

Performance Audit of Incurred Costs on EPSCoR Awards – University of Kansas Center for Research, Inc.

NATIONAL SCIENCE FOUNDATION
OFFICE OF INSPECTOR GENERAL

January 7, 2021
OIG 21-1-001





AT A GLANCE

Performance Audit of Incurred Costs on EPSCoR Awards – University of Kansas Center for Research, Inc.

Report No. OIG 21-1-001

January 7, 2021

WHY WE DID THIS AUDIT

We conducted a performance audit of incurred costs on five Established Program to Stimulate Competitive Research (EPSCoR) awards to the University of Kansas Center for Research, Inc. (KUCR). The objective of this audit was to determine if costs claimed on these awards were allowable, allocable, reasonable, and in conformity with NSF award terms and conditions and applicable Federal requirements.

WHAT WE FOUND

We identified instances of noncompliance with certain Federal regulations and NSF policies in KUCR's administration of three of its five EPSCoR awards. Specifically, we questioned \$1,550,054 in direct and indirect costs claimed by KUCR, including:

- \$625,532 in inappropriately retained indirect costs;
- \$15,854 in inappropriately charged indirect costs;
- \$569,477 in unsupported charges;
- \$328,494 in unsupported cost share; and
- \$10,697 in unallowable charges.

Please see Appendix C for a breakdown of the questioned costs by finding.

WHAT WE RECOMMEND

We made 11 recommendations for NSF to resolve the questioned costs and to ensure KUCR strengthens its administrative and management controls and processes.

AUDITEE RESPONSE

KUCR agreed with some of the findings and questioned costs in the report. KUCR's response is attached in its entirety to the report 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: January 7, 2021

TO: Dale Bell
Director
Division of Institution and Award Support

Jamie French
Director
Division of Grants and Agreements

FROM: Mark Bell [REDACTED]
Assistant Inspector General
Office of Audits

SUBJECT: Final Report No. 21-1-001, *Performance Audit of Incurred Costs on EPSCoR Awards – University of Kansas Center for Research, Inc.*

Attached is the final audit report on the subject audit. We have included University of Kansas Center for Research, Inc.'s response to the report as an appendix.

Please coordinate with our office during the 6-month resolution period, as specified by Office of Management and Budget Circular A-50, *Audit Followup*, 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.

We appreciate the courtesies and assistance that was extended during this audit. If you have any questions regarding this report, please contact Kelly Stefanko, Audit Manager, at [REDACTED] [@nsf.gov](mailto:[REDACTED]@nsf.gov) or 703.292.7100 or oigpublicaffairs@nsf.gov.

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ABBREVIATIONS

Open Track-1 Award	NSF Award No. [REDACTED]
Closed Track-1 Award	NSF Award No. [REDACTED]
Haskell	Haskell Indian Nations University
HERS	Haskell Environmental Research Studies Summer
KSU	Kansas State University
KUCR	University of Kansas Center for Research, Inc.
PSC	participant support cost
STEM	science, technology, engineering, and math



Background

The National Science Foundation is an independent Federal agency created by Congress in 1950 “[t]o 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 is the funding source for approximately 24 percent of all federally supported basic research conducted by America’s colleges and universities. Each year, NSF supports an average of about 200,000 scientists, engineers, educators, and students at universities, laboratories, and field sites throughout the United States and the world.

One way NSF funds such initiatives is by providing awards to targeted jurisdictions through its Established Program to Stimulate Competitive Research (EPSCoR). EPSCoR’s mission is to develop research competitiveness in these jurisdictions by strengthening science, technology, engineering, and math (STEM) capability and capacity so that they may become recognized contributors to national and global STEM research. States and territories receiving 0.75 percent or less of total NSF research funding over a 3-year period are eligible to receive EPSCoR funding.

The state of Kansas, which received more than \$102.5 million (approximately .61 percent) of NSF’s total research support between fiscal years 2016 to 2018, is eligible to receive EPSCoR awards. As part of this jurisdiction, the University of Kansas Center for Research, Inc. (KUCR), a not-for-profit research foundation that operates under the administrative jurisdiction of the University of Kansas Office of Research, received NSF-funded EPSCoR Research Infrastructure Improvement Program awards. KUCR helps researchers by providing proposal and post-award services, overseeing research compliance, managing and constructing research facilities, and handling financial services.

We conducted this audit of KUCR as part of our ongoing audit to assess whether NSF is ensuring award recipients comply with NSF and Federal requirements in the administration of EPSCoR awards. Specifically, we audited costs claimed on five EPSCoR awards to KUCR to determine if these costs were allowable, allocable, reasonable, and in conformity with NSF award terms and conditions and applicable Federal requirements. Two of the awards were Research Infrastructure Improvement Program “Track-1” awards (NSF Award Nos. [REDACTED]¹ and [REDACTED]²) and three were “Track-2” awards (NSF Award Nos. [REDACTED], [REDACTED], and [REDACTED]).

Track-1 awards provide up to \$20 million for 5 years and require the recipient to provide an additional 20 percent of the amount requested from NSF toward the total project cost (cost sharing). To broaden their impacts, Track-1 awards fund research programs at other institutions (subrecipients) within the jurisdiction through subaward agreements. Track-2 awards provide up to \$1.5 million per year for up to 4 years to build collaborative teams of EPSCoR researchers across jurisdictions.

¹ We refer to this award as KUCR’s closed Track-1 award.

² We refer to this award as KUCR’s open Track-1 award. Jurisdictions are limited to having only one Track-1 award at a time.



Results of Audit

We identified instances of noncompliance with certain Federal regulations and NSF policies in KUCR's administration of three of its five EPSCoR awards. Specifically, we questioned \$1,550,054 in direct and indirect costs claimed by KUCR, including:

- \$625,532 in inappropriately retained indirect costs;
- \$15,854 in inappropriately charged indirect costs;
- \$569,477 in unsupported charges;
- \$328,494 in unsupported cost share; and
- \$10,697 in unallowable charges.

Please see Appendix C for a breakdown of the questioned costs by finding.

Finding 1: Inappropriately Retained Indirect Costs

KUCR's charges to its EPSCoR awards exceeded costs paid to its subrecipients³ on both of its Track-1 awards and one of its Track-2 awards. According to KUCR's established practice, subrecipient state institutions agreed to contribute towards EPSCoR program management costs that "are not appropriate to be paid by research dollars." According to KUCR, this practice was instituted "early in Kansas EPSCoR history, most likely the mid-1990s, but no written agreement...existed" until a Letter of Agreement was signed on July 12, 2016, by the University of Kansas and the other state institutions involved.

Under the agreement, subrecipients⁴ billed KUCR for indirect costs on EPSCoR awards at rates that were 8 percentage points lower than their formal negotiated indirect cost rates. KUCR paid subrecipients at the lower rates, but it charged the EPSCoR awards for allowable indirect costs at the full, negotiated indirect cost rates and retained the remainder.⁵ KUCR did not disclose this agreement to NSF in its proposals; instead, it included the full negotiated indirect cost rates on subrecipient budgets in its proposals with the caveat that KUCR was not charging indirect costs on the first \$25,000 of each subaward, as would have been allowed by its negotiated rate.⁶

³ The subrecipients included Emporia State University, Fort Hays State University, Kansas State University, Pittsburg State University, and Wichita State University.

⁴ The only parties to the agreement are institutions in the Kansas Board of Regents System. Therefore, the agreement does not include KUCR's subrecipient Haskell Indian Nations University, University of Illinois, or Arizona State University.

