel, result in additional costs that would offset the transportation savings, or offer accommodations not reasonably adequate for the traveler’s medical needs.

Recommendations

We recommend that NSF's Director of the Division of Institution and Award Support:

- 1.1. Resolve the \$12,022 in questioned intra-Institution of Higher Education consulting expenses for which Cal Poly has not agreed to reimburse NSF and direct Cal Poly to repay or otherwise remove the sustained questioned costs from its NSF award.
- 1.2. Direct Cal Poly to provide documentation supporting that it has repaid or otherwise credited the \$216 of questioned travel costs for which it has agreed to reimburse NSF.
- 1.3. Direct Cal Poly to implement additional administrative and management procedures surrounding the payment of intra-Institution of Higher Education consulting services. Updated procedures should require that Cal Poly:
 - Request and receive approval from NSF before charging NSF awards for intra-Institution of Higher Education consulting payments made to Cal Poly employees.
 - Document the methodology used to calculate the amount of any intra-Institution of Higher Education consulting payments made to Cal Poly employees.
- 1.4. Direct Cal Poly to strengthen its processes and procedures surrounding the booking and approval of travel expenses. Updated procedures could include implementing additional reviews for all airfare purchases, including requiring the reviewer to verify the traveler purchased an economy-class ticket and/or has appropriate justification for a travel upgrade before charging the travel expense to an NSF award.

Cal Poly Corporation Response: Cal Poly agreed to reimburse NSF for the \$216 in unallowable airfare upgrade expenses, but disagreed with the remaining \$12,022 in questioned costs. Specifically:

- Cal Poly disagreed with \$12,022 in questioned consulting costs, noting that it followed its internal policies and procedures in paying a faculty member as a consultant and that funding for the consultant was included in the NSF approved budget. Further, Cal Poly noted that its choice to pay the consultant \$8,000 rather than \$7,500 did not require sponsor approval as the change was insignificant and as the \$8,000 payment was within the faculty's Cal Poly IBS rate.

Auditors' Additional Comments: Cal Poly believes that \$12,022 of the questioned costs should be allowable as the payment was made in compliance with Cal Poly's internal policies; however, because Cal Poly did not provide adequate documentation to support the

payment was allowable under federal regulations, our position regarding this finding has not changed. Specifically:

- With regard to the \$12,022 in questioned consultant costs charged to NSF Award No. [REDACTED] although Cal Poly stated that the faculty member was appropriately paid as a consultant, because this payment relates to an intra-IHE consultant that was not included in the NSF award budget, nor formally approved by NSF, these consultant costs are not allowable per federal regulations.¹¹ Accordingly, our position regarding this exception has not changed.

FINDING 2: INAPPROPRIATELY ALLOCATED EXPENSES

Cal Poly did not support that it always allocated expenses to NSF awards based on the relative benefits the awards received, as required by both federal regulations¹² and NSF PAPPGs.¹³ As a result, Cal Poly inappropriately charged two NSF awards a total of \$9,059 in **publication**, **supply**, and **participant support** expenses.

Inappropriately Allocated Publication Costs

Cal Poly charged one NSF award for \$6,579 in publication costs that Cal Poly does not appear to have allocated based on the relative benefits received by each project that sponsored the published research,¹⁴ as illustrated in Table 6.

Table 6: Inappropriately Allocated Publication Costs

Expense Date	NSF Award No.	Amount Charged	Percent Allocable	Amount Inappropriately Allocated	Notes
April 2020	[REDACTED]	\$6,579	Unknown	\$6,579	a

Source: Auditor summary of identified exception.

- In April 2020, Cal Poly charged NSF Award No. [REDACTED] for \$6,579 in publication costs, which represented 100 percent of the costs Cal Poly incurred to publish two research articles. Although both publications referenced NSF Award No. [REDACTED] (the grant’s award number before it transferred to Cal Poly), one of the publications referenced one additional funding source, while the other referenced four additional funding sources. Because both publications referenced multiple funding sources,

¹¹ According to 2 CFR § 200.430, *Compensation – personal services*, (h)(3) and NSF PAPPG 15-1, Part II, Chapter V, Section B.2, *Intra-University (IHE) Consulting*, intra-IHE consulting costs are only allowable when such consulting arrangements are specifically provided for in the NSF award budget or approved in writing by NSF.

¹² According to 2 CFR § 220, Appendix A, Section C.4., *Allocable Costs*, a. and 2 CFR § 200.405, *Allocable Costs* (a), a cost is allocable to a particular cost objective (e.g., a specific function, project, sponsored agreement, or department) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received (or other equitable relationship).

¹³ NSF PAPPGs 14-1, Part II, Chapter V, and 17-1 and 19-1, Part II, Chapter X, Section A, *Basic Considerations*, state that grantees should ensure all costs charged to NSF awards meet the requirements of the applicable federal cost principles, grant terms and conditions, and any other specific requirements of both the award notice and the applicable program solicitation.

¹⁴ According to 2 CFR § 200.461, *Publication and printing costs*, (b)(1), publication costs are allowable where the publications report work supported by the federal government.

and because Cal Poly did not maintain documentation to support the reasonableness of the methodology it used to allocate the publication costs, it does not appear to have been reasonable or appropriate for Cal Poly to charge 100 percent of the publication costs solely to this award.

Inappropriately Allocated Supply Purchase Near Grant Expiration

Cal Poly inappropriately charged one NSF award for \$2,021 in expenses associated with supplies purchased on the last day of the award’s **period of performance** (POP), when Cal Poly had no time to use the supplies to benefit the award.¹⁵

Table 7: Inappropriately Allocated Supply Purchase Near Grant Expiration

Expense Date	NSF Award No.	Expense Total	Percent Allocable	Amount Inappropriately Allocated	Notes
September 2019	██████████	\$2,021	0%	\$2,021	a

Source: Auditor summary of identified exception.

- a) In September 2019, Cal Poly charged NSF Award No. ██████████ for \$2,021 in costs it incurred on August 31, 2019—the last day of the NSF award’s POP—to purchase textbooks. Although Cal Poly stated that it purchased the textbooks to benefit the grant’s objectives, because these supplies were not available until after the award expired, it does not appear to have been appropriate for Cal Poly to allocate the supplies to this award.

