

Performance Audit of the Implementation of OMB COVID-19 Flexibilities – University of Wisconsin - Madison

REPORT PREPARED BY COTTON & COMPANY LLP

NATIONAL SCIENCE FOUNDATION
OFFICE OF INSPECTOR GENERAL

May 25, 2021
OIG 21-1-013





AT A GLANCE

Performance Audit of the Implementation of OMB COVID-19 Flexibilities – University of Wisconsin – Madison

Report No. OIG 21-1-013

May 25, 2021

AUDIT OBJECTIVE

The National Science Foundation Office of Inspector General engaged Cotton & Company LLP (C&C) to conduct a performance audit of the implementation of Office of Management and Budget (OMB) Coronavirus Disease 2019 (COVID-19) flexibilities at the University of Wisconsin – Madison (UW-Madison) for the period March 1 to September 30, 2020. The auditors tested approximately \$188,000 of the more than \$55 million of costs claimed to NSF. The objective of the audit was to determine if UW-Madison used the administrative COVID-19 flexibilities authorized by OMB and, if so, whether UW-Madison complied with the associated guidelines. A full description of the audit's objective, scope, and methodology is attached to the report as Appendix E.

AUDIT RESULTS

The report highlights that there were no exceptions identified with UW-Madison's use of the administrative flexibilities granted through NSF's implementation of OMB Memoranda M-20-17, M-20-20, and M-20-26, as detailed in Appendix A. Although the auditors did not identify any exceptions related to UW-Madison's use of the COVID-19 flexibilities, they identified concerns about UW-Madison's compliance with certain Federal and NSF regulations, NSF award terms and conditions, and organizational policies not related to the COVID-19 flexibilities. The auditors questioned \$48,998 of costs claimed by UW-Madison during the audit period. Specifically, the auditors identified \$47,405 in inappropriate drawdowns associated with expiring appropriations and \$1,593 in credits not appropriately returned. The auditors also identified two compliance-related findings for which there were no questioned costs: UW-Madison's incorrect application of proposed indirect cost rates and indirect costs not appropriately applied to Research Experiences for Undergraduates awards. C&C is responsible for the attached report and the conclusions expressed in this report. NSF OIG does not express any opinion on the conclusions presented in C&C's audit report.

RECOMMENDATIONS

The auditors included four findings in the report with associated recommendations for NSF to resolve the questioned costs and to ensure UW-Madison strengthens administrative and management controls.

AUDITEE RESPONSE

UW-Madison partially agreed with two findings, disagreed with one finding, and agreed with one finding in the report. UW-Madison's response is attached in its entirety to the report as Appendix D.

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



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

MEMORANDUM

DATE: May 25, 2021

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. 21-1-013, University of Wisconsin - Madison

This memorandum transmits the Cotton & Company LLP (C&C) report for the audit of the implementation of Office of Management and Budget (OMB) Coronavirus Disease 2019 (COVID-19) flexibilities at the University of Wisconsin – Madison (UW-Madison) for the period March 1 to September 30, 2020. The audit encompassed approximately \$188,000 of the more than \$55 million claimed to NSF during the period. The objective of the audit was to determine whether UW-Madison used the administrative COVID-19 flexibilities authorized by OMB and, if so, whether UW-Madison complied with the associated guidelines. A full description of the audit's objective, scope, and methodology is attached to the report as Appendix E.

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 Keith Nackerud at 703.292.7100 or OIGpublicaffairs@nsf.gov.

Attachment

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**PERFORMANCE AUDIT OF THE
UNIVERSITY OF WISCONSIN – MADISON’S
IMPLEMENTATION OF THE
OFFICE OF MANAGEMENT AND BUDGET
CORONAVIRUS DISEASE 2019 FLEXIBILITIES**

**NATIONAL SCIENCE FOUNDATION
OFFICE OF INSPECTOR GENERAL**

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**NATIONAL SCIENCE FOUNDATION
PERFORMANCE AUDIT OF THE UNIVERSITY OF WISCONSIN – MADISON’S
IMPLEMENTATION OF THE OFFICE OF MANAGEMENT AND BUDGET
CORONAVIRUS DISEASE 2019 FLEXIBILITIES**

I. BACKGROUND

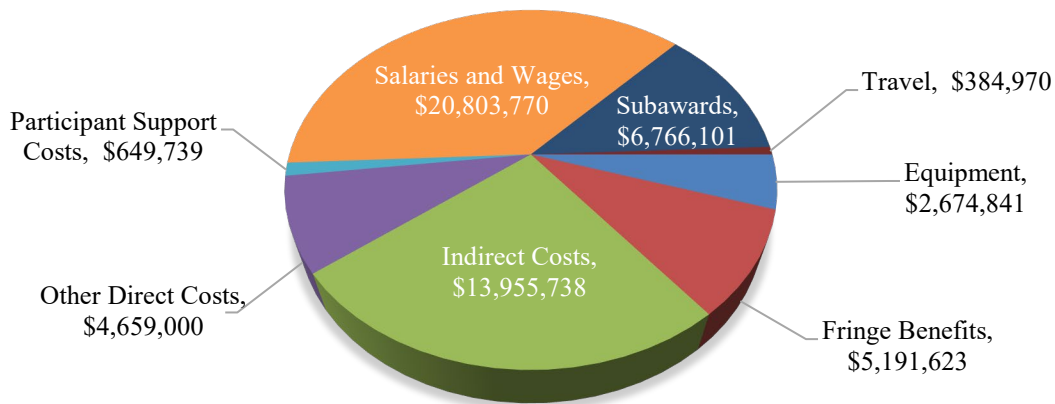
The National Science Foundation is an independent Federal agency created by Congress in 1950 “[t]o promote the progress of science; to advance the national health, prosperity, and welfare; to secure the national defense; and for other purposes” (Pub. L. No. 81-507).

In response to the Coronavirus Disease 2019 (COVID-19) pandemic, the Office of Management and Budget (OMB) issued memoranda that provided temporary administrative flexibilities for Federal financial assistance awards. Subsequently, NSF published a variety of additional guidance for NSF awardees regarding how to implement these flexibilities, as outlined in the Objectives, Scope, and Methodology section of this report (**Appendix E**).

Recognizing the need to ensure NSF award recipients properly implemented these flexibilities, the NSF Office of Inspector General engaged Cotton & Company LLP (referred to as “we”) to conduct a limited-scope performance audit to determine whether the University of Wisconsin – Madison (UW-Madison) implemented the administrative COVID-19 flexibilities and, if so, whether it complied with the associated guidelines.

In performing this audit, we gathered and reviewed general ledger (GL) detail that supported more than \$55 million in expenses that UW-Madison claimed on 581 NSF awards during our audit period of performance of March 1 to September 30, 2020, as illustrated in Figure 1.