⁵ For example, if a subrecipient had a formal negotiated indirect cost rate of 50 percent of modified total direct costs, the subrecipient would submit an invoice to KUCR as if its rate were 42 percent of modified total direct costs (8 percentage points lower than the formal negotiated rate). KUCR would then charge the EPSCoR award for allowable indirect costs at the full 50 percent indirect cost rate, remit the reduced amount (at 42 percent indirect cost rate) to the subrecipient, and retain the remainder for EPSCoR program management costs.

⁶ According to its Negotiated Indirect Cost Rate Agreement, KUCR can assess indirect costs on the first \$25,000 of a subaward. As part of its EPSCoR proposals, KUCR elected not to assess indirect costs on the first \$25,000 of subawards issued on the Track-1 and applicable Track-2 awards. In response to this finding, KUCR indicated that it will revise this decision to help ensure the availability of necessary programmatic support for the Kansas NSF EPSCoR office.



KUCR improperly retained \$625,532 of its subrecipients’ indirect costs: \$522,529 charged to the two Track-1 awards and \$103,003 charged to one Track-2 award. By reducing the indirect cost rates from the formal negotiated rates, KUCR’s subrecipients did not receive full reimbursement for allowable indirect costs. Reducing an otherwise allowable expense creates an applicable credit that must be credited to the EPSCoR awards as either a cost reduction or cash refund.⁷

KUCR agreed to end the practice. We find KUCR’s proposed path forward of ending the practice to be responsive to the finding.

KUCR concurred with all \$625,532 in questioned costs, as illustrated in Table 1.

Table 1. Expenses Questioned as Indirect Costs Retained from Subrecipients

Description	Award No.	Questioned Costs			KUCR Agreed to Adjust**
		Direct*	Indirect	Total	
Indirect Costs Retained from Subrecipients		\$466,829	\$0	\$466,829	\$466,829
Indirect Costs Retained from Subrecipients		\$55,700	\$0	\$55,700	\$55,700
Indirect Costs Retained from Subrecipients		\$103,003	\$0	\$103,003	\$103,003
Total		\$625,532	\$0	\$625,532	\$625,532

Source: Auditor summary of expenses questioned as indirect costs retained from subrecipients.

*Although these were indirect costs of subrecipients, these are considered direct costs to the prime awardee, KUCR.

**KUCR agreed to remit these amounts to the appropriate subrecipients.

Recommendations

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

1. Resolve the \$625,532 in subrecipient indirect costs retained by KUCR and direct KUCR to correct or otherwise remove the sustained questioned costs from its NSF awards.
2. Confirm that KUCR has ended the practice of retaining a portion of allowable subrecipient indirect costs charged to EPSCoR awards.

KUCR Response

KUCR disagreed that the practice of retaining a portion of allowable subrecipient indirect costs charged to its EPSCoR awards resulted in an applicable credit, but agreed to discontinue the practice. KUCR stated that this practice does not result in overcharges to the Government and that it represents an

⁷ 2 CFR 200.406(a) states, “Applicable credits refer to those receipts or reduction-of-expenditure-type transactions that offset or reduce expense items allocable to the Federal award as direct or indirect (F&A) [Facilities and Administrative] costs. Examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the non-Federal entity relate to allowable costs, they must be credited to the Federal award either as a cost reduction or cash refund, as appropriate.”



agreement with other Regents Universities that is independent of NSF's administration of the EPSCoR awards. Additionally, KUCR noted that the practice was reviewed in a prior NSF OIG audit and did not result in any associated findings.

Auditor Comment

Our position regarding this finding has not changed. The practice of retaining a portion of allowable subrecipient indirect costs reduces an otherwise allowable expense, which creates an applicable credit that must be credited to the EPSCoR awards as either a cost reduction or cash refund. In the applicable award proposals, KUCR requested funding for the full amount of allowable indirect costs for its subrecipients without intending to remit the full amount of those funds to its Regents Universities subrecipients. Whenever this practice is fully integrated into the accounting and operation of the EPSCoR award, it cannot be seen as outside of NSF's oversight.

As KUCR noted, the OIG was aware of this practice during our prior audit and had significant concerns about it. During the previous audit, when asked for documentation of its agreement with the Regents Universities subrecipients, KUCR was unable to provide any. Subsequently, KUCR developed a written agreement, dated July 12, 2016; therefore, there was a gap between when the 2016 agreement was signed and the start of this practice in the 1990s. Prior to issuing the final report on the prior audit, we decided to conduct a subsequent audit of KUCR to better understand and quantify this practice. This report details the results of our subsequent audit.

In April 2020, KUCR told us that it would remit the questioned withheld indirect costs to the applicable subawardees. This action would eliminate the applicable credit. We find this approach to be reasonable and responsive to the finding.

Finding 2: Inappropriately Charged Indirect Costs

KUCR inappropriately charged \$15,854 in indirect costs paid to its subrecipients of its open Track-1 award. KUCR stated this occurred because the expense account "Subcontractor F&A" was incorrectly mapped in KUCR's new financial system, causing it to misapply indirect costs. KUCR acknowledged the issue and said it put a corrective action plan in place to identify all project costs on the account, remove the incorrect indirect costs assessed, and offset its January 2020 draw-down from ACM\$ to adjust for the indirect costs it erroneously assessed. KUCR also said it will update its current financial system to include a new expenditure type under the "No F&A" budget category to ensure this issue is remedied in the future.

KUCR concurred with the \$15,854 in questioned costs, as illustrated in Table 2.



Table 2. Expenses Questioned as Unallowable Indirect Costs

Description	Award No.	Questioned Costs			KUCR Agreed to Reimburse
		Direct	Indirect	Total	
Unallowable Indirect Costs		\$0	\$15,854	\$15,854	\$15,854
Total		\$0	\$15,854	\$15,854	\$15,854

Source: Auditor summary of expenses questioned as unallowable indirect costs.

Recommendation

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

1. Resolve the \$15,854 in unsupported indirect costs charged, and direct KUCR to repay or otherwise remove the sustained questioned costs from its NSF award.

KUCR Response

KUCR stated that it has corrected the system mapping and implemented a corrective action plan to identify and correct all erroneous postings. It stated that it returned \$15,854 as an offset in its January 2020 draw-down from ACM\$.

Auditor Comment

We acknowledge KUCR’s concurrence with the finding. Our position regarding this finding remains the same.

Finding 3: Unsupported Expenses

KUCR charged \$569,477 of unsupported subaward expenses to two EPSCoR awards. These charges included salary, fringe, material, supplies, and travel costs claimed by Haskell Indian Nations University (Haskell), a tribal university operated by the U.S. Bureau of Indian Affairs.

Unsupported Subaward Salary and Fringe Expenses

Haskell charged \$43,117 in unsupported salary and fringe benefits and \$8,580 in associated indirect costs to KUCR.

Haskell invoiced KUCR for salary and fringe benefits based on budget estimates rather than actual costs. Neither Haskell nor KUCR provided documentation of Haskell’s actual costs. KUCR did not require Haskell to provide supporting documentation with its subaward invoices and did not maintain documentation of Haskell’s actual costs.

Haskell acknowledged that staff who charged salary and fringe benefits to the EPSCoR award also worked on non-award related tasks, but it did not document how staff allocated time to EPSCoR-related



activities and to other projects or activities. Instead of charging the actual hours spent working on EPSCoR-related activities, Haskell charged salaries up to the amounts in its subaward budget. To support its salary charges, Haskell sent us employee pay stubs for periods it estimated the employees worked on EPSCoR-related activities. However, the documentation did not demonstrate that the employees worked on the subaward or distinguish between time spent working on EPSCoR and non-EPSCoR activities.