Inappropriately Allocated Participant Support Costs

Cal Poly inappropriately charged one NSF award for \$459 in participant support cost expenses that did not benefit the award charged.¹⁶

Table 8: Inappropriately Allocated Participant Support Costs

Expense Date	NSF Award No.	Expense Total	Percent Allocable	Amount Inappropriately Allocated	Notes
June 2014	██████████	\$1,683	73%	\$459	a

Source: Auditor summary of identified exception.

- a) In June 2014, Cal Poly charged NSF Award No. ██████████ for \$1,683 in costs incurred to purchase 33 dining cards for participants in a summer program. Cal Poly specifically budgeted participant support cost funds to cover subsistence for participants in this program. However, because the PI reported that the program only had 24 participants during the September 1, 2013, to August 31, 2014,

¹⁵ NSF PAPPG 17-1 Part II, Chapter X, Section A.2.c, *Post End Date Costs*, states that grantees should not typically purchase items of **equipment**, computing devices, or restock materials and supplies in anticipation of grant expiration where there is little to no time left for such items to be utilized in the actual conduct of research.

¹⁶ NSF PAPPG 14-1, Part II, Chapter V, Section B.8., *Participant Support Costs*, a., states that participant support costs are to be used for items such as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with NSF-sponsored conferences or training projects.

reporting period, the amount that Cal Poly charged for the nine unused meal cards, or \$459, does not appear to be allocable to this award.

Conclusion

Cal Poly did not have sufficient policies and procedures or internal controls in place to ensure that it reasonably allocated costs incurred based on the relative benefits each NSF award received, or that it consistently documented its **allocation** methodology.

We are therefore questioning \$9,059 of expenses that Cal Poly inappropriately allocated to two NSF awards. Cal Poly concurred with the \$9,059 in questioned costs, as illustrated in Table 9.

Table 9: Finding 2 Summary: Inappropriately Allocated Expenses

NSF Award No.	Description	Fiscal Year	Questioned Costs			Cal Poly Agreed to Reimburse
			Direct	Indirect	Total	
██████	April 2020 Publications	2020	\$4,750	\$1,829	\$6,579	\$6,579
██████	September 2019 Supplies	2020	1,454	567	2,021	2,021
██████	June 2014 Participant Meal Cards	2014	459	0	459	459
Total			<u>\$6,663</u>	<u>\$2,396</u>	<u>\$9,059</u>	<u>\$9,059</u>

Source: Auditor summary of identified exceptions.

Recommendations

We recommend that NSF’s Director of the Division of Institution and Award Support:

- 2.1. Direct Cal Poly to provide documentation supporting that it has repaid or otherwise credited the \$9,059 in questioned publication, supply, and participant support costs for which it has agreed to reimburse NSF.
- 2.2. Direct Cal Poly to strengthen its administrative and management controls and processes for supporting the allocation of expenses to sponsored projects. Updated processes could include:
 - Implementing a standard documentation and retention process to support the allocation of publication costs that benefit multiple awards.
 - Requiring Principal Investigators or other designated staff to both document and justify the allocation methodologies used when charging expenses to sponsored projects near the grant expiration date.
 - Performing reconciliations at the end of each summer program to verify that the costs charged to sponsored projects were appropriate based on the number of program participants.

Cal Poly Corporation Response: Cal Poly agreed to reimburse NSF for the \$9,059 in questioned inappropriately allocated costs.

Auditors' Additional Comments: Our position regarding this finding has not changed.

FINDING 3: INDIRECT COSTS INAPPROPRIATELY APPLIED

Cal Poly charged one NSF award a total of \$4,699 in indirect costs it inappropriately applied to participant support costs. Cal Poly should not have included participant support costs as Modified Total Direct Costs (**MTDCs**)—to which indirect costs are applied—per federal regulations,¹⁷ NSF PAPPGs,¹⁸ and Cal Poly’s Negotiated Indirect Cost Rate Agreements (**NICRAs**).¹⁹

Table 10: Indirect Costs Inappropriately Applied to Participant Support Costs

Expense Date	NSF Award No.	Participant Support Costs	Indirects Applied	Notes
November 2019	██████████	\$12,206	\$4,699	a

Source: Auditor summary of identified exception.

- a) In November 2019, Cal Poly charged NSF Award No. ██████████ for \$4,699 in indirect costs that it inappropriately applied to participant support costs because it did not appropriately separate participant travel costs from non-participant travel costs.

Conclusion

Cal Poly did not have sufficient policies and procedures or internal controls in place to ensure it appropriately charged participant support costs to account codes that it correctly excluded from its MTDC base.

We are therefore questioning \$4,699 in inappropriately applied indirect costs charged to one NSF award, which Cal Poly agreed to reimburse as illustrated in Table 11.

Table 11: Finding 3 Summary: Indirect Costs Inappropriately Applied

NSF Award No.	Description	Fiscal Year	Questioned Costs			Cal Poly Agreed to Reimburse
			Direct	Indirect	Total	
██████████	November 2019 Indirect Costs	2020	\$0	\$4,699	\$4,699	\$4,699
Total			<u>\$0</u>	<u>\$4,699</u>	<u>\$4,699</u>	<u>\$4,699</u>

Source: Auditor summary of identified exception.

¹⁷ According to 2 CFR § 200.68, *Modified Total Direct Cost (MTDC)*, MTDCs exclude participant support costs.
¹⁸ NSF PAPPG 15-1, Chapter II, Section C.2.g.(v), *Participant Support*, states that indirect costs are not allowed on participant support costs and that participant support costs must be accounted for separately, should an award be made.
¹⁹ Cal Poly’s NICRA dated May 22, 2015, states that MTDCs shall exclude participant support costs.