Figure 1. Costs Claimed by NSF Budget Category, March 1 through September 30, 2020¹



Source: Auditor analysis of accounting data provided by UW-Madison.

¹ The total award-related expenses reported in UW-Madison’s GL exceeded the \$54,849,201 reported in NSF’s Award Cash Management Service (ACMS); however, because the GL data materially reconciled to NSF’s ACMS records, with the exception of the four NSF awards identified in Findings 1 and 2, we determined that the GL data was appropriate for the purposes of this engagement.

This performance audit, conducted under Order No. 140D0420F0655, was designed to meet the objectives identified in the Objectives, Scope, and Methodology section of this report (**Appendix E**) and was conducted in accordance with *Generally Accepted Government Auditing Standards* (GAGAS), 2018 Revision, issued by the Comptroller General of the United States. We communicated the results of our audit and the related findings and recommendations to UW-Madison and NSF OIG. We included UW-Madison's response to this report in its entirety in **Appendix D**.

II. AUDIT RESULTS

We did not identify any exceptions with regard to UW-Madison's use of the administrative flexibilities granted through NSF's implementation of OMB Memoranda M-20-17, M-20-20, and M-20-26 (referred to as "COVID-19 flexibilities"), as detailed in **Appendix A**. Within the limited scope of our testing, we were able to gain an understanding of UW-Madison's implementation of the flexibilities and did not identify any instances in which UW-Madison did not comply with the associated guidelines, as summarized below.

We gained an understanding of how UW-Madison implemented these flexibilities, including how the implementation process fit within UW-Madison's overall grant management environment, by conducting a series of interviews with UW-Madison staff. Specifically, we determined that UW-Madison charged NSF awards for at least \$22,300 in COVID-related expenses during the audit's period of performance, which UW-Madison tracked using COVID-specific account codes. However, UW-Madison noted that it was in the process of removing most of these expenses from the NSF awards because it had received funding under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Based on this understanding and UW-Madison's responses to the OMB flexibilities survey included in **Appendix B**, we tailored our data analytics sampling approach to select 37 transactions that UW-Madison incurred in accordance with the COVID-19 flexibilities, or that we identified as high risk for other related reasons, and that UW-Madison did not refund to NSF upon receiving the CARES Act funding.²

We tested the 37 transactions sampled, which represented \$187,969³ in costs that UW-Madison charged to NSF awards during the audit period, and identified two examples in which UW-Madison used the flexibilities that OMB granted and NSF implemented, as follows:

- UW-Madison donated approximately \$500 in materials and supplies purchased under six NSF awards to the UW-Madison Campus Emergency Operations Center and the UW Hospital.
- UW-Madison removed a travel expense it charged NSF Award No. [REDACTED] after receiving a travel credit for the cancelled airfare; however, it did not remove the \$32 booking fee associated with the cancelled airfare.

² UW-Madison provided GL detail to support that, as of November 15, 2020, it had processed credits to refund NSF awards for \$12,973 in COVID-related expenses claimed during our audit period.

³ The \$187,969 represents the total value of the 37 transactions selected for transaction-based testing. It does not represent the dollar base of the total costs reviewed during the audit.

While these expenses are not typically allowable on NSF awards, because these costs relate to donated medical equipment and to the cancellation of events and other activities necessary and reasonable for the performance of these awards, consistent with flexibilities granted by OMB Memorandums M-20-20⁴ and M-20-17,⁵ we noted no exception with UW-Madison's use of these flexibilities.

Although we did not identify any exceptions related to UW-Madison's implementation of the COVID-19 flexibilities, we determined that UW-Madison needs improved oversight of expenses charged to NSF awards to ensure costs not related to the COVID-19 flexibilities are reasonable, allocable, and allowable in accordance with all relevant Federal regulations and NSF award terms and conditions. Specifically, we identified and questioned \$48,998 in costs that UW-Madison inappropriately claimed during the audit period, including:

- \$47,405 in inappropriate drawdowns associated with expiring appropriations.
- \$1,593 in credits not appropriately returned.

We also identified two compliance-related findings, for which we did not question any costs:

- Incorrect application of proposed indirect cost rates.
- Indirect costs not appropriately applied to Research Experiences for Undergraduates awards.

We discuss the four findings in the *Audit Findings* section below.

III. AUDIT FINDINGS

We provide a breakdown of the questioned costs by finding in **Appendix C** of this report.

Finding 1: Inappropriate Drawdowns Associated with Expiring Appropriations

UW-Madison calculated its final funding requests for two NSF awards based on either the amount of funding remaining on the award (NSF Award No. [REDACTED]) or the anticipated final award expenses (NSF Award No. [REDACTED]) rather than limiting the advance payment requests to

⁴ OMB Memorandum M-20-20 states that agencies may allow recipients to donate medical equipment (including, but not limited to, personal protective equipment, medical devices, medicines and other medical supplies) purchased with Federal assistance funds to hospitals, medical centers, and other local entities serving the public for COVID-19 response.

⁵ OMB Memorandum M-20-17, Flexibility 7. *Allowability of Costs not Normally Chargeable to Awards* states that recipients who incur costs related to the cancellation of events, travel, or other activities that are necessary and reasonable for the performance of the award, or the pausing and restarting of grant-funded activities, due to the public health emergency are authorized to charge these costs to their award without regard to 2 Code of Federal Regulations (CFR) § 200.403, *Factors affecting allowability of costs*; 2 CFR § 200.404, *Reasonable costs*; and 2 CFR § 200.405, *Allocable costs*.

the minimum amounts needed, as required by Federal regulations⁶ and the NSF Proposal and Award Policies and Procedures Guide (PAPPG).⁷ Further, UW-Madison appears to have used a portion of the advanced funding to cover expenses incurred after the appropriations expired,⁸ as follows:

- On September 8, 2020, 22 days before NSF Award No. [REDACTED]'s period of performance and funding appropriation expired, UW-Madison drew down \$45,400 in funding remaining on the award to cover costs that it might incur before the award's funding appropriation expired on September 30, 2020, as it would be unable to draw down additional funding after September 23, 2020.⁹ UW-Madison's GL supports that it used this funding to cover \$14,214 in expenses on or before the appropriation's expiration date. Of the remaining \$31,186 its GL did not support \$20,431 of expenses and \$10,755 was for costs posted after the appropriation expired.
 - *UW-Madison agreed to reimburse NSF for the \$20,431 in unsupported expenses.*¹⁰
- On September 18, 2020, 12 days before NSF Award No. [REDACTED]'s period of performance and funding appropriation expired, UW-Madison drew down \$22,245 in funding to cover costs that it might incur before the award's funding appropriation expired on September 30, 2020, as it would be unable to draw down additional funding after September 23, 2020.¹¹ UW-Madison's GL supports that it used this funding to cover \$6,026 in expenses on or before the appropriation's expiration date; however, UW-Madison used the remaining \$16,219 to cover costs that were not included in the GL data UW-Madison provided to support the costs it claimed on this award during the audit period.