To be allowable, costs must be determined in accordance with generally accepted accounting principles,⁸ be adequately documented,⁹ and be allocable.¹⁰ Further, charges to Federal awards for non-faculty salaries and wages must be based on records that accurately reflect the work performed.¹¹ KUCR included these requirements in its subaward agreement with Haskell. Therefore, we are questioning \$51,697 in unsupported salary and fringe benefits costs (\$43,117) and associated indirect costs (\$8,580) Haskell charged to KUCR.

KUCR is responsible for determining the appropriate level of subrecipient monitoring based on each subrecipient's risk.¹² KUCR did not effectively assess the risk of entering into a subaward relationship with Haskell. As a result, it may not have provided the appropriate level of monitoring. For example, KUCR told us it was unaware that Haskell was using budget estimates instead of actual expenses to charge costs to the subaward. It also was unaware that Haskell did not have policies or procedures to document salaries and wages that accurately reflected the work performed on subawards. A more effective risk assessment, identifying the need for additional terms and conditions requiring Haskell provide supporting documentation with invoices, may have provided KUCR with additional insight on the appropriate level of subrecipient monitoring to help ensure the subaward's use for authorized purposes and in compliance with applicable statutes, regulations, and terms and conditions.

⁸ Under 2 CFR 200.403(e) except where otherwise authorized by statute, to be allowable, a cost must, “[b]e determined in accordance with generally accepted accounting principles.”

⁹ Under 2 CFR 200.403(g), except where otherwise authorized by statute, to be allowable, a cost must “[b]e adequately documented.”

¹⁰ Under 2 CFR 200.405(a), “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.”

¹¹ 2 CFR 200.430(h)(8)(i) states “Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:(i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated...(vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.(viii) Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards.”

¹² 2 CFR 200.331 states the pass-through entity must “[e]valuate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate level of subrecipient monitoring....” Further, the entity must “[m]onitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.” The prior guidance (OMB A-133) also required subrecipient monitoring.



Unsupported Subaward Material, Supplies, and Travel Expenses

KUCR charged \$382 of materials and supplies and associated indirect costs that Haskell claimed that had subsequently been refunded by the vendor or KUCR could not support. Further, KUCR charged \$1,941 of Haskell's travel charges and associated indirect costs that it could not support.

To be allowable, costs must be adequately documented¹³ and refunds must be credited to the award.¹⁴ Therefore, we are questioning \$2,322 in unsupported materials, supplies, travel, and associated indirect costs.¹⁵

Unsupported Subaward Expenses on Closed Award

Neither KUCR nor its subrecipient Haskell provided support for Haskell's expenses charged to the closed Track-1 award. At the time of our audit, KUCR was required to maintain support for costs claimed on the award per record retention requirements.¹⁶ KUCR did not require Haskell to provide supporting documentation with its invoices and thus was unaware that Haskell was not maintaining support for costs claimed on its subaward.

Initially, we selected \$51,972 of Haskell expenses on the award for testing. When KUCR said Haskell could not provide documentation substantiating these expenses, we asked KUCR to have Haskell identify any transactions it could support on the award. Haskell stated that documentation for the award may exist in long-term storage at the American Indian record repository or the National Archives, but we should expect substantial delays in locating and accessing the documents.

KUCR is responsible for ensuring documentation is retained per Federal and NSF award requirements.¹⁷ Because neither KUCR nor Haskell could provide supporting documentation for expenses charged to the

¹³ Under 2 CFR 200.403(g), except where otherwise authorized by statute, to be allowable, a cost must "[b]e adequately documented."

¹⁴ 2 CFR 200.406(a) states "[a]pplicable credits refer to those receipts or reduction-of-expenditure-type transactions that offset or reduce expense items allocable to the Federal award as direct or indirect (F&A) costs. Examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the non-Federal entity relate to allowable costs, they must be credited to the Federal award either as a cost reduction or cash refund, as appropriate."

¹⁵ Totals may not add due to rounding. Haskell charged KUCR \$1,937 for direct materials, supplies, and travel costs, plus \$385 of associated indirect cost (19.9 percent).

¹⁶ 2 CFR Part 215.53(b) states "Financial records, supporting documents, statistical records, and all other records pertinent to an award for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by the Federal awarding agency." Further, "[i]f any litigation, claim or audit is started before the expiration of the 3-year period, the records shall be retained until all litigation, claims or audit findings involving the records have been resolved and final action taken." The final expenditure report on the closed Track-1 award was submitted November 14, 2017 and our audit was started July 2, 2019, less than three years after the final expenditure report.

¹⁷ NSF Cooperative Agreement Financial & Administrative Terms and Conditions, effective January 4, 2010, which were applicable to NSF award [REDACTED], states KUCR remains "...responsible for maintaining the necessary documentation on all subawards and making it available to NSF upon request."



award, we are questioning all \$515,458 of expenses Haskell charged to the award.¹⁸

KUCR concurred with \$2,322 of the questioned costs and disagreed with \$567,155, as illustrated in Table 3.

Table 3. Expenses Questioned as Unsupported

Description	Award No.	Questioned Costs			KUCR Agreed to Reimburse
		Direct	Indirect	Total	
Unsupported Subaward Salary and Fringe	[REDACTED]	\$51,697	\$0	\$51,697	\$0
Unsupported Subaward Material and Supplies and Travel	[REDACTED]	\$2,322	\$0	\$2,322	\$2,322
Unsupported Subaward Expenses on Closed Award	[REDACTED]	\$515,458	\$0	\$515,458	\$0
Total		\$569,477	\$0	\$569,477	\$2,322

Source: Auditor summary of expenses questioned as unsupported.

Recommendations

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

1. Resolve the \$569,477 in questioned unsupported subaward costs, and direct KUCR to repay or otherwise remove the sustained questioned costs from its NSF awards.
2. Direct KUCR to provide additional oversight to ensure Haskell is charging its subaward based on actual costs incurred and develops processes and controls to appropriately account for salary and fringe benefit charges.
3. Direct KUCR to strengthen its administrative and management controls and processes related to subaward risk assessment and oversight.
4. Direct KUCR to strengthen its administrative and management controls and processes related to record retention.

KUCR Response

KUCR responded to the report findings by section, as follows.

Unsupported Subaward Salary and Fringe

KUCR stated that Haskell is a Federal university and uses Federal financial and payroll systems to post and track expenditures to a general ledger. These systems limit Haskell’s ability to distribute payroll charges across different cost objectives. To address these limitations, Haskell uses Excel files to allocate and track expenses on projects. KUCR stated that Haskell’s manual process provides reasonable

¹⁸ KUCR reimbursed Haskell \$515,458 from the award and \$273,030 with other funds as part of its cost share contribution. See Finding 4.



assurance of allowability and allocability of costs charged to the EPSCoR award through “regular monitoring and review of these Excel files.”

KUCR believes Haskell’s salary, fringe benefits, and associated indirect costs were reasonable for the services provided. Based on KUCR’s process for approval of subrecipient invoices, KUCR maintains that costs reported for Haskell are allowable and reasonable.

With respect to monitoring of the Haskell subaward, KUCR stated that its policies and practices for monitoring, including performing a risk assessment, were in accordance with requirements included in 2 CFR 200.331. KUCR also stated that because Haskell is a Federal entity, the requirements of 2 CFR 200.331 do not apply to its subaward relationship with Haskell; however, KUCR still applied its risk assessment and monitoring procedures to the Haskell agreement to ensure the subaward was used for authorized purposes and performance goals were achieved. KUCR assessed Haskell to be a low-risk subrecipient and applied its established monitoring activities for low-risk subrecipients to the subaward. KUCR stated its defined subrecipient monitoring policies and procedures achieve the objectives of ensuring compliance with applicable requirements.

Unsupported Subaward Material and Supplies and Travel

KUCR agreed to remove the questioned costs of \$2,322 from the cost share reported to NSF¹⁹ and to work with Haskell to ensure adequate supporting documentation for subaward costs.