Recommendations

We recommend that NSF's Director of the Division of Institution and Award Support:

- 3.1. Direct Cal Poly to provide documentation supporting that it has repaid or otherwise credited the \$4,699 in questioned indirect costs for which it has agreed to reimburse NSF.
- 3.2. Direct Cal Poly to strengthen its monitoring procedures and internal control processes for applying indirect costs to federal awards. Updated procedures could include implementing an annual review process for costs charged to awards that include funding for participant support costs to ensure Cal Poly is appropriately segregating these expenses in accounts that it has excluded from its Modified Total Direct Cost base.

Cal Poly Corporation Response: Cal Poly concurred with \$4,699 in questioned indirect costs and noted that it reimbursed NSF for these costs in December 2021.

Auditors' Additional Comments: Our position regarding this finding has not changed.

FINDING 4: INADEQUATELY SUPPORTED EXPENSES

Cal Poly did not provide adequate documentation to support the allocability, allowability, and reasonableness of \$4,181 in expenses charged to one NSF award during the audit period, as required for the costs to be allowable, per federal regulations²⁰ and NSF PAPPGs.²¹

Inadequately Supported Travel Expenses

Cal Poly did not maintain adequate documentation to support \$3,520 in travel expenses charged to one NSF award, as illustrated in Table 12.

Table 12: Inadequately Supported Travel Expenses

Expense Date	NSF Award No.	Expense Total	Insufficient Documentation to Support the:	Notes
July 2018		\$2,137	Business Purpose of Each Day of a Trip	a
July 2018		1,383	Allowability of Airfare Costs	b

Source: Auditor summary of identified exceptions.

- a) In July 2018, Cal Poly charged NSF Award No. [REDACTED] for \$2,137 in travel costs that the PI incurred to travel to [REDACTED] from June 24 through July 3, 2018,

²⁰ According to 2 CFR § 200.403, *Factors affecting allowability of costs*, (g) in order for a cost to be allowable, it must be adequately documented.

²¹ NSF PAPPG 16-1, Part II, Chapter V, Section A, *Basic Considerations*, states that expenditures under NSF cost-reimbursement grants are governed by the federal cost principles and must conform with NSF policies where articulated in the grant terms and conditions, grant special provisions, and grantee internal policies.

to “meet with government contacts” and to attend a grant-related conference held from July 1 through July 3, 2018. Although the PI’s attendance at the conference appears to have benefitted the award, Cal Poly did not maintain documentation to support that the six days of meetings the PI purportedly held before the conference benefitted the award.

- b) In July 2018, Cal Poly charged NSF Award No. [REDACTED] for \$1,383 in airfare costs that the PI incurred to present grant-funded research and to attend a grant-related conference. However, Cal Poly did not maintain documentation to support that the airfare purchased was an allowable economy-class ticket.²²

Inadequately Supported Subaward Travel Expenses

Cal Poly did not request adequate documentation to support \$661 in **subaward** travel expenses claimed on one NSF award, as illustrated in Table 13.

Table 13: Inadequately Supported Subaward Travel Expenses

Expense Date	NSF Award No.	Expense Total	Insufficient Documentation to Support the Allowability of:	Notes
September 2017	[REDACTED]	\$661	Subawardee Travel Expenses	a

Source: Auditor summary of identified exception.

- a) In September 2017, Cal Poly charged NSF Award No. [REDACTED] for expenses invoiced by the [REDACTED], a subawardee on this award. Although the subawardee provided itemized receipts to support most of the invoiced expenses, the subawardee did not provide, and Cal Poly did not request, documentation to support the allowability of four travel expenses, including \$282 in transportation costs, \$101 in meal expenses, \$49 in banquet fees, and \$44 from a hotel receipt.²³

Conclusion

Cal Poly did not have appropriate policies, procedures, or internal controls in place to ensure that it received and maintained adequate documentation to support the allowability of all costs charged to federal awards. Specifically, Cal Poly’s policies, procedures, and internal controls did not ensure that its employees and subawardees always provided adequate support to verify the allowability of travel costs claimed.

²² NSF PAPPG 16-1, Part I, Chapter II, Section C.2.g.(iv), *Travel*, (a), states that allowance for air travel normally will not exceed the cost of round-trip economy airfare.

²³ According to 2 CFR § 200.474, *Transportation costs*, (a) and (b), travel costs incurred for travel, including costs of lodging, other subsistence, and incidental expenses, must be considered reasonable and otherwise allowable only to the extent such costs do not exceed charges normally allowed by the non-federal entity in its regular operations as the result of the non-federal entity’s written travel policy. In addition, if these costs are charged directly to the federal award, documentation must justify that: (1) Participation of the individual is necessary to the federal award; and (2) The costs are reasonable and consistent with the non-federal entity’s established travel policy.

We are therefore questioning \$4,181 charged to one NSF award that Cal Poly did not support represented reasonable, allocable, or allowable expenses. Cal Poly concurred with \$661 of the questioned costs but disagreed with the remaining \$3,520, as illustrated in Table 14.

Table 14: Finding 4 Summary: Inadequately Supported Expenses

NSF Award No.	Description	Fiscal Year	Questioned Costs			
			Direct	Indirect	Total	Cal Poly Agreed to Reimburse
██████	July 2018 Travel for Non-Business Purposes	2019	\$1,543	\$594	\$2,137	\$0
██████	July 2018 Airfare	2019	999	384	1,383	0
██████	September 2017 Subawardee Travel Expenses	2018	477	184	661	661
Total			<u>\$3,019</u>	<u>\$1,162</u>	<u>\$4,181</u>	<u>\$661</u>

Source: Auditor summary of identified exceptions.

Recommendations

We recommend that NSF’s Director of the Division of Institution and Award Support:

- 4.1. Resolve the \$3,520 in questioned inadequately supported travel expenses for which Cal Poly has not agreed to reimburse NSF and direct Cal Poly to repay or otherwise remove the sustained questioned costs from its NSF awards.
- 4.2. Direct Cal Poly to provide documentation supporting that it has repaid or otherwise credited the \$661 of questioned subawardee travel costs for which it has agreed to reimburse NSF.
- 4.3. Direct Cal Poly to strengthen its policies and procedures for creating and retaining documentation, including introducing additional controls to help ensure that it appropriately creates and maintains all documentation necessary to support the allowability of travel expenses charged to sponsored programs. Updated procedures could include:
 - Requiring travelers to document the business purpose of each day of a planned trip before charging travel costs to NSF awards.
 - Implementing additional reviews for all airfare purchases, including requiring the reviewer to verify that the traveler purchased an economy-class ticket before charging the expense to an NSF award.