UW-Madison's current procedures for drawing down funding from ACM\$ for expiring appropriations caused it to inappropriately claim costs before it had immediate cash needs and to use NSF funding to cover expenses not included in the GL data provided to support costs

⁶ According to 2 Code of Federal Regulations (CFR) § 215.22(b)(2) and 2 CFR § 200.305(b)(1), cash advances to a recipient organization must be limited to the minimum amounts needed and must be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. Further, these policies note that the timing and amount of cash advances must be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs.

⁷ NSF PAPPG 15-1, Part II, Chapter III, Section C.2.a., states that advances to a grantee must be limited to the minimum amount needed and must be timed to be in accordance with the actual, immediate cash requirements of the grantee in carrying out the purpose of the approved program or project. Further, it notes that the timing and amount of cash advances must be as close as is administratively feasible to actual disbursements for direct program costs and the proportionate share of any allowable indirect costs.

⁸ According to 2 CFR § 215.25(f) and 2 CFR § 200.308(e), a Federal awarding agency cannot permit a transfer that would cause any Federal appropriation to be used for purposes other than those consistent with the appropriation.

⁹ NSF notified awardees that September 23, 2020, was the last day it would be able to draw down funds on NSF awards with funding appropriations that expired on September 30, 2020.

¹⁰ UW-Madison stated that it will return the \$20,431 after performing final adjustments and closeout procedures for the award.

¹¹ NSF notified awardees that September 23, 2020, was the last day it would be able to draw down funds on NSF awards with funding appropriations that expired on September 30, 2020.

claimed during the audit period or that appeared to be incurred after the award's appropriation expired. As a result, we are questioning \$47,405 in funding drawn down on two NSF awards. UW-Madison concurred with \$20,431 of the questioned costs but disagreed with the remaining \$26,974, as illustrated in Table 1.

Table 1. Inappropriate Drawdowns Associated with Expiring Appropriations

Description	NSF Award No.	Fiscal Year	Questioned Costs			
			Direct	Indirect	Total	UW-Madison Agreed to Reimburse
Inappropriate Drawdowns Associated with Expiring Appropriations	██████	2021	\$31,186	\$0	\$31,186	\$20,431
	██████	2021	<u>16,219</u>	<u>0</u>	<u>16,219</u>	<u>0</u>
Total			<u>\$47,405</u>	<u>\$0</u>	<u>\$47,405</u>	<u>\$20,431</u>

Source: Auditor summary of identified exceptions.

Recommendations

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

1. Resolve the \$26,974 in questioned Award Cash Management Service drawdowns for which UW-Madison has not agreed to reimburse NSF and direct UW-Madison to repay or otherwise remove the sustained questioned drawdowns from its NSF awards.
2. Direct UW-Madison to provide documentation supporting that it has repaid or otherwise credited the \$20,431 of questioned Award Cash Management Service drawdowns for which it has agreed to reimburse NSF.
3. Direct UW-Madison to update its administrative and management processes and internal control procedures surrounding the Award Cash Management Service procedures for awards with expiring appropriations. Updated processes could include validating that UW-Madison adequately documents that any Award Cash Management Service draws in excess of its actual expenses support immediate cash needs.
4. Direct UW-Madison to strengthen its award set-up processes and procedures to ensure it cannot charge costs to an active award if the Federal appropriations for the award have expired.

University of Wisconsin – Madison Response: Although UW-Madison agreed to reimburse NSF for \$20,431 in unspent ACM\$ drawdowns on NSF Award No. ██████ and to reiterate proper closeout procedures to its personnel, it disagreed with this finding. Specifically, UW-Madison stated that its understanding of the NSF Cash Management Frequently Asked Questions (FAQ) page is that institutions must act in a timely manner to not lose access to funds on awards with expiring appropriations. In particular, UW-Madison believes that the FAQs state that requests for advance payments are appropriate if the grantee has incurred known expenditures

prior to the cancellation date. Further, in response to the specific costs questioned for each award, UW-Madison noted the following:

- With regard to the \$31,186 in questioned drawdowns for NSF Award No. [REDACTED] UW-Madison noted that it has already returned the \$20,431 to NSF and that it believes the remaining \$10,755 should be allowable, as it is able to support that the posted expenditures are allowable, reasonable, and allocable and that it incurred the expenditures within the appropriate timeframe.
- With regard to the \$16,219 in questioned drawdowns for NSF Award No. [REDACTED] UW-Madison believes the questioned costs should be allowable because, based on the results of an April 2021 reconciliation of award expenditures, it processed adjustments within its GL that caused the total expenditures on the award to equal the total funding it drew down in ACM\$ for this award.

Auditors' Additional Comments: Our position regarding this finding has not changed. Although UW-Madison's response supports that the timing of its advance payment requests may have been appropriate, because it did not provide documentation to support that the amounts it drew down were limited to the minimum amounts needed based on anticipated cash requirements, it did not support that it appropriately drew down the funds in ACM\$. Further, we determined that UW-Madison did not provide sufficient documentation to support that the specific costs questioned for each NSF award were allowable, as follows:

- Although UW-Madison believes that \$10,755 of the amount questioned for NSF Award No. [REDACTED] should be allowable, because UW-Madison's GL data indicated that it incurred these expenses after the award's funding appropriation expired on September 30, 2020, for "Unclassified October" salary and fringe with a payment end date of October 15, 2020, and "Research Subject" payments posted in November 2020 and associated indirect costs, our position regarding this finding does not change.
- Although UW-Madison believes the \$16,219 questioned for NSF Award No. [REDACTED] should be allowable, because the expenses associated with the adjustments were not included in our audit population and because we were unable to verify that the costs included in the adjustment spreadsheet UW-Madison provided were allowable, our position regarding this finding does not change.

Finding 2: Credits Not Appropriately Returned

UW-Madison did not appropriately apply credits to two NSF awards as required by Federal regulations¹² and the NSF PAPPs.¹³ Specifically:

¹² According to 2 CFR § 200.406(a), entities must apply applicable credits to the Federal award either as a cost reduction or a cash refund, as appropriate, to the extent that the non-Federal entity accrues or receives the credits.

¹³ NSF PAPPs 18-1 and 19-1, Part II, Chapter VIII, Section D.5 state that grantees must credit applicable purchase discounts, rebates, allowances, and other credits against NSF award expenditures if the grantee has not yet financially closed out the grant.