Unsupported Subaward Expenses on Closed Award

KUCR stated that as a Federal entity, Haskell consistently applies a 3-year retention period to applicable documentation. KUCR and Haskell interpreted the applicable Federal regulation for records retention under subawards to mean that Haskell’s 3-year retention period begins with submission of its final cost claim to KUCR under a subaward. KUCR noted that NSF clarified its records retention requirements for subawards on October 5, 2020. NSF’s updated award term states, “This includes ensuring necessary documentation for all subawards is maintained for the same retention period as the grantee’s and making it available to NSF upon request.” KUCR is working with its subrecipients to ensure compliance.

Finally, KUCR notes that it assessed Haskell to be a low-risk subrecipient that did not require escalated monitoring. KUCR maintains that work was performed and reported to NSF in accordance with EPSCoR award requirements and that NSF should accept Haskell’s costs as claimed.

Auditor Comment

Our finding remains unchanged. We disagree with KUCR's characterization of Haskell as a "federal entity," as it relates to applicability of administrative requirements for Federal awards to non-Federal entities. For Federal grantmaking purposes, it is our understanding is that Haskell, a tribal university²⁰

¹⁹ Although KUCR’s response refers to these costs as cost share reported to NSF, documents provided by Haskell indicate these costs were reimbursed by KUCR to Haskell with EPSCoR funds.

²⁰ 20 USC 1059c



operated by the Bureau of Indian Education in the U.S. Department of the Interior, is considered an “institution of higher education”²¹ and is therefore a “non-Federal entity”²² subject to applicable OMB administrative requirements. Regardless, KUCR’s response did not address a primary concern stated in the report finding — that Haskell’s salary and fringe benefits claims under its EPSCoR subawards were based on budget estimates, rather than actual costs incurred by Haskell.

Regarding Haskell’s manual process of allocating and tracking expenses on projects, the Excel files Haskell shared with us did not match the costs claimed to KUCR and did not demonstrate a reasonable basis for the allocation of the costs to the EPSCoR award.

KUCR’s response stated that it determined Haskell was a low-risk subrecipient. KUCR was not aware that Haskell’s claims under the EPSCoR subawards were based on budget estimates, rather than actual costs incurred by Haskell. KUCR also was unaware that Haskell’s manual system of allocating payroll costs to various cost objectives in a series of Excel files, including allocations to EPSCoR subawards, did not produce records that supported the basis for the allocation and match amounts invoiced to KUCR. The low-risk status allowed Haskell to submit invoices without supporting documentation.

KUCR agreed to remove the \$2,322 of questioned materials and supplies and travel costs claimed by Haskell. However, KUCR’s response referred to these as cost share expenses reported to NSF. These costs were not reported as cost share to NSF but rather were included on Haskell’s invoice of EPSCoR costs reimbursed by KUCR. Finally, as the primary recipient of the EPSCoR funds, KUCR has the responsibility to ensure subrecipient costs are allowable. KUCR’s responsibility to maintain records supporting allowability of costs is independent of subrecipients’ records retention requirements.

Finding 4: Unsupported Cost Share Expenses

KUCR reported \$328,494 of unsupported subaward expenses as cost share to support two EPSCoR awards. These charges included participant support, salary, fringe, and procurement card transactions. Both awards required KUCR to commit to funding an additional \$4 million per award as cost share.

Unsupported Subaward Participant Support, Salary, and Fringe Benefits Cost Share Expenses

Similar to the issue noted in Finding 2, Haskell invoiced KUCR for participant support, salary, and fringe benefits costs reported as cost share based on budget estimates rather than actual costs. Neither Haskell nor KUCR provided documentation of Haskell’s actual costs.

Haskell charged KUCR the amount budgeted in its subaward for participant support (\$23,062) related to lodging for participants in the Haskell Environmental Research Studies (HERS) summer internship program but did not provide support for the actual costs. When we asked for support for the charges, Haskell provided payroll documents for housing and food service staff that did not always coincide with the HERS program dates. Additionally, the housing and food service staff did not solely dedicate time to HERS (they also worked with summer school students on campus), and Haskell did not provide an

²¹ 2 CFR 200.55

²² 2 CFR 200.69



allocation of the staff's time. When interviewed, Haskell officials acknowledged they charged budgeted — rather than actual — amounts for participant support. KUCR did not require Haskell to provide supporting documentation with its subaward invoices and did not maintain documentation of Haskell's actual costs.

Haskell also charged \$17,417 in salary and fringe benefits as cost share and, as noted in Finding 2, did not provide documentation demonstrating the employees worked on the EPSCoR project for the time charged or the allocation of time between EPSCoR and other projects or activities.

To be allowable, costs must be adequately documented, allocable and determined in accordance with generally accepted accounting principles.²³ Further, charges to non-faculty Federal awards for salaries and wages must be based on records that accurately reflect the work performed.²⁴ KUCR included these terms in its subaward agreement with Haskell. Therefore, we are questioning \$23,062 in unsupported subaward participant support costs and \$17,417 in unsupported subaward salary and fringe benefits costs reported charged as a cost share on the open Track-1 award.

Unsupported Subaward Procurement Card Expenditures

Kansas State University (KSU) charged \$14,985 of procurement card expenditures as cost share. Neither KUCR nor KSU provided support that the purchases were allowable, reasonable, and allocable to the award. To be allowable, costs must be adequately documented. Therefore, we are questioning \$14,985 in KSU purchase card expenditures charged as cost share.

Unsupported Subaward Cost Share Expenditures

As noted in Finding 2, neither KUCR nor its subrecipient Haskell provided support for Haskell's expenditures claimed on the closed Track-1 award. Since neither KUCR nor Haskell identified any expenditures on the closed Track-1 award for which it could provide supporting documentation, we are questioning all \$273,030 of Haskell expenditures reported as cost share on that award.

KUCR concurred with \$26,974 of the questioned costs and disagreed with \$301,520, as illustrated in Table 4.

²³ Under 2 CFR 200.403(e) and (g), except where otherwise authorized by statute, to be allowable, a cost must “[b]e determined in accordance with generally accepted accounting principles” and “[b]e adequately documented.” Under 2 CFR 200.405, (a) “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.”

²⁴ 2 CFR 200.430(h)(8)(i) states “Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:(i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated...(vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.(viii) Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards.”



Table 4. Cost Share Expenses Questioned as Unsupported

Description	Award No.	Questioned Costs			KUCR Agreed to Reimburse
		Direct	Indirect	Total	
Unsupported Subaward Participant Support	[REDACTED]	\$23,062	\$0	\$23,062	\$11,989
Unsupported Subaward Salary and Fringe	[REDACTED]	\$17,417	\$0	\$17,417	\$0
Unsupported Subaward Procurement Card Expenditures	[REDACTED]	\$14,985	\$0	\$14,985	\$14,985
Unsupported Subaward Expenditures on Closed Award	[REDACTED]	\$273,030	\$0	\$273,030	\$0
Total		\$328,494	\$0	\$328,494	\$26,974

Source: Auditor summary of cost share expenses questioned as unsupported.

Recommendation

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

1. Resolve the \$328,494 in questioned cost share costs and direct KUCR to remove the sustained questioned costs from its cost share reports to NSF. If the removal of disallowed cost share causes the award to fall short of the mandatory cost share requirement, direct KUCR to repay NSF funds associated with the unmet cost share obligation.

KUCR Response

KUCR responded to the report findings by section, as follows.

Unsupported Subaward Participant Support and Unsupported Subaward Salary and Fringe

Regarding the questioned salary and fringe costs of \$17,417, KUCR stated, “Based on KUCR’s policies for the approval of all subrecipient invoices by the KUCR PI to assure that costs are reasonable for the work performed, KUCR maintains that the salary charges claimed as cost share on the EPSCoR award are allowable and reasonable.”