- Verifying that subawardees claiming travel costs on federal awards provide sufficient documentation to support the allowability of claimed expenses.

Cal Poly Corporation Response: Cal Poly agreed to reimburse NSF for \$661 in inadequately supported subawardee travel expenses, but disagreed with the remaining \$3,520 in questioned costs. Specifically:

- Cal Poly disagreed with \$2,137 in questioned inadequately supported business-purpose travel costs, noting that it followed its travel policy in reviewing and approving the travel expense. Specifically, Cal Poly noted that the traveler provided a justification to support the purpose of arriving in [REDACTED] six days prior was to hold grant related meetings with [REDACTED] officials and [REDACTED].
- Cal Poly disagreed with \$1,383 in questioned inadequately supported airfare costs, noting that the receipt provided by the traveler did not indicate that any upgrades to an economy class ticket were made.

Auditors' Additional Comments: Cal Poly believes that \$3,520 of the questioned costs should be allowable based on the documentation provided during the audit; however, because we still do not believe Cal Poly provided adequate documentation to support the allowability of these expenses, our position regarding this finding has not changed. Specifically:

- With regard to the \$2,137 in questioned inadequately supported business purpose travel costs charged to NSF Award No. [REDACTED] although Cal Poly stated that the meetings held with [REDACTED] officials and [REDACTED] benefitted the grant, as Cal Poly did not provide documentation that supported who the PI met with, when they met, or what topic(s) were discussed, we are unable to verify that the first six days of the trip benefitted NSF Award No. [REDACTED]. Accordingly, our position regarding this exception has not changed.
- With regard to the \$1,383 in questioned inadequately supported airfare costs charged to NSF Award No. [REDACTED] although Cal Poly stated that the traveler's receipt did not indicate any upgrades were made to the economy class ticket, because Cal Poly did not provide support that it purchased economy class airfare, we are unable to verify that the costs comply with NSF and federal regulations. Accordingly, our position regarding this exception has not changed.

FINDING 5: NON-COMPLIANCE WITH CAL POLY POLICIES

Cal Poly did not always comply with its consultant and travel policies and procedures when incurring costs charged to NSF awards.

Non-Compliance with Cal Poly Consultant Policy

We identified one instance in which Cal Poly did not comply with its internal consultant policies and procedures, which require Cal Poly to complete and appropriately authorize an independent contractor agreement before a contractor begins work on a project.²⁴

Table 15: Non-Compliance with Cal Poly Consultant Policy

Expense Date	NSF Award No.	Fiscal Year	Consultant Policy Compliance Exception	Notes
June 2020	██████████	2020	Non-Compliance with Requirement for Independent Contractor Agreement	a

Source: Auditor summary of identified exception.

- a) In June 2020, Cal Poly charged NSF Award No. ██████████ for \$8,000 in costs incurred to pay a faculty consultant to participate on a grant-related professional development team. However, Cal Poly did not appropriately complete an independent contractor agreement for this consultant.

Non-Compliance with Cal Poly Travel Policy

We identified three instances in which Cal Poly did not comply with its internal travel policy, which requires travelers to submit expense reports to Cal Poly’s travel office within 10 days of the end of a trip.²⁵

Table 16: Non-Compliance with Cal Poly Travel Policy

Expense Date	NSF Award No.	Fiscal Year	Final Date of Travel	Date of Expense Report Submission	No. of Days	Notes
July 2019	██████████	2020	6/26/2019	7/8/2019	12	a
October 2019	██████████	2020	8/30/2019	9/23/2019	24	b
December 2019	██████████	2020	11/3/2019	12/16/2019	43	c

Source: Auditor summary of identified exceptions.

- a) In July 2019, Cal Poly charged NSF Award No. ██████████ for \$3,640 in travel expenses. However, the traveler submitted their expense report 12 days after the trip ended.
- b) In October 2019, Cal Poly charged NSF Award No. ██████████ for \$4,704 in travel expenses. However, the traveler submitted their expense report 24 days after the trip ended.

²⁴ According to Cal Poly’s *Independent Contractor Agreement Requirements*, an independent contractor agreement and all applicable forms must be completed and signed by both the Project Director and the contractor, in addition to the Associate Executive Director, Admin and Legal Affairs, before the contractor begins providing any services.

²⁵ According to Cal Poly’s *Travel Guidelines*, Section 9.1, *Reporting Period*, travelers must submit their travel expense claim to the Cal Poly Travel office within 10 days of the end of a trip.

- c) In December 2019, Cal Poly charged NSF Award No. [REDACTED] for \$2,343 in travel expenses. However, the traveler submitted their expense report 43 days after the trip ended.

Conclusion

Cal Poly did not have adequate procedures in place to ensure that it consistently complied with its consultant and travel policies and procedures. Because these instances of non-compliance did not directly result in Cal Poly charging unallowable costs to NSF awards, we are not questioning any costs related to these exceptions. However, we are noting compliance findings for the four instances in which Cal Poly did not comply with its internal policies when charging costs to four NSF awards, as illustrated in Table 17.

Table 17: Finding 5 Summary: Non-Compliance with Cal Poly Policies

NSF Award No.	Compliance Exception Identified	Fiscal Year
[REDACTED]	Non-Compliance with Consultant Policy	2020
[REDACTED]	Non-Compliance with Travel Policy	2020
[REDACTED]	Non-Compliance with Travel Policy	2020
[REDACTED]	Non-Compliance with Travel Policy	2020

Source: Auditor summary of identified exceptions.