- In June 2020, an administrative error caused UW-Madison to inappropriately apply a \$1,078 credit to NSF Award No. [REDACTED]. Because UW-Madison had only recorded \$522 in expenses on this award prior to June 2020, it determined that this credit was not appropriately applied to this award. Accordingly, UW-Madison did not include the award's net \$1,031 credit in June 2020 expenses¹⁴ when calculating its ACM\$ draw. Although UW-Madison processed a journal entry to move the \$1,078 expense associated with the credit, because it continued to calculate its monthly ACM\$ draw amounts without including the net \$1,031 credit in June 2020 expenses, the credit was not appropriately returned to NSF.
 - *UW-Madison agreed to reimburse NSF for these expenses.*
- In June 2020, \$562¹⁵ in credits were posted to NSF Award No. [REDACTED] that were not returned to NSF until after our audit began.
 - *UW-Madison agreed to reimburse NSF for these expenses.*

UW-Madison did not have sufficient controls in place to ensure that it appropriately considered credits when processing ACM\$ draws. As a result, we are questioning \$1,593 in expenses that UW-Madison had not appropriately returned to NSF as of September 30, 2020. UW-Madison concurred with the full \$1,593 in questioned costs, as illustrated in Table 2.

Table 2. Credits Not Appropriately Returned

Description	NSF Award No.	Fiscal Year	Questioned Costs			
			Direct	Indirect	Total	UW-Madison Agreed to Reimburse
Credits Not Appropriately Returned		2021	\$1,031	\$0	\$1,031	\$1,031
		2021	<u>562</u>	<u>0</u>	<u>562</u>	<u>562</u>
Total			<u>\$1,593</u>	<u>\$0</u>	<u>\$1,593</u>	<u>\$1,593</u>

Source: Auditor summary of identified exceptions.

Recommendations

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

1. Direct UW-Madison to provide documentation supporting that it has repaid or otherwise credited the \$1,593 in questioned costs for which it has agreed to reimburse NSF.
2. Direct UW-Madison to update its administrative and management processes and internal control procedures surrounding the Award Cash Management Service system to ensure

¹⁴ UW-Madison posted \$47 in expenses and a \$1,078 credit to the NSF award in its GL in June 2020. (\$47 - \$1,078 = \$1,031)

¹⁵ Although UW-Madison's GL supports that it posted \$566 in credits on June 26, 2020, because UW-Madison only claimed \$562 for the original expenses that it removed from the award, we are only questioning \$562.

that UW-Madison appropriately incorporates credits when calculating the total amount to draw down from, or return to, NSF.

University of Wisconsin – Madison Response: Although UW-Madison agreed to reimburse NSF for the questioned costs and to reiterate proper closeout procedures to its personnel, it only partially agreed with this finding. Specifically:

- With regard to the \$1,031 in questioned costs for NSF Award No. [REDACTED] UW-Madison stated that it factored the credit that caused the error into its March 3, 2021 ACMS\$ draw. UW-Madison further noted that it was aware of the credit at the time of the initial draw and that the delay in processing the credit was the result of a miscommunication.
- With regard to the \$562 in questioned costs for NSF Award No. [REDACTED] UW-Madison stated that because it had returned the \$562 to NSF on October 21, 2020, after a UW-Madison accountant performed their final review of the award, the auditors should not have questioned these costs in the audit report. Specifically, UW-Madison stated that because it repaid the costs before the reporting phase of the audit, the auditors should not have included this exception in the finding.

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

- With regard to the \$1,031 in questioned costs for NSF Award No. [REDACTED] because UW-Madison agreed with our finding, our position has not changed.
- With regard to the \$562 in questioned costs for NSF Award No. [REDACTED] although UW-Madison believes that we should not have included this exception in the audit report, because UW-Madison posted the \$562 in credits on June 26, 2020, 4 days before the grant period expired, but did not return the credits until October 21, 2020, after we had initiated our audit, our position regarding this finding has not changed.

Finding 3: Incorrect Application of Proposed Indirect Cost Rates

UW-Madison applied incorrect indirect cost rates to direct expenses accumulated on four NSF awards. For each of these awards, UW-Madison applied the Negotiated Indirect Cost Rate Agreement (NICRA) rate that was in effect at the time it submitted the award proposal, rather than the rate included in the NICRA that was in effect as of the date of award, as required by

applicable Federal regulations¹⁶ and NSF PAPPGs.¹⁷ As a result, UW-Madison applied indirect costs at rates that were lower than the NICRA rates it should have applied.

When UW-Madison receives an NSF grant, it establishes accounts to apply indirect costs at the rate(s) included in the approved proposal budget, rather than at the appropriate NICRA rate(s). As a result, UW-Madison applied inappropriate indirect cost rates to direct expenses accumulated on four NSF awards, as illustrated in Table 3.

Table 3. Incorrect Application of Proposed Indirect Cost Rates

NSF Award No.	Award Date	Applied Rate	Appropriate Rate
	8/22/2017	53%	55%
	9/18/2018	53%	55%
	7/20/2018	53%	55%
	7/9/2020	44% ¹⁸	55%

Source: Auditor summary of identified exceptions.

Because UW-Madison did not overcharge NSF for indirect costs during the audit period, we did not question any costs associated with this finding. However, we did note a compliance finding, as UW-Madison's current methodology does not comply with Federal regulations and could cause UW-Madison to overcharge NSF for indirect costs if UW-Madison's NICRA-approved indirect cost rates were to decrease in future periods.

Recommendation

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

1. Direct UW-Madison to update its current award set-up practices to require that, when setting up accounts established for NSF awards, personnel ensure that the accounts apply indirect costs using the rates that were established in the Negotiated Indirect Cost Rate Agreement in effect as of the date of the NSF grant award, rather than using the rates included within the original grant proposal.

University of Wisconsin – Madison Response: UW-Madison disagreed with the finding, stating that it believes it appropriately applied indirect cost rates consistent with longstanding university practice, practices at its peer institutions, Federal regulations, and NSF guidance. Specifically, UW-Madison noted that, for more than a decade, it has provided its campus

¹⁶ According to 2 CFR Part 200, Appendix III, Section C.7, when identifying and computing indirect costs at Institutions of Higher Education, Federal agencies must use the negotiated rates in effect at the time of the initial award throughout the life of the award.

¹⁷ In addition to stating that Institutions of Higher Education must use the negotiated rates in effect at the time of the initial award throughout the life of the award, NSF PAPPGs 17-1, 18-1, and 20-1, Part I, Chapter II, Section C.2.g.(viii) state that the use of an indirect cost rate lower than the organization's current negotiated indirect cost rate is considered a violation of NSF's cost-sharing policy.