Regarding the \$23,062 of questioned participant support cost share claim, KUCR acknowledged that only 1 week of this period overlapped the actual HERS program dates and that \$11,989 of the claim should not have been reported as cost share. KUCR stated that Haskell incurred additional costs related to the HERS program that were not reported as cost share, but KUCR did not detail these additional costs in its response.

Unsupported Subaward Procurement Card Expenditures

In response to the \$14,985 of questioned procurement charge transactions, because KSU was not able to produce documentation supporting these costs, KUCR agreed to remove them from cost share reported to NSF and will work with NSF to determine the impact on KUCR’s cost share obligation.



Unsupported Subaward Expenditures on Closed Award

KUCR referenced its response to report Finding 3, as the same position also applies to this finding.

Auditor Comment

Our position on this finding remains the same, for the same reasons we provided in our comments to KUCR's response to Finding 3. As the primary recipient of the EPSCoR funds, KUCR has the responsibility to ensure subrecipient costs are reasonable and allocable to the award, and that supporting documentation is properly maintained. We reviewed a spreadsheet and sample of payroll records Haskell provided to support the costs claimed. The payroll records did not demonstrate a reasonable basis for the allocation of the costs to the EPSCoR award.

We acknowledge KUCR's agreement to remove the \$14,985 unsupported KSU cost share claim from the reported cost share.

Finding 5: Unallowable Expenses

KUCR charged \$10,697 of unallowable direct (\$9,140) and associated indirect (\$1,557) expenses to three EPSCoR awards, as follows:

Unnecessary and Unreasonable Expenses

KUCR charged \$4,186 to two EPSCoR awards for water for its office staff. According to KUCR, it had always charged water for the office directly to the EPSCoR Track-1 awards. To be allowable, costs must be necessary and reasonable for the performance of the Federal award.²⁵ Supplying water to the office is not necessary for the performance of the award. Therefore, we are questioning these charges (\$4,186) as unallowable.

Unallowable Alcohol-Related Expenses

KUCR charged its EPSCoR awards a total of \$642 for wine and bar set up and corkage fees that it incurred in 2011 and 2015. Federal guidance at the time,²⁶ as well as current guidance, states "costs of alcoholic beverages are unallowable." NSF policy also prohibits use of NSF funds for alcoholic beverages.²⁷ KUCR explained these costs were charged to the award because staff followed a less

²⁵ Under 2 CFR 200.403(a), except where otherwise authorized by statute, to be allowable, a cost must "[b]e necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles." Prior to the Uniform Guidance, Appendix A to 2 CFR Part 220, J.22. applied, and it stated "[c]osts of goods or services for personal use of the institution's employees are unallowable regardless of whether the cost is reported as taxable income to the employees."

²⁶ Appendix A to 2 CFR Part 220, J.3., states, "Costs of alcoholic beverages are unallowable." Current guidance is at 2 CFR 200.423.

²⁷ *NSF Proposal and Award Policies and Procedures Guide* (NSF 13-1 and NSF 08-1) state "No NSF funds may be spent on alcoholic beverages."



restrictive university hospitality policy rather than Federal award requirements. We are questioning the wine and bar set up and corkage fees (\$642) charged to the award.

Unallowable Promotional Expense Charged to Subaward

One of KUCR's subrecipients, Haskell, purchased reusable tote bags imprinted with the name of its EPSCoR-funded summer internship program at a cost of \$1,562 (\$1,303 direct, plus \$259 of associated indirect costs) to the award. According to Haskell officials, they used the bags as recruitment material at conferences.

Federal guidance states that costs of promotional items, including gifts, are unallowable.²⁸ KUCR included these terms in its subaward agreement with Haskell.²⁹ KUCR stated that it did not request Haskell provide supporting documentation with its invoices, so it was unaware of the purchase. We are questioning the \$1,562 charged for the imprinted bags as an unallowable promotional expense.

Unallowable Indirect Costs Charged to Subaward

Haskell charged KUCR \$4,629 in unallowable indirect costs on the open Track-1 award because it did not appropriately identify certain expenses as participant support costs (PSC), for which indirect costs are not allowed. Specifically, Haskell did not identify and account for \$23,261 in research materials and supplies incurred for the 2018 HERS summer internship program, such as backpacks and school supplies, as PSCs.³⁰ PSCs are "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."³¹ Haskell purchased the supplies on behalf of the students in the HERS program and charged the costs to the EPSCoR subaward, thus they fall within the definition of participant support costs. Per award terms and conditions, indirect costs are not allowed on PSCs.³²

In its proposal, KUCR did not identify these supplies as PSCs, and Haskell did not account for them as PSCs. As a result, KUCR allowed Haskell to charge indirect costs (\$4,629, at a 19.9 percent rate) against the \$23,261 in supplies costs. We have already questioned \$322 of the indirect charges Haskell charged KUCR as part of Findings 3 and 5. Therefore, we question the remaining \$4,307.

KUCR concurred with \$4,828 of the questioned costs and disagreed with \$5,869, as shown in Table 5.

²⁸ 2 CFR 200.421 (e) states unallowable advertising and public relations costs include "(3) [c]osts of promotional items and memorabilia, including models, gifts, and souvenirs[.]"

²⁹ KUCR subaward agreement No. [REDACTED]

³⁰ KUCR charged these subrecipient indirect costs as a direct cost to the award.

³¹ 2 CFR §200.75.

³² NSF's *Cooperative Agreement Financial & Administrative Terms and Conditions* (CA-FATC), effective January 30, 2017, state "Indirect costs (Facilities and Administrative Costs (F&A)) are not allowed on participant support costs." Further, 2 CFR 200.68 states that Modified Total Direct Costs must exclude participant support costs.



Table 5. Expenses Questioned as Unallowable

Description	Award No.	Questioned Costs			KUCR Agreed to Reimburse
		Direct	Indirect	Total	
Corkage and bar set up fees		\$135	\$67	\$202	\$202
Wine		\$300	\$140	\$440	\$440
Water for office		\$1,832	\$852	\$2,684	\$2,684
Water for office		\$1,004	\$498	\$1,502	\$1,502
Subaward Material and Supplies		\$1,562	\$0	\$1,562	\$0
Subaward Indirect Costs on Materials and Supplies		\$4,307	\$0	\$4,307	\$0
Total		\$9,140	\$1,557	\$10,697	\$4,828

Source: Auditor summary of expenses questioned as unallowable.

Recommendations

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

1. Resolve the \$10,697 in questioned costs, and direct KUCR to repay or otherwise remove the sustained questioned costs from its NSF awards.
2. Direct KUCR to provide training on Federal requirements prohibiting alcoholic beverages and requiring expenses to be necessary and reasonable for the performance of the Federal award.
3. Direct KUCR to strengthen its administrative and management controls and processes related to participant support costs to ensure that they are budgeted and accounted for appropriately.

KUCR Response

KUCR agreed to remove the questioned water charge (\$4,186) and alcohol-related expenses (\$642) from the EPSCoR awards and to ensure that staff is aware of the Uniform Guidance cost principles regarding allowability and reasonableness.

KUCR did not agree that the \$1,562 claimed for tote bags represent unallowable advertising and public relations costs. KUCR stated that the tote bags were necessary for promoting the HERS program to prospective participants. KUCR also referenced NSF policy stating that funding of items identified in an award budget constitutes NSF approval to incur those costs. The budget justification for Haskell’s subaward stated that the proposed budget included \$5,080 per year for recruitment materials.