Recommendations

We recommend that NSF’s Director of the Division of Institution and Award Support:

- 5.1 Direct Cal Poly to strengthen its administrative and management procedures to ensure the appropriate personnel complete and authorize an independent contractor agreement before a consultant begins work on a project.
- 5.2 Direct Cal Poly to (i) strengthen its administrative and management procedures to ensure travelers submit their travel expense reports within 10 days of returning from their trip, and/or (ii) update its policies and procedures to reflect its current expense reimbursement policies.

Cal Poly Corporation Response: Cal Poly agreed with the exceptions related to non-compliance with its internal travel policies, but disagreed with the exception related to non-compliance with its consulting policy. Specifically:

- Cal Poly noted that it appropriately followed its consulting policies and procedures in paying a faculty member as a consultant. Specifically, Cal Poly referenced the California State University (CSU) Human Resource Policy which states that “the collective bargaining agreement between the CSU and the California Faculty Association and the CSU’s policy on additional employment allow for faculty unit employees to perform work paid for by grants or contracts (up to specified limits), including contracts with state agencies, even if such work is not substantially different from the faculty member’s primary employment... Such additional

employment must be compensated either through CSU as a state employee or as an employee through an auxiliary managing the contract, as appropriate”.

Auditors’ Additional Comments: Although Cal Poly believes it appropriately paid its faculty member as a consultant, because it did not complete an independent contractor agreement for the consultant, our position regarding this finding has not changed. Specifically:

- With regard to the consultant related compliance exception, although CSU’s policies and procedures allow for paying a faculty member as a consultant, because Cal Poly did not complete an independent contractor agreement for this consultant, nor any other documentation to support the agreement to provide these services, our position regarding this exception has not changed.

COTTON & COMPANY ASSURANCE AND ADVISORY, LLC



Megan Mesko, CPA, CFE
Partner
June 16, 2022

APPENDIX A: CAL POLY'S RESPONSE



Cal Poly Corporation NSF Audit Response Report

Cal Poly Corporation (CPC) has internal controls in place that reasonably assure that expenses charged to sponsored awards are allowable, allocable reasonable and necessary, and to ensure that costs are allowable in accordance sponsor regulations and CPC policy. Several areas identified during this audit will be evaluated and improved and necessary training will be provided.

FINDING 1: UNALLOWABLE EXPENSES

NSF Award No.	Unallowable Total	Cal Poly Response
██████████	\$12,022	CPC disagrees with this finding. We followed CPC policies and procedures in paying a faculty member as a consultant. Consultants were in the approved budget, the faculty member had the required expertise and was able to provide services for the summer workshop, also in the approved budget. The budgeted amount for consultants was \$7,500 and the faculty was paid \$8,000. There is not a requirement to get prior sponsor approval for this insignificant change in the budget. The \$8,000 was within the faculty's university's IBS rate.
██████████	\$216	CPC agrees to reimburse NSF for this expense
Total	\$12,238	

FINDING 2: INAPPROPRIATELY ALLOCATED EXPENSES

NSF Award No.	Unallowable Total	Cal Poly Response
██████████	\$6,579	CPC agrees to reimburse NSF for this expense
██████████	\$2,021	CPC agrees to reimburse NSF for this expense
██████████	\$459	CPC agrees to reimburse NSF for this expense
Total	\$9,059	

FINDING 3: INDIRECT COSTS INAPPROPRIATELY APPLIED

NSF Award No.	Unallowable Total	Cal Poly Response
██████████	\$4,699	CPC has reimbursed NSF for this expense in December 2021
Total	\$4,699	

FINDING 4: INADEQUATELY SUPPORTED EXPENSES

NSF Award No.	Unallowable Total	Cal Poly Response
██████████	\$2,137	CPC disagrees with this finding. CPC followed our policy in reviewing and approving the travel expense. The traveler provided a justification to support the need to arrive in ██████ 5 days prior to the conference. They held meetings with ██████ officials and ██████ related to the scope of work. This back-up was provided to C&C.
██████████	\$1,383	CPC disagrees with this finding. The receipt provided by the traveler did not indicate there were any upgrades to the economy-class ticket.
██████████	\$661	CPC agrees to reimburse NSF for this expense
Total	\$4,181	

FINDING 5: NON-COMPLIANCE WITH CAL POLY POLICIES

NSF Award No.	Compliance Exception	Cal Poly Response
██████████	Cal Poly Consultant Policy	CPC disagrees with this finding. We followed CPC policies and procedures in paying a faculty member as a consultant. CSU HR Policy 2003-21 – Section 2 Considerations for Current CSU Faculty Members: On occasion, CSU faculty members may perform additional services at either their home campus or a different CSU campus. The faculty member must be treated as an employee with respect to compensation for the additional services. Note that language in the PCC conflict of interest code regarding exceptions for employees with teaching or research responsibilities does not supersede federal law. However, the collective bargaining agreement (CBA) between the CSU and the California Faculty Association and the CSU’s policy on additional employment allow for faculty unit employees to perform work paid for by grants or contracts (up to specified limits), including contracts with state agencies, even if such work is not substantially different from the faculty member’s primary employment (See CFA, Article 36.5(b)). Such additional employment must be compensated either through CSU as a state employee or as an employee through an auxiliary managing the contract, as appropriate.
██████████	Cal Poly Travel Policy	CPC agrees with this finding. CPC has updated their travel policy to allow for additional time for the traveler to submit the expense report.
██████████	Cal Poly Travel Policy	CPC agrees with this finding. CPC has updated their travel policy to allow for additional time for the traveler to submit the expense report.
██████████	Cal Poly Travel Policy	CPC agrees with this finding. CPC has updated their travel policy to allow for additional time for the traveler to submit the expense report.

APPENDIX B: OBJECTIVES, SCOPE, AND METHODOLOGY

POP; and (2) reviewing the parameters that Cal Poly used to extract transaction data from its accounting systems. We identified several discrepancies between the amounts supported by Cal Poly's GL and the amounts that Cal Poly claimed per NSF's ACM\$ system. However, because the GL data materially reconciled to NSF's ACM\$ records, we found Cal Poly's computer-processed data to be sufficiently reliable for the purposes of the audit. We did not identify any exceptions with the parameters that Cal Poly used to extract the accounting data.