¹⁸ This rate does not represent an approved indirect cost rate per UW-Madison's NICRA; [REDACTED] University [REDACTED] proposed the rate while the Principal Investigator was still employed at [REDACTED], and the rate was included in the budget when the award transferred to UW-Madison.

community with guidance stating that it does not want personnel to apply rates in a manner that would reduce the amount of direct costs available to perform research, and it therefore allows researchers to use the rates they included in project proposals that were still pending when UW-Madison receives a new rate agreement. Further, UW-Madison identified multiple instances in which it believes the guidance supports its practices, including:

- NSF PAPPG Part I, Chapter II, Section C.2.g.(viii): UW-Madison emphasized that this guidance applies to the rates included in NSF proposals and that it was therefore appropriate to use the negotiated indirect cost rate in effect at the time the PI submitted the proposal.
- 2 CFR Part 200, Appendix III, Section C.7: UW-Madison noted that, although this guidance directs Federal agencies to use the negotiated rates in effect at the time of the award, because NSF issues award letters containing the indirect cost rates grantees included in their proposals, UW-Madison believes it was appropriate to set up the project using the proposed rate.
- A 2017 e-mail from the NSF Policy Office to the University [REDACTED]: UW-Madison believes this guidance indicates that using the current negotiated indirect cost rate agreement when computing indirect costs as part of proposal submission is in compliance with NSF's cost-sharing policy.
- Frequently Asked Question (FAQ) Responses for NSF PAPPG 20-1: UW-Madison noted that this guidance states that once NSF has made an award, it does not monitor for undercharged indirect costs and that these undercharged costs would be considered voluntary uncommitted cost-sharing. UW-Madison therefore believes it is in compliance with NSF's cost-sharing policy.
- NSF PAPPG Part I, Chapter II, Section C.2.g.(xii): UW-Madison noted that this guidance states that NSF may not audit voluntary uncommitted cost-sharing on NSF-sponsored projects, and that this cost-sharing should not be included within the proposal. UW-Madison therefore believes it is an acceptable practice to voluntarily forgo full indirect cost recovery.
- OMB's FAQs on 2 CFR 200: UW-Madison stated that this guidance highlights that Federal awarding agencies may allow non-Federal agencies to voluntarily charge less than the full indirect cost rate. UW-Madison therefore believes it is an acceptable practice to voluntarily forgo full indirect cost recovery.

Auditors' Additional Comments: Our position regarding this finding has not changed. Specifically, although UW-Madison followed a longstanding methodology in its assessment of indirect costs and this methodology may be consistent with that used at other audited institutions, this does not support that the methodology is allowable. Further, we do not believe the guidance UW-Madison cited supports that its practice complies with Federal regulations and NSF PAPPGs. Specifically:

- With regard to UW-Madison’s reference to NSF PAPPG Part I, Chapter II, Section C.2.g.(viii), although the citation quoted may be specific to NSF proposals, NSF PAPPGs¹⁹ specifically state that the “use of an indirect cost rate lower than the organization’s current negotiated indirect cost rate is considered a violation of NSF’s cost sharing policy.”
- With regard to UW-Madison’s reference to 2 CFR Part 200, Appendix III, Section C.7, although the award letters may contain the indirect cost rates reflected in the proposals, it is the grantee’s responsibility to ensure compliance with Federal and NSF policies. We therefore maintain that UW-Madison was responsible for ensuring compliance with Federal and NSF policies, which require it to use the negotiated rates in effect at the time of the initial award throughout the life of the award.
- With regard to UW-Madison’s reference to the 2017 e-mail from the NSF Policy Office, because e-mails do not represent authoritative guidance, we maintain that grantees must use the negotiated rates in effect at the time of the initial award throughout the life of the award.
- With regard to UW-Madison’s reference to the FAQ on PAPPG 20-1, because FAQs do not represent authoritative guidance, we maintain that grantees must use the negotiated rates in effect at the time of the initial award throughout the life of the award.
- With regard to UW-Madison’s reference to NSF PAPPG Part I, Chapter II, Section C.2.g.(xii), although the guidance states that NSF may not audit voluntary uncommitted cost-sharing, because we identified this exception as part of our evaluation of whether UW-Madison appropriately applied indirect costs, we do not believe the cited guidance is applicable.
- With regard to UW-Madison’s reference to OMB’s FAQs on 2 CFR 200, because FAQs do not represent authoritative guidance, we maintain that grantees must use the negotiated rates in effect at the time of the initial award throughout the life of the award.

Additionally, because we did not identify any automated controls that would prevent UW-Madison from over-collecting indirect costs if the negotiated indirect cost rate decreased between the time a proposal was submitted and the date an award was made, UW-Madison’s current practice could cause it to overcharge NSF for indirect costs.

¹⁹ This language initially appeared in NSF PAPPG 17-1, Chapter II, Section C.2 (g) (viii) and is included in the same location in NSF PAPPGs 18-1, 19-1, and 20-1.

Finding 4: Indirect Costs Not Appropriately Applied to Research Experiences for Undergraduates Awards

UW-Madison's indirect cost mapping for its Research Experiences for Undergraduates (REU) projects does not appropriately apply indirect costs to non-participant support costs, as required by Federal regulations and UW-Madison's NICRA.²⁰ Specifically:

- In February 2020, UW-Madison charged NSF Award No. [REDACTED] for \$1,828 in costs incurred to provide lodging for the award's REU Director, a UW-Madison employee. UW-Madison appropriately used non-participant support cost funding to cover the employee's lodging expenses; however, it did not appropriately apply indirect costs to the non-participant costs.

UW-Madison did not select the appropriate indirect cost base when establishing the project account for this NSF REU award and therefore did not appropriately apply indirect costs to this account.

Recommendation

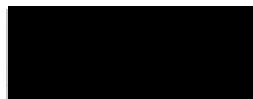
We recommend that NSF's Director of the Division of Institution and Award Support:

1. Direct UW-Madison to strengthen its Research Experience for Undergraduate award set-up procedures to ensure that personnel select the appropriate indirect cost base.

University of Wisconsin – Madison Response: UW-Madison agreed with this finding, specifically noting that it removed the option to apply indirect cost mapping on its REU projects.

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

COTTON & COMPANY LLP



Megan Mesko, CPA, CFE
Partner
May 18, 2021

²⁰ According to 2 CFR 200.68, Modified Total Direct Costs (MTDCs) include all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and subawards and subcontracts up to the first \$25,000 of each subaward or subcontract. Further, UW-Madison's NICRA dated April 27, 2015, states that MTDCs include travel costs.