KUCR did not agree that \$4,307 allocated by Haskell to materials and supplies costs for HERS program participants are unallowable indirect costs allocated to participant support costs. KUCR stated that the definition of participant support costs included in NSF’s PAPPG does not include supplies.



Auditor Comment

Our position that \$1,562 in promotional items was an unallowable expense does not change; 2 CFR 200.421 (e) states unallowable advertising and public relations costs include “(3) [c]osts of promotional items and memorabilia, including models, gifts, and souvenirs[.]”

Our position regarding the \$4,307 in subaward costs on behalf of participants does not change. Participant support costs must be specified, itemized and justified in the budget justification section of the proposal, which KUCR acknowledged it did not do for the questioned supplies. Although NSF’s definition does not specifically include supplies for participants, it also does not exclude it.

Finally, we do not agree with KUCR that the NSF Policy Newsletter (May/June 2017), which relates to costs claimed by recipients of awards for which the primary purpose was to fund NSF-sponsored conferences, pertains to our finding regarding participant support costs.



Appendix A: KUCR's Response



November 23, 2020

Kelly Stefanko

Audit Manager

██████████@nsf.gov

Dear Ms. Stefanko,

Please find below the University of Kansas Center for Research, Inc.'s (KUCR) response to NSF OIG's report on findings and recommendations on National Science Foundation EPSCoR awards ██████████, ██████████, ██████████, and ██████████ and applicable cost sharing requirements.

Finding 1: Indirect Costs Claimed from Subrecipients

This audit finding and the associated questioned costs are the result of the mechanism agreed to by KUCR and the Regent Universities to operationalize Administrative Contribution, minimize the number of transactions between institutions in the Kansas Board of Regents System, and facilitate the calculation and tracking of each Regent University's administrative cost sharing contribution.

KUCR has provided evidence through discussions with NSF auditors and supplied supporting documentation that its policy for assessing the EPSCoR Administrative Contribution during the audit period does not result in overcharges to the government. This practice was also reviewed in conjunction with the 2014 NSF Incurred Cost Audit of KUCR (OIG Report No. 18-1-001) and did not result in any associated findings as part of that process.

KUCR acknowledges that our administrative process can be misinterpreted. Therefore, to avoid any appearance of non-compliance with Uniform Guidance §200.406, we agree to discontinue this current practice.

KUCR does not believe this administrative practice results in an applicable credit requiring an expense reduction under §200.406, but we value transparency and appreciate the opportunity to provide context and address any appearance of mistreatment of costs or overcharges to the federal government.

The Administrative Contribution represents an arrangement for those Regents Universities in the State of Kansas benefitting from the state-wide EPSCoR Program to jointly share in the cost of administering the program for expenses not directly allocable to the NSF awards. The Regent Universities are overseen



by Kansas Board of Regents (KBOR) (32 K.S.A. § 74-3202a). This agreement with other Regents Universities is independent of the EPSCoR award itself and the NSF's administration of the award and serves as an internal mechanism between entities to properly account for the total cost of administering the program. KU serves as the administrative institution for the NSF EPSCoR Program, utilizing facilities and resources on the KU campus. The cost of administering the EPSCoR Program is funded by a variety of sources, including KU's indirect returns on the EPSCoR award, a small amount of direct funding on the EPSCoR award, and other KU institutional funds.

The Regents Universities in the State of Kansas recognized that the administration and management costs incurred by the state-wide EPSCoR Program should be shared across all Regents Universities benefiting from the program, not solely born by KU as the 'host' institution incurring the costs. As such, the Regents Universities entered into an agreement whereby each subrecipient Regents University institution would contribute funds back to KU to share in the costs of administering the program. The Regents determined an equitable share to be 8% of Modified Total Direct Costs (MTDC) incurred on subawards issued under EPSCoR Program. The fixed percentage on subrecipient MTDC effectively prorates each institution's contribution according to the funding support received for research initiatives.

KU believes that the distinction of each Regent University voluntarily agreeing to distribute 8% of their earned indirect returns back to KU to fund their share of the program administration as part of an independent inter-University agreement is critical to understanding the nature of the Administrative Contribution practice. As opposed to utilizing an inter-University funds transfer transaction, the Regent Universities agreed to the practice of incurring the full allowable indirect costs on all EPSCoR subrecipient MTDC but only distributing that amount less the agreed upon 8% back to the subrecipient institutions via the invoicing process. KU retains the difference to fund the costs of administering the state-wide EPSCoR program for all Regent Universities.

It is important to note that no federal regulations, nor NSF requirements, govern how an institution may choose to distribute indirect cost returns it receives from the funding agency. As such, each Regents University EPSCoR subawardee has the flexibility to allocate 8% MTDC out of its total indirect cost recoveries to KU as the EPSCoR 'host' institution. This does not represent a non-compliant or unallowable use of indirect cost returns.

Per the PAPPG, § X. D. Indirect Costs, 1. NSF Policy:

"a. Except as noted in an NSF program solicitation, it is NSF policy that grantees are entitled to reimbursement from grant funds for indirect costs (F&A) allocable to the NSF share of allowable direct costs of a project. NSF program staff are not authorized to negotiate indirect costs as a discrete item of a proposal budget. NSF program staff also are not authorized to suggest or request that PI/PDs seek reductions or waivers of indirect costs.





b. The awarded indirect cost rate is generally based upon a grantee's current Federally negotiated indirect cost rate agreement."

Finding 2: Unallowable Indirect Cost

This questioned cost resulted from an incorrectly mapped expense account in KUCR's newly implemented financial system. KUCR has corrected the system mapping and implemented a corrective action plan to identify and correct all erroneous postings. The \$15,854 was returned as an offset in the January 2020 draw-down from ACM\$.

Finding 3: Unsupported Expenses

Unsupported Subaward Salary and Fringe

Haskell Indian Nations University is a federal university and, as such, uses a federal financial and payroll system and the US Department of the Interior Financial and Business Management System (FBMS) to post and track expenditures against a general ledger. The mandatory use of this federal system limits Haskell's internal ability to distribute payroll charges across different costs objectives within the FBMS technology. Therefore, Haskell has adapted business processes to track expenditures and costs against separate cost objectives / projects, such as the KUCR EPSCOR/HERS Program. Haskell uses Excel files to allocate and track the University's expenditures (including salary and fringe costs) to individual projects or objectives.

Though manual, this manual payroll allocation process does align with the federal requirements as defined in the Uniform Guidance §200.430 (i) Standards for Documentation of Personnel Expenses, specifically:

- (i)(1)(i) *Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated*
- (i)(1) (ii) *Be incorporated into the official records of the non-Federal entity*
 - Haskell's practice of allocating general ledger expenditures to individual cost objectives / projects via a manual Excel-based process and the regular monitoring and review of these Excel files provides reasonable assurance of the allowability and allocation of costs charged to the EPSCoR award.
 - These manual Excel files, in conjunction with the DOI FBMS, are considered the official records of Haskell University and accurately track costs allocated to the EPSCoR/HERS program.
- (i)(1) (iii) *Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS)*
- (i)(1) (vii) *Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and*





non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity

- These manual Excel files track each cost posted to Haskell's general ledger to individual cost objectives / projects and the reconciliation process ensures no cost (including a given salary charge) is allocated to multiple cost objectives or projects (e.g. the Excel files must reconcile to the general ledger). As such, the entirety of an individual salary / compensation is distributed across separate cost objectives (Excel files).
- *(i)(1) (iv) Encompass federally-assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy*
 - Haskell's process involves the allocation of GL expenditures across all Haskell cost objectives, using each Excel file as a subsidiary ledger to track this allocation.