- We found NSF's computer-processed data to be sufficiently reliable for the purposes of this audit. We did not review or test whether the data contained in NSF's databases or the controls over NSF's databases were accurate or reliable; however, the independent auditor's report on NSF's financial statements for FY 2021 found no reportable instances in which NSF's financial management systems did not substantially comply with applicable requirements.
- Cal Poly provided detailed transaction-level data to support \$14,982,490 in costs charged to NSF awards during the period, which was greater than the \$14,966,612 Cal Poly claimed in ACM\$ for the 49 awards. This data resulted in a total audit universe of \$14,982,490 in expenses claimed on 49 NSF awards.
- Obtaining and reviewing all available accounting and administrative policies and procedures, external audit reports, desk review reports, and other relevant information that Cal Poly and NSF OIG provided, as well as any other relevant information that was available online.
- Summarizing our understanding of federal, NSF, and Cal Poly-specific policies and procedures surrounding costs budgeted for or charged to NSF awards and identifying the controls in place to ensure that costs charged to sponsored projects were reasonable, allocable, and allowable.
 - In planning and performing this audit, we considered Cal Poly's internal controls, within the audit's scope, solely to understand the directives or policies and procedures Cal Poly has in place to ensure that charges against NSF awards complied with relevant federal regulations, NSF award terms, and Cal Poly policies.
- Providing Cal Poly with a list of 50 transactions that we selected based on the results of our data analytics and requesting that Cal Poly provide documentation to support each transaction.

- Reviewing the supporting documentation Cal Poly provided and requesting additional documentation as necessary to ensure we obtained sufficient, appropriate evidence to assess the allowability of each sampled transaction under relevant federal,²⁶ NSF,²⁷ and Cal Poly policies.²⁸
- Holding virtual interviews and walkthroughs with Cal Poly in February 2022 to discuss payroll (including effort reporting), fringe benefits, travel, participant support costs, procurement, equipment (including an inventory check), Graduate Research Fellowship Program, other direct costs (e.g., patent, relocation, recruiting, interest, advertising/public relations, **entertainment**, fundraising, lobbying, selling/marketing, and training costs), grant close-out procedures, subawards, ACM\$ processing, indirect costs, and other general policies (e.g., pre- and post-award costs, program income, whistle-blower information, research misconduct, and conflict of interest policies).
- Summarizing the results of our fieldwork and confirming that we did not identify any extraordinary circumstances that justified the need for a second audit phase.²⁹

At the conclusion of our fieldwork, we provided a summary of our results to NSF OIG personnel for review. We also provided the summary to Cal Poly personnel to ensure that Cal Poly was aware of each of our findings and that it did not have additional documentation to support the questioned costs.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards 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.

²⁶ We assessed Cal Poly's compliance with 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and 2 CFR Part 220, Cost Principles for Educational Institutions (Office of Management and Budget Circular A-21), as appropriate.

²⁷ We assessed Cal Poly's compliance with NSF PAPPs 14-1, 15-1, 16-1, 17-1, 18-1, 19-1, and 20-1 and with NSF award-specific terms and conditions, as appropriate.

²⁸ We assessed Cal Poly's compliance with internal Cal Poly policies and procedures surrounding costs budgeted for or charged to NSF awards.

²⁹ Based on the areas of elevated risk of noncompliance identified during the initial phase, we determined that there was no need for any expanded audit phase.

APPENDIX C: SUMMARY OF QUESTIONED COSTS

Appendix C, Table 1: Schedule of Questioned Costs by Finding

Finding	Description	Questioned Costs		Total
		<i>Unsupported</i>	<i>Unallowable</i>	
1	Unallowable Expenses	\$0	\$12,238	\$12,238
2	Inappropriately Allocated Expenses	-	9,059	9,059
3	Indirect Costs Inappropriately Applied	-	4,699	4,699
4	Inadequately Supported Expenses	-	4,181	4,181
5	Non-Compliance with Cal Poly Policies	-	-	-
Total		<u>\$0</u>	<u>\$30,177</u>	<u>\$30,177</u>

Source: Auditor summary of questioned costs by finding.

Appendix C, Table 2: Summary of Questioned Costs by NSF Award Number

NSF Award No.	No. of Transaction Exceptions	Questioned Direct Costs	Questioned Indirect Costs	Questioned Total	Cal Poly Agreed to Reimburse
	3	\$2,129	\$567	\$2,696	\$2,696
	1	-	-	-	-
	1	-	-	-	-
	3	8,680	8,041	16,721	4,699
	3	3,019	1,162	4,181	661
	1	-	-	-	-
	1	4,750	1,829	6,579	6,579
Total	<u>13</u>	<u>\$18,578</u>	<u>\$11,599</u>	<u>\$30,177</u>	<u>\$14,635</u>

Source: Auditor summary of questioned costs by NSF award number.

Appendix C, Table 3: Summary of Questioned Costs by NSF Award Number and Expense Description

Finding Description	Award No.	Expense Description	Questioned Direct Costs	Questioned Indirect Costs	Total Questioned Costs	Cal Poly Agreed to Reimburse
1) Unallowable Expenses	██████████	June 2020 Intra-IHE Consulting	\$8,680	\$3,342	\$12,022	\$-
		November 2016 Upgraded Airfare	216	-	216	216
2) Inappropriately Allocated Expenses	██████████	April 2020 Publications	4,750	1,829	6,579	6,579
		September 2019 Supplies	1,454	567	2,021	2,021
		June 2014 Participant Meal Cards	459	-	459	459
3) Indirect Costs Inappropriately Applied	██████████	November 2019 Indirect Costs	-	4,699	4,699	4,699
4) Inadequately Supported Expenses	██████████	July 2018 Non-Business Purposes Travel	1,543	594	2,137	-
	██████████	July 2018 Airfare	999	384	1,383	-
	██████████	September 2017 Subawardee Travel Expenses	477	184	661	661
5) Non-Compliance with Cal Poly Policies	██████████	Non-Compliance with Consultant Policy	-	-	-	-
	██████████	Non-Compliance with Travel Policy	-	-	-	-
	██████████	Non-Compliance with Travel Policy	-	-	-	-
	██████████	Non-Compliance with Travel Policy	-	-	-	-
Total			<u>\$18,578</u>	<u>\$11,599</u>	<u>\$30,177</u>	<u>\$14,635</u>

Source: Auditor summary of identified exceptions.