**APPENDIX A: UNIVERSITY OF WISCONSIN – MADISON’S IMPLEMENTATION OF OMB AND
NSF’S COVID-19 FLEXIBILITIES**

UNIVERSITY OF WISCONSIN – MADISON’S IMPLEMENTATION OF OMB AND NSF’S COVID-19 FLEXIBILITIES

OMB Memo	Flexibility Granted	Flexibility Implemented per Awardee?	Exception(s) Identified with the Awardee’s Implementation of the Flexibilities?
M-20-17	1. Flexibility with SAM registration	No	Not Applicable. Because the University of Wisconsin – Madison’s (UW-Madison’s) System of Award Management (SAM) registration does not expire until January 5, 2022 (having been activated on January 5, 2021), UW-Madison did not need to use this flexibility. Additionally, UW-Madison stated that all of the entities to which it issued a subaward during this period maintained an active SAM registration.
	2. Flexibility with application deadlines	Yes	No Exceptions Noted. UW-Madison extended its proposal deadlines consistent with the extensions that NSF granted; however, it noted that it did not rescind or resubmit any grant proposals as a result of implementing this flexibility.
	3. Waiver for Notice of Funding Opportunities (NOFOs) publication	No	Not Applicable. This flexibility is not applicable to NSF awards.
	4. No-cost extensions on expiring awards	No	No Exceptions Noted. Although UW-Madison stated that it did not implement this flexibility, it noted that it had submitted an above-average number of no-cost extensions during the flexibility period. No-cost extensions requested during the flexibility period were subject to the same monitoring and approval policies and procedures that UW-Madison had in place prior to the pandemic. Moreover, UW-Madison noted that it implemented an additional reporting mechanism for no-cost extensions to enable it to collect qualitative data regarding the impact of COVID-19 on sponsored awards. Specifically, UW-Madison stated that, when personnel requested a no-cost extension, UW-Madison’s Office of Research Financial Services would review the COVID-19 impact reporting module to determine whether the Principal Investigator (PI) had submitted an entry regarding COVID-19’s impact on the sponsored project. If not, the Office of Research Financial Services would submit an entry noting that a no-cost extension was required on the award. UW-Madison noted that it used this mechanism as a repository for UW-Madison personnel to communicate with the central office regarding any impacts or necessary adjustments to the sponsored awards due to COVID-19. UW-Madison stated that the system contains more than 300 entries to date.
	5. Abbreviated non-competitive continuation requests	No	No Exceptions Noted. UW-Madison stated that it did not implement this flexibility. We did not identify any issues specific to continuation requests during our sample testing.
	6. Allowability of salaries and other project activities	Yes	No Exceptions Noted. Although UW-Madison stated that it implemented this flexibility, it noted that it did not change its procedures for administering research awards, and that it maintained its pre-pandemic practices and guidelines regarding the direct charging of salary expenses to NSF awards. However, UW-Madison did state that it implemented a new telecommuting and COVID-19 pandemic employee work location and leave policy that impacted effort during the audit period. Specifically, UW-Madison stated that this

OMB Memo	Flexibility Granted	Flexibility Implemented per Awardee?	Exception(s) Identified with the Awardee's Implementation of the Flexibilities?
			<p>policy, which applied to all employees except hourly student employees, required all employees who could work remotely to do so, and established an 80-hour COVID-19 “leave bank” for those employees who were unable to work remotely. UW-Madison noted that this leave bank was also available for employees who needed to quarantine, isolate, and/or care for an immediate family member during March 2020. UW-Madison stated that it revised this policy on April 1, 2020, to allow employees to use the leave bank through May 1, 2020, and again on May 1, 2020, to change the policy’s title to <i>UWM COVID-19 Pandemic Leave Policy</i>. UW-Madison confirmed that as of May 16, 2020, the COVID-19 leave bank was no longer available, and that employees were required to use the April 1, 2020, Families First Coronavirus Response Act (FFCRA) program for any additional COVID-19-related leave needed.</p> <p>Accordingly, although UW-Madison did not directly charge any idle time to NSF awards, if an employee’s normal assignment was funded in whole or in part by an NSF award, the employee could have charged costs associated with up to 80 hours of COVID-19-related leave directly to NSF awards between March and May 2020. Because the methodology UW-Madison used to provide these benefits appears to be reasonable and consistent with the University of Wisconsin system’s <i>COVID-19 Pandemic Leave Policy</i>, and because our limited testing did not identify any instances in which salary expenses related to salary earned while an employee was unable to perform research under an NSF award, we did not note any exceptions with regard to UW-Madison’s implementation of this flexibility.</p>
	7. Allowability of costs not normally chargeable to awards	Yes	<p>No Exceptions Noted. UW-Madison stated that, because it was not sure how to implement this flexibility, it had reached out to research associations for assistance, including the Council on Governmental Relations (COGR), Association of American Universities, Association of Land Grant Universities, and others. In accordance with guidance from these organizations, UW-Madison reimbursed NSF awards for any credits it received for cancelled travel but allowed personnel to directly charge sponsored projects for costs associated with cancelled travel if the original costs were allowable and the cancellation was not the responsibility of those incurring the costs. Costs associated with cancelled travel are not normally chargeable to NSF awards. Further, UW-Madison noted that, prior to receiving CARES Act funding, it also used this flexibility to charge sponsored awards for expenses incurred to allow personnel to continue performing grant-related activities during the pandemic (for example, expenses related to personal protective equipment [PPE] and telecommuting equipment). However, UW-Madison further stated that, since receiving the CARES Act funding, it has been removing the costs charged to the “[ACCOUNT] - COVID” accounts that it created to track these expenditures and is instead using CARES Act funding to cover the expenses. Although our testing revealed a number</p>