KUCR acknowledges Haskell process is manual but maintains that the salary, fringe and associated indirect charges incurred on KUCR's EPSCoR award are reasonable for the services rendered. As required by the Uniform Guidance §200.430 (h) *Institutions of Higher Education (IHEs)*. (1)j. *Allowable activities: charges to Federal awards may include reasonable amounts for activities contributing and directly related to work under an agreement.* Based on KUCR's policies for the approval of all subrecipient invoices by the KUCR PI or delegate (NSF EPSCoR's Assistant Director in this case) to assure that costs are reasonable for the work performed, KUCR maintains that the Haskell costs incurred on the EPSCoR award are allowable and reasonable.

KUCR has established subrecipient monitoring policies and practices in accordance with NSF and federal requirements (2 CFR §200.331), including a risk assessment to "evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring." The Uniform Guidance also defines a subrecipient as "a non-Federal entity that receives a subaward from a pass-through entity to carry out part of a Federal program" (§200.93). Haskell University is a federal entity and therefore the requirements for subrecipient monitoring, as defined in 2 CFR §200.331 do not apply to KUCR's relationship with Haskell. However, KUCR takes its role as an EPSCoR recipient seriously and applied its subrecipient risk assessment and monitoring procedures to the Haskell agreement to ensure that the subaward is used for authorized purposes and that subaward performance goals are achieved.

KUCR assessed Haskell University to be a low risk entity, primarily based on the following factors:

- *Risk Assessment Score:* KUCR's Subrecipient Risk Assessment Matrix was adapted from the risk assessment questionnaire developed by the Federal Demonstration Partnership (FDP) focused on assessing risk at a project (EPSCoR subawards) and institutional (Haskell University) basis.





KUCR completed this risk assessment for Haskell (as it relates to the current Track I EPSCoR award) in 2017, and the matrix framework indicated that Haskell University was well within the Low Risk subawardee range.

- *Federal Entity Status and Single Audit Exemption:* KUCR's Subrecipient Risk Assessment Matrix captures whether an institution conduct a Single Audit, or alternative annual independent / financial audit. In response to this question, Haskell provided a letter issued by the US Department of the Interior Bureau of Indian Affairs dictating that Haskell was a) not subject to Single Audit (previously A-133 Audit) requirements and b) Haskell University "is therefore a Federal program and not subject to OMB Circular A-133." Further, these letters describe the requirements imposed on Haskell as a federal entity to "develop and reconcile appropriate budgets.... On approved Financial Program Plans." These letters also describe a series of financial controls in place, including the financial information to be provided by Haskell to be included in the annual audit of the Bureau of Indian Affairs (a federal entity).
- *Longstanding Partnership:* Uniform Guidance Section §200.332(b)(1) indicates that a primary consideration in evaluating a subrecipient's risk of noncompliance is "the subrecipient's prior experience with the same or similar subawards." KUCR and Haskell have a long-standing relationship and partnership across a variety of sponsored programs, not limited to NSF EPSCoR awards. Based on this extensive and successful partnership, KUCR had confidence that Haskell would use the EPSCoR funds for authorized purposes and that subaward performance goals are achieved. The Uniform Guidance mandates subrecipient monitoring to ensure these requirements are achieved, and as KUCR had confidence in Haskell's ability and reliability to meet these objectives, escalated risk assessment and monitoring activities were not identified as necessary.

KUCR's established subrecipient monitoring activities for a low-risk auditee include reviewing and approving subaward invoices to confirm alignment with satisfactory technical progress and that invoice costs are in line with the approved budget, cost categories and terms and conditions defined in the subaward agreement. KUCR's subrecipient monitoring policies and procedures do not require low risk subrecipient entities receive escalated monitoring, such as requiring supporting documentation with invoices. KUCR's application of these low-risk monitoring activities did not suggest that added scrutiny was required or that Haskell warranted a more-than-normal risk assessment.

This audit has identified opportunities for KUCR to better partner with Haskell, as a federal entity, to ensure proper accountability and compliance with program requirements and achievement of performance goals. However, KUCR believe that its defined subrecipient monitoring policies and procedures, including the risk assessment process, achieve the objectives stated in the Uniform Guidance to ensure that subawards are used for authorized purposes, in compliance with Federal





statutes, regulations, and the terms and conditions of the subaward and that subaward performance goals are achieved.

Unsupported Subaward Material and Supplies and Travel

KUCR agrees to remove these costs (\$2,322) from the cost share reported to NSF and will work with Haskell to ensure adequate supporting documentation for costs incurred on KUCR subawards.

Unsupported Subaward Expenses on Closed Award

As a federal entity, Haskell Indian Nations University consistently applies the 3-year federal retention period to applicable documentation. Once the retention period has passed, transactional documents are destroyed or moved to the National American Indian archives.

The NSF auditors requested documentation to support Haskell subaward charges on NSF award [REDACTED]. The federal regulations applicable to this subaward include OMB Circular A-110, Subpart A, Section 53(b) which states:

(b) Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by the Federal awarding agency.

Haskell's subaward on NSF award [REDACTED] ended as of 9/30/2014. KUCR and Haskell's application of these requirements to the Haskell subaward interpreted the date of the final expenditure report to be the date that Haskell submitted the final invoice (12/15/2014) and the award period to end when the Haskell subaward concluded (9/30/2014). As such, Haskell purged all records once the assumed retention date of 12/15/2017 had passed.

The NSF clarified the appropriate retention period for subrecipient via the NSF Term and Condition clarification [dated October 5, 2020](#), which included language regarding retention of subrecipient documentation:

Article 8.3. The grantee remains responsible for monitoring of the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations and the terms and conditions of the subaward as outlined in 2 CFR § 200.331. This includes ensuring necessary documentation for all subawards is maintained for the same retention period as the grantee's and making it available to NSF upon request. The grantee shall include subaward activities in the annual and final project reports that are submitted to NSF.

KUCR is working to implement a notification and tracking system to ensure subawardees are aware of and following retention requirements.





KUCR assessed Haskell University to be a low risk entity, and therefore did not require escalated monitoring, such as requiring supporting documentation with invoices to support EPSCoR charges. Therefore KUCR did not receive or retain copies of this documentation.

While supporting documentation is not available due to the interpretation of federal regulations, KUCR maintains that the work was performed and reported to NSF in accordance with the proposed scope of work for NSF award [REDACTED]. KUCR believes that these costs should be sustained as allowable direct costs on the award.

Finding 4: Unsupported Cost Share Expenses

Unsupported Subaward Participant Support and Unsupported Subaward Salary and Fringe

The questioned salary and fringe costs (\$17,417) represented a portion of salary and fringe for [REDACTED] the Haskell University PI, from May 13 - July 21, 2018. It was during this time that Haskell was preparing for and holding the Haskell Environmental Research Studies (HERS) Summer Institute (June 3 – July 29 in 2018).

As detailed in KUCR’s response to Finding 3, KUCR maintains that the salary, fringe and associated indirect charges incurred on KUCR’s EPSCoR award are reasonable for the services rendered. As required by the Uniform Guidance §200.430 (h) *Institutions of Higher Education (IHEs)*. (1)i. *Allowable activities*: charges to Federal awards may include reasonable amounts for activities contributing and directly related to work under an agreement. Based on KUCR’s policies for the approval of all subrecipient invoices by the KUCR PI to assure that costs are reasonable for the work performed, KUCR maintains that the salary charges claimed as cost share on the EPSCoR award are allowable and reasonable.

The questioned Participant Support costs (\$23,062) claimed as cost share on the EPSCoR award represent salary and fringe for Haskell’s Housing and Food Services staff, as these individuals provide associated services to students participating in the HERS summer internship program. Documentation was provided to indicate that this specific \$23,062 included compensation charges for the staff for the May 27 – June 9, 2018 Pay Period. The HERS Summer Institute (June 3 – July 29 in 2018) overlapped with one week out of this two-week pay period. As such, KUCR concedes that \$11,989 claimed as cost share should not be considered allocable to the HERS Summer Institute. KUCR also notes that additional costs were incurred by Haskell to support the HERS Summer Institute that were not formally reported as cost share via the invoicing process.