APPENDIX D: SUMMARY OF RECOMMENDATIONS AND CONSIDERATIONS

We recommend that NSF's Director of the Division of Institution and Award Support:

- 1.1. Resolve the \$12,022 in questioned intra-Institution of Higher Education consulting expenses for which Cal Poly has not agreed to reimburse NSF and direct Cal Poly to repay or otherwise remove the sustained questioned costs from its NSF award.
- 1.2. Direct Cal Poly to provide documentation supporting that it has repaid or otherwise credited the \$216 of questioned travel costs for which it has agreed to reimburse NSF.
- 1.3. Direct Cal Poly to implement additional administrative and management procedures surrounding the payment of intra-Institution of Higher Education consulting services. Updated procedures should require that Cal Poly:
 - Request and receive approval from NSF before charging NSF awards for intra-Institution of Higher Education consulting payments made to Cal Poly employees.
 - Document the methodology used to calculate the amount of any intra-Institution of Higher Education consulting payments made to Cal Poly employees.
- 1.4. Direct Cal Poly to strengthen its processes and procedures surrounding the booking and approval of travel expenses. Updated procedures could include implementing additional reviews for all airfare purchases, including requiring the reviewer to verify the traveler purchased an economy-class ticket and/or has appropriate justification for a travel upgrade before charging the travel expense to an NSF award.
- 2.1. Direct Cal Poly to provide documentation supporting that it has repaid or otherwise credited the \$9,059 in questioned supply and participant support costs for which it has agreed to reimburse NSF.
- 2.2. Direct Cal Poly to strengthen its administrative and management controls and processes for supporting the allocation of expenses to sponsored projects. Updated processes could include:
 - Implementing a standard documentation and retention process to support the allocation of publication costs that benefit multiple awards.
 - Requiring Principal Investigators or other designated staff to both document and justify the allocation methodologies used when charging expenses to sponsored projects near the grant expiration date.

- Performing reconciliations at the end of each summer program to verify that the costs charged to sponsored projects were appropriate based on the number of program participants.
- 3.1. Direct Cal Poly to provide documentation supporting that it has repaid or otherwise credited the \$4,699 in questioned indirect costs for which it has agreed to reimburse NSF.
 - 3.2. Direct Cal Poly to strengthen its monitoring procedures and internal control processes for applying indirect costs to federal awards. Updated procedures could include implementing an annual review process for costs charged to awards that include funding for participant support costs to ensure Cal Poly is appropriately segregating these expenses in accounts that it has excluded from its Modified Total Direct Cost base.
 - 4.1. Resolve the \$3,520 in questioned inadequately supported travel expenses for which Cal Poly has not agreed to reimburse NSF and direct Cal Poly to repay or otherwise remove the sustained questioned costs from its NSF awards.
 - 4.2. Direct Cal Poly to provide documentation supporting that it has repaid or otherwise credited the \$661 of questioned subawardee travel costs for which it has agreed to reimburse NSF.
 - 4.3. Direct Cal Poly to strengthen its policies and procedures for creating and retaining documentation, including introducing additional controls to help ensure that it appropriately creates and maintains all documentation necessary to support the allowability of travel expenses charged to sponsored programs. Updated procedures could include:
 - Requiring travelers to document the business purpose of each day of a planned trip before charging travel costs to NSF awards.
 - Implementing additional reviews for all airfare purchases, including requiring the reviewer to verify that the traveler purchased an economy-class ticket before charging the expense to an NSF award.
 - Verifying that subawardees claiming travel costs on federal awards provide sufficient documentation to support the allowability of claimed expenses.
 - 5.1 Direct Cal Poly to strengthen its administrative and management procedures to ensure the appropriate personnel complete and authorize an independent contractor agreement before a consultant begins work on a project.
 - 5.2 Direct Cal Poly to (i) strengthen its administrative and management procedures to ensure travelers submit their travel expense reports within 10 days of returning

from their trip, and/or (ii) update its policies and procedures to reflect its current expense reimbursement policies.

APPENDIX E: GLOSSARY

Allocable cost. A cost is allocable to a particular federal award or other cost objective if the goods or services involved are chargeable or assignable to that federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:

- (a) Is incurred specifically for the federal award.
- (b) Benefits both the federal award and other work of the non-federal entity and can be distributed in proportions that may be approximated using reasonable methods.
- (c) Is necessary to the overall operation of the non-federal entity and is assignable in part to the federal award in accordance with the principles in this subpart. (2 CFR § 200.405).

Return to the term's initial use.

Allocation. *Allocation* means the process of assigning a cost, or a group of costs, to one or more cost objective(s), in reasonable proportion to the benefit provided or other equitable relationship. The process may entail assigning a cost(s) directly to a final cost objective or through one or more intermediate cost objectives. (2 CFR § 200.4).

Return to the term's initial use.

Factors affecting allowability of costs. The tests of allowability of costs under these principles are: they must be reasonable; they must be allocable to sponsored agreements under the principles and methods provided herein; they must be given consistent treatment through application of those generally accepted accounting principles (GAAP) appropriate to the circumstances; and they must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items. (2 CFR 220, Appendix A, Section C.2.) and (2 CFR § 200.403).

Return to the term's initial use.

Allowable cost. Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under federal awards:

- (a) Be necessary and reasonable for the performance of the federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the federal award as to types or amount of cost items.
- (c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-federal entity. (2 CFR 220, Appendix A, Section C.2.) and (2 CFR § 200.403).

Return to the term's initial use.

Consultant Services (Professional Service costs). This refers to costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the non-federal entity,

which are allowable, subject to paragraphs (b) and (c) when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the federal government.

In determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative; however, the following factors are relevant:

- 1) The nature and scope of the service rendered in relation to the service required.
- 2) The necessity of contracting for the service, considering the non-federal entity's capability in the particular area.
- 3) The past pattern of such costs, particularly in the years prior to federal awards.
- 4) The impact of federal awards on the non-federal entity's business.
- 5) Whether the proportion of federal work to the non-federal entity's total business is such as to influence the non-federal entity in favor of incurring the cost, particularly where the services rendered are not of a continuing nature and have little relationship to work under federal awards.
- 6) Whether the service can be performed more economically by direct employment rather than contracting.
- 7) The qualifications of the individual or concern rendering the service and the customary fees charged, especially on non-federally funded activities.
- 8) Adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions). (2 CFR § 200.459).

[Return to the term's initial use.](#)

Entertainment. Costs of entertainment, including amusement, diversion, and social activities and any associated costs are unallowable, except where specific costs that might otherwise be considered entertainment have a programmatic purpose and are authorized either in the approved budget for the federal award or with prior written approval of the federal awarding agency. (2 CFR § 200.438).

[Return to the term's initial use.](#)

Equipment. Tangible personal property—including information technology (IT) systems—having a useful life of more than 1 year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-federal entity for financial statement purposes, or \$5,000. (2 CFR § 200.33).

[Return to the term's initial use.](#)

Fringe Benefits. Allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave (vacation, family-related, sick, or military), employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable provided that the benefits are reasonable and are required by law, non-federal entity-employee agreement, or an establishment policy of the non-federal entity.

Leave is the cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, family-related leave, sick leave, holidays, court leave, military leave, administrative leave, and other similar benefits, are allowable if all of the following criteria are met:

- 1) They are provided under established written leave policies.
- 2) The costs are equitably allocated to all related activities, including federal awards.
- 3) The accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the non-federal entity or specified grouping of employees (2 CFR § 200.431).

[Return to the term's initial use.](#)

Indirect (F&A) Costs. This refers to those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs. Indirect (F&A) cost pools must be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived. (2 CFR § 200.56).

[Return to the term's initial use.](#)

MTDC. This refers to all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward (regardless of the POP of the subawards under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of \$25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs. (2 CFR § 200.68).

[Return to the term's initial use.](#)

Negotiated Indirect Cost Rate. Generally charged to federal awards through the development and application of an indirect cost rate. In order to recover indirect costs related to federal awards, most organizations must negotiate an indirect cost rate agreement (NICRA) with the federal agency that provides the preponderance of funding, or

Health and Human Services (HHS) in the case of colleges and universities. (NSF Office of Budget, Finance, and Award Management).

[Return to the term's initial use.](#)

Participant Support Costs. This refers to direct costs for items such as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with conferences or training projects. (2 CFR § 200.75).

[Return to the term's initial use.](#)

Period of Performance (POP). The time during which the non-federal entity may incur new obligations to carry out the work authorized under the federal award. The federal awarding agency or pass-through entity must include start and end dates of the POP in the federal award. (2 CFR § 200.77).

[Return to the term's initial use.](#)

Proposal & Award Policies & Procedures Guide (PAPPG). Comprises documents relating to NSF's proposal and award process for the assistance programs of NSF. The PAPPG, in conjunction with the applicable standard award conditions incorporated by reference in award, serve as the NSF's implementation of 2 CFR § 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. If the PAPPG and the award conditions are silent on a specific area covered by 2 CFR § 200, the requirements specified in 2 CFR § 200 must be followed. (NSF PAPPG 19-1).

[Return to the term's initial use.](#)

Publication Costs. Costs for electronic and print media, including distribution, promotion, and general handling, are allowable. If these costs are not identifiable with a particular cost objective, they should be allocated as indirect costs to all benefiting activities of the non-federal entity.

Page charges for professional journal publications are allowable where:

- (1) The publications report work supported by the federal government.
- (2) The charges are levied impartially on all items published by the journal, whether or not under a federal award.
- (3) The non-federal entity may charge the federal award before closeout for the costs of publication or sharing of research results if the costs are not incurred during the POP of the federal award. (2 CFR § 200.461).

[Return to the term's initial use.](#)

Reasonable Cost. A reasonable cost is a cost that, in its nature and amount, does not exceed that which would have been incurred by a prudent person under the circumstances prevailing at the time the decision to incur the cost was made (2 CFR § 200.404).

Return to the term's initial use.

Salaries and Wages. Compensation for personal services includes all remuneration, paid currently or accrued, for services of employees rendered during the POP under the federal award, including but not necessarily limited to wages and salaries. Costs of compensation are allowable to the extent that they satisfy the specific requirements of this Part, and that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established written policy of the non-federal entity consistently applied to both federal and non-federal activities.
- (2) Follows an appointment made in accordance with a non-federal entity's laws or rules or written policies and meets the requirements of federal statute, where applicable.
- (3) Is determined and supported as provided in Standards for Documentation of Personnel Expenses, when applicable. (2 CFR § 200.430).

Return to the term's initial use.

Subawards. An award provided by a pass-through entity to a subrecipient for the subrecipient to carry out part of a federal award received by the pass-through entity. It does not include payments to a contractor or payments to an individual that is a beneficiary of a federal program. A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract. (2 CFR § 200.92).

Return to the term's initial use.

Supplies. All tangible personal property other than those described in § 200.33 Equipment. A computing device is a supply if the acquisition cost is less than the lesser of the capitalization level established by the non-federal entity for financial statement purposes or \$5,000, regardless of the length of its useful life. (2 CFR § 200.94).

Return to the term's initial use.

Travel costs. Expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the non-federal entity. Such costs may be charged on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip and not to selected days of the trip, and results in charges consistent with those normally allowed in like circumstances in the non-federal entity's non-federally funded activities and in accordance with non-federal entity's written travel reimbursement policies. Notwithstanding the provisions of § 200.444 *General costs of government*, travel costs of officials covered by that section are allowable with the prior written approval of the federal awarding agency or pass-through entity when they are specifically related to the federal award. (2 CFR § 200.474).

Return to the term's initial use.



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