OMB Memo	Flexibility Granted	Flexibility Implemented per Awardee?	Exception(s) Identified with the Awardee's Implementation of the Flexibilities?
			<p>of samples that were impacted by COVID, we only identified one instance in which UW-Madison used this flexibility. Specifically, UW-Madison allowed a \$32 booking fee associated with cancelled travel to remain on an NSF award. Additionally, prior to the issuance of Office of Management and Budget (OMB) Memorandum M-20-20, UW-Madison had donated approximately \$500 worth of gloves and PPE (i.e., stockroom supplies) that were either fully or partially funded by six NSF awards. Because UW-Madison implemented procedures to track the donations of these items, we are not noting an exception.</p> <p>Because UW-Madison's methodology for tracking costs associated with cancelled travel and COVID-19-related expenses that are not normally chargeable to NSF awards appears to be reasonable and to comply with OMB and NSF guidelines, we did not note any exceptions with regard to UW-Madison's implementation of this flexibility.</p>
	8. Prior approval requirement waivers	Yes	No Exceptions Noted. UW-Madison categorized itself as having implemented this attribute because it published NSF's guidance on its "Federal Agency Implementations of OMB Memos M-20-17, M-20-20, and M-20-26" website. However, UW-Madison noted that it did not update any of its processes related to obtaining prior approval in response to this flexibility, and therefore all expenses that required prior approval before UW-Madison implemented this flexibility would still require prior approval. Because UW-Madison did not make any changes to its requirements related to prior approvals, and because our limited testing did not reveal any instances in which UW-Madison waived its prior-approval requirements, we did not note any exceptions with regard to UW-Madison's implementation of this flexibility.
	9. Exemption of certain procurement requirements	No	Not Applicable. UW-Madison did not make any changes to its internal procurement requirements. However, it did allow materials and supplies (e.g., computers, printers) to be shipped directly to an employee's home, with appropriate approval from the Dean and Purchasing Services. It did not allow equipment to be shipped directly to employees' homes.
	10. Extension of financial, performance, and other reporting	Yes	No Exceptions Noted. UW-Madison categorized itself as having implemented this attribute because its personnel likely took advantage of the automatic postponement of deadlines for programmatic reports; however, it noted that the central office did not specifically track use of this flexibility.
	11. Extension of currently approved indirect cost rates	Yes	No Exceptions Noted. UW-Madison stated that it requested a one-year extension to the Negotiated Indirect Cost Rate Agreement (NICRA) from the cognizant agency, and that a revised agreement was implemented in September 2020. Because we confirmed that UW-Madison continued to use its provisional rate throughout the negotiation period, we did not note any exceptions with regard to UW-Madison's implementation of this flexibility.

OMB Memo	Flexibility Granted	Flexibility Implemented per Awardee?	Exception(s) Identified with the Awardee's Implementation of the Flexibilities?
	12. Extension of closeout	Yes	No Exceptions Noted. UW-Madison categorized itself as having implemented this attribute because its personnel likely took advantage of the automatic postponement of deadlines for programmatic reports; however, it noted that the central office did not specifically track use of this flexibility. Because UW-Madison stated that it did not implement any changes to its grant closeout process and because we did not note any exceptions related to the closeout of final reports or project outcome reports, we did not note any exceptions with regard to UW-Madison's implementation of this flexibility.
	13. Extension of Single Audit submission	No	Not Applicable. UW-Madison did not request or receive an extension related to the submission of its Single Audit report. However, it did note that it issued subawards and/or modifications to a handful of institutions that indicated their Single Audit reports would be late. UW-Madison stated that in these instances, it added language to the subaward or modification to highlight its expectation that the subawardee would complete its Single Audit within the OMB flexibility period, and to state that further modifications to the subaward contract may be required if the subawardee submitted its Single Audit report late and/or if the Single Audit report contained any relevant findings.
M-20-20	1. Donations of medical equipment and other resources purchased/funded under Federal financial assistance in support of the COVID-19 response	Yes	No Exceptions Noted. UW-Madison stated that it implemented this flexibility to donate computing services. Specifically, UW-Madison indicated that it requested permission from NSF to donate computing cluster processing resources from its Major Facility IceCube award to perform SARS-CoV-2 protein-folding simulations. However, UW-Madison noted that the processing time it donated ended up taking place during an off-cycle of its major facility and that it therefore did not charge NSF for the donation. Our testing of other direct costs and material and supplies did not reveal any instances in which UW-Madison repurposed Federal funding to support the COVID-19 pandemic.
M-20-26	1. Extension of allowability of salaries and other project activities through September 30, 2020	No	No Exceptions Noted. UW-Madison stated that it did not implement the extension of salary allowability under this flexibility because its institutional policy did not allow COVID-19 leave beyond May 15, 2020. Specifically, UW-Madison noted that, after May 15, 2020, it directed employees to use the UW system's implementation of the Federal FFCRA program for any additional COVID-19-related leave needed. However, UW-Madison did note that it implemented a furlough program to save operational costs, consistent with the guidance provided for this flexibility. UW-Madison noted that the furloughs, which it initially applied between May 15 and October 31, 2020, applied to all faculty and staff except hourly student employees, graduate assistants, post-degree training appointments, and non-full-time-equivalent (FTE) appointments, and that the furloughs were progressive, with increases in salary corresponding to a higher number of furlough days. Depending on salary range and the length of the employee's appointment, the program resulted in 2 to 6 furlough days per employee. Specifically, UW-Madison noted

OMB Memo	Flexibility Granted	Flexibility Implemented per Awardee?	Exception(s) Identified with the Awardee's Implementation of the Flexibilities?
			that it treated 12-month and 9-month appointees differently, with 12-month appointees receiving 3 to 6 furlough days and 9-month appointees receiving 2 to 5 furlough days. Further, UW-Madison noted that, in lieu of furlough days, campus leadership, including the Chancellor and Vice Chancellors, took a 15 percent pay cut.
	2. Extension of Single Audit submission and COVID-19 emergency acts fund reporting through December 31, 2020	No	Not Applicable. UW-Madison did not request or receive an extension related to the submission of its Single Audit.