Unsupported Subaward Procurement Card Expenditures

KUCR has established subrecipient monitoring policies and practices in accordance with NSF and federal requirements (2 CFR §200.331), including a risk assessment to “evaluate each subrecipient’s risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.”





KUCR assessed Kansas State University (KSU) to be a low risk entity, and as such did not require supporting documentation to support submitted invoices. KSU's Business Procurement Card Manual (BPC) states that "Standard payment policies require retention of receipts and other documentation. As with any credit/charge card, you must retain sales slips, cash register receipts, invoices, order forms and receiving documents. All of these documents should be submitted to your department accountant with your monthly statement." With this documentation control in place at KSU, and the flow down of all applicable Uniform Guidance terms in the issued subaward, including 2 CFR §200.403 regarding the requirement of adequate documentation of expense allowability, the KUCR subrecipient monitoring process was appropriately applied and followed. KSU was unable to provide the requested documentation, and this fact will be included in future risk assessments for subaward issuance to the University.

KUCR agrees to remove these charges from the reported cost share and will work with NSF to determine how this may impact KUCR's cost share obligation.

Unsupported Subaward Expenditures on Closed Award

Please reference KUCR's response regarding records retention in Finding 3, as this position applies to Finding 4 as well.

Finding 5: Unallowable Expenses

Unnecessary and Unreasonable Expenses

KUCR agrees to remove \$4,186 in charges from the EPSCoR awards and to ensure that staff is aware of the Uniform Guidance cost principles regarding allowability and reasonableness.

Unallowable Alcohol-Related Expenses

KUCR agrees to remove \$642 in charges from the EPSCoR awards and to ensure that staff is aware of the Uniform Guidance allowability requirements.

Unallowable Promotional Expense Charged to Subaward

Uniform Guidance §200.421 *Advertising and public relations* (d)(2) states "The only allowable public relations costs are: Costs of communicating with the public and press pertaining to specific activities or accomplishments which result from performance of the Federal award (these costs are considered necessary as part of the outreach effort for the Federal award)." The purchase of reusable tote bags with the EPSCoR-funded HERS summer internship program logo supported the promotion of the HERS program at conferences with the objective of recruiting future participants. KUCR believes the purchase of these tote bags is directly in line with this Uniform Guidance allowance.

Further, the NSF Proposal and Award Policies and Procedures Guide (PAPPG) Chapter X.3.a states "The funding of items identified in the NSF award budget constitutes NSF's authorization for the grantee to





incur these costs, provided there is not a specific limitation in the grant language and the costs are otherwise allowable, allocable, and reasonable in accordance with the cost principles contained in 2 CFR 200, Subpart E." Haskell's submitted budget justification Section G. Other Costs states, "The Co-PI requests \$5,080 per year for recruitment materials – a cumulative total of \$25,400 over the course of the project."

Based on these applicable regulations and NSF terms and conditions, KUCR maintains that the cost of the HERS program tote bags are an allowable expense.

Unallowable Indirect Costs Charged to Subaward

NSF's Proposal & Award Policies & Procedures Guide (PAPPG) Chapter II.C.2g(v) defines the participant support budget category as direct costs "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." The NSF definition does not identify supplies as participant support costs, the University follows the NSF definition closely and does not propose or consider supplies participant support in NSF-funded work. The submitted proposal budget and budget justification clearly noted that supplies were "Other Costs" budget category G., "Research materials and supplies at \$8,000 each year is requested from NSF for software, books, GPS units and other items required for fieldwork."

Further, the NSF's May / June Proposal & Award Policy Newsletter include the following FAQ related to Participant Support: *Q: Are costs such as room rental fees, catering, supplies, etc. related to an NSF-sponsored conference considered participant support costs? A: No, the participant support cost line in the NSF budget should not be used for such costs.* KUCR and Haskell classified the identified direct costs (backpacks and school supplies) to fit the definition of supplies, and this supplemental NSF guidance supports this determination.

Thank you,



Alicia M. Reed

Director, Research Administration





Appendix B: Objective, Scope, and Methodology

The objective of this performance audit was to determine if costs claimed by KUCR were allowable, allocable, reasonable, and in conformity with NSF award terms and conditions and applicable Federal requirements. To accomplish this objective, we examined costs claimed as well as mandatory cost share contributions on five EPSCoR awards made to KUCR through July 2, 2019. We judgmentally selected a sample of transactions based on amount and account description totaling \$368,038 to identify potential risk areas.³³

We obtained computer-processed information from KUCR and NSF during our audit. KUCR provided detailed transaction data for costs charged to NSF awards and reported to NSF as cost sharing. We assessed the reliability of the data provided by KUCR by (1) interviewing KUCR staff knowledgeable about the data, (2) reviewing information about the data and the system that produced them, and (3) performing reconciliations and testing of various data elements. We obtained NSF data by directly accessing NSF's various data systems. We corroborated the NSF data with other sources and determined that the data were sufficiently reliable for the purposes of this report.

In assessing the allowability of costs claimed by KUCR, we also gained an understanding of the internal control structure applicable to the scope of this audit and assessed all five components of internal control through interviewing KUCR staff, reviewing policies and procedures, reviewing cost share and general ledger transactions and accounting system documentation, and conducting transaction testing. We also assessed KUCR's compliance with the following:

- Office of Management and Budget Circular A-21, *Cost Principles for Educational Institutions*
- Office of Management and Budget Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-profit Organizations* (2 CFR, Part 215)
- Office of Management and Budget, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (2 CFR, Part 200)
- *National Science Foundation Proposal and Award Policies and Procedures Guide* (NSF 11-1, NSF 09-1)
- *NSF Cooperative Agreement Financial & Administrative Terms and Conditions*, effective January 4, 2010

We conducted this performance audit between July 2019 and July 2020 in accordance with *Generally Accepted Government Auditing Standards*. 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.

³³ Because neither KUCR nor Haskell was able to identify any Haskell transactions on the closed Track-1 award for which it could provide supporting documentation, we questioned all \$788,488 of Haskell transactions charged to that award. Additionally, we identified and questioned indirect costs withheld from subrecipients that were not part of our transaction testing.



We held an exit conference with KUCR management on October 6, 2020.

Elizabeth Kearns, Director, Audit Execution; Kelly Stefanko, Audit Manager; Jeanette Hyatt, Senior Auditor; Ken Lish, Director, Contract Grant Audits; Emma Bright, Senior Data Analyst; Brittany Moon, Project Manager; Jennifer Miller, Director, Compliance Analytics; Dan Buchtel, Deputy Assistant Inspector General for Audits; Elizabeth Argeris Lewis, Executive Officer and Communications Analyst; and Darrell Drake, Independent Report Referencer, made key contributions to this report.



Appendix C: Summary of Questioned Costs by Finding

Finding	Reference	Description	Questioned Costs		Total
			Unsupported	Unallowable	
1	See Table 1	Indirect Costs Claimed from Subrecipients	\$0	\$625,532	\$625,532
2	See Table 2	Unallowable Indirect Cost	\$0	\$15,854	\$15,854
3	See Table 3	Unsupported Expenses	\$569,477	\$0	\$569,477
4	See Table 4	Unsupported Cost Share Expenses	\$328,494	\$0	\$328,494
5	See Table 5	Unallowable Expenses	\$0	\$10,697	\$10,697
Total			\$897,971	\$652,083	\$1,550,054

Source: Auditor summary of questioned transactions.



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