APPENDIX B: UNIVERSITY OF WISCONSIN – MADISON’S OMB FLEXIBILITY SURVEY RESPONSE

UNIVERSITY OF WISCONSIN – MADISON’S OMB FLEXIBILITY SURVEY RESPONSE

Question No.	During the COVID-19 Pandemic, has your organization...	Awardee Response
1	Issued any subawards to grantees with expired SAM.gov registrations?	No
2	Rescinded and resubmitted grant proposals as a result of extended proposal deadlines?	No
3	Made any changes to its ACMS\$ draw-down methodology?	No
4	Submitted more no-cost extension requests than it typically does in an average 6-month period?	Yes
5	Established a new policy for charging salaries to projects during unexpected or extraordinary circumstances?	Yes
6	Allowed salaries, stipends, and benefits to continue to be charged even if the personnel were unable to conduct the research?	Yes
7	Allowed researchers to continue to perform on-campus research?	Yes
8	Allowed researchers to perform sponsored research off-campus?	Yes
9	Allowed personnel to perform research during the academic year that would typically be performed during a summer month?	Yes
10	Issued any additional guidance regarding how employees should track or certify effort while the campus was closed?	Yes
11	Issued any guidance limiting an employee's ability to book NSF sponsored travel?	Yes
12	Required students and/or employees to cancel previously planned trips?	Yes
13	Established a new policy for charging costs associated with the cancellation of events or travel?	No
14	Received any travel credits that related to airfare, lodging, or other travel expenses charged to NSF funding sources?	Yes
15	Hosted any on-campus NSF Research Experience for Undergraduate (REU) programs/activities?	No
16	Been required to cancel or re-schedule any NSF REU programs/activities?	Yes
17	Been required to adapt previously planned NSF REU programs/activities to a virtual format?	Yes
18	Been required to quarantine any students scheduled to participate in an NSF REU program?	No
19	Been required to cancel or re-schedule any non-REU NSF sponsored on-campus events?	Yes
20	Used NSF funding to sponsor virtual conferences or other virtual events/programs?	Yes
21	Been required to incur any unusual travel costs to ensure students/employees were able to return to the U.S. after performing NSF sponsored travel (such as extended travel times due to lack of flight availability/quarantine requirements, or costs incurred to charter an aircraft)?	No
22	Used NSF funding to purchase COVID-19 related goods/services (such as PPE, cleaning services, etc.) to allow students/employees to continue performing research?	Yes
23	Changed the scope or objectives of any of the research being performed on any of your NSF Awards?	Yes
24	Rebudgeted any NSF award participant support cost funding?	Yes
25	Issued any additional subaward agreements to perform NSF Award research?	Yes
26	Allowed employees to incur costs greater than 90 days before an NSF grant became effective?	No
27	Issued any guidance regarding authority to rebudget funding during the Pandemic?	No
28	Made any changes to its procurement policies or procedures?	Yes
29	Used NSF funding to purchase equipment?	Yes
30	Continued to perform annual inventory reporting?	Yes
31	Applied indirect costs using a provisional negotiated indirect cost rate?	No
32	Made any changes to the manner in which it identifies and classifies direct/indirect costs?	No
33	Implemented any additional flexibilities related to submitting final project reports or other grant close-out procedures as a result of COVID-19?	Yes
34	Issued any subawards to grantees performing research on NSF sponsored awards who did not have a Single Audit Report published for the most recent audit year?	Yes
35	Used NSF funding to purchase COVID-19 related goods/services (such as PPE, cleaning services, etc.) that were donated to hospitals, medical centers, and/or other local entities serving the public for COVID-19 response?	Yes
36	Donated any medical equipment purchased with NSF funds prior to March 2020 to hospitals, medical centers, and/or other local entities serving the public for COVID-19 response?	No

Question No.	During the COVID-19 Pandemic, has your organization...	Awardee Response
37	Received a Paycheck Protection Program loan or any Coronavirus Aid, Relief, and Economic Security (CARES) Act program funding?	Yes
38	Provided any guidance to subawardees regarding how personnel costs can/should be billed during the Pandemic?	No
39	Identified and exhausted all non-Federal funding sources to sustain your workforce before claiming costs for salaries that did not directly benefit NSF awards?	No
40	Implemented any steps to save overall operational costs (such as rent renegotiations)?	Yes
41	Implemented any changes in response to the updated solicitation guidance included in NSF 18-515, 18-584, 20-545, 20-546, or 20-562?	No
42	Received any NSF awards to perform research that involves human-subjects prior to receiving Institutional Review Board (IRB) approval?	No
43	Received any NSF awards to perform research that involves vertebrate animals prior to receiving approval from an Institutional Animal Care and Use Committee (IACUC)?	No
44	Operated an NSF sponsored Major Facility?	Yes
45	Allowed any Principal Investigators to disengage from an NSF Award for more than 3 months?	Yes
46	Changed the cost-sharing requirements previously established for any NSF awards?	No
47	Encumbered any real property with Federal funds?	No
48	Provided resources or oversight of any NSF Small Business Innovation Research Program (SBIR) or Small Business Technology Transfer (STTR) Awards?	Yes

Question No.	During the COVID-19 Pandemic, has your organization used NSF Funding to cover...	Response
49	Expenses associated with fines, penalties, or other damages?	No
50	Fund-raising expenses?	No
51	Costs of housing (e.g. depreciation, maintenance, utilities, furnishings, rent), housing allowances or personal living expenses?	No
52	Insurance or indemnification expenses?	No
53	Costs of memberships in civic or community organizations?	No
54	Costs associated with selling and marketing (other than costs allowed under 2 CFR §200.421 Advertising and public relations)?	No
55	Dependent care costs for trips greater than 6 months?	No
56	Costs of entertainment, amusement, diversion or social activities (with programmatic purpose)?	No
57	Severance payments to foreign nationals that exceed the amounts customary in the US?	No
58	Salary earned at a rate higher than an employee's established institutional base salary?	No
59	Unbudgeted administrative salary costs?	No
60	Costs incurred to purchase real property or to perform construction activities related to improving capital assets?	No
61	Costs incurred to allow employees to perform research or otherwise work from home?	Yes

APPENDIX C: SCHEDULE OF QUESTIONED COSTS BY FINDING

NATIONAL SCIENCE FOUNDATION
ORDER # 140D0420F0655
PERFORMANCE AUDIT OF COSTS CLAIMED ON NSF AWARDS
UNIVERSITY OF WISCONSIN – MADISON

SCHEDULE OF QUESTIONED COSTS BY FINDING

Finding	Description	Questioned Costs		Total
		<i>Unsupported</i>	<i>Unallowable</i>	
1	Inappropriate Drawdowns Associated with Expiring Appropriations	\$36,650	\$10,755	\$47,405
2	Credits Not Appropriately Returned	0	1,593	1,593
3	Incorrect Application of Proposed Indirect Cost Rates	0	0	0
4	Indirect Costs Not Appropriately Applied to Research Experiences for Undergraduates Awards	<u>0</u>	<u>0</u>	<u>0</u>
Total		<u>\$36,650</u>	<u>\$12,348</u>	<u>\$48,998</u>

APPENDIX D: UNIVERSITY OF WISCONSIN – MADISON’S RESPONSE



April 27, 2021

Cotton & Company, LLC
Attn: Megan Mesko, CPA, CFE – Partner
333 John Carlyle Street, Suite 500
Alexandria, VA 22314

RE: Performance Audit of the University of Wisconsin-Madison's Implementation of the Office of Management and Budget (OMB) Coronavirus Disease 2019 Flexibilities

Dear Ms. Mesko,

The University of Wisconsin Madison (referred to as "UW-Madison") has reviewed the draft audit report issued by Cotton & Cotton LLP on behalf of the National Science Foundation (NSF). UW-Madison appreciates the opportunity to work with the NSF, NSF Office of Inspector General, and Cotton & Company, LLC to examine the implementation of OMB flexibilities.

UW-Madison's formal response addressing each audit finding follows. Although the Audit Report contains several findings, UW-Madison does not believe these findings reflect systemic issues in its award management systems. UW-Madison believes the sponsored program award management environment controls and charges of costs are consistent with Federal and NSF regulations, NSF award terms and conditions, and UW-Madison policy.

Finding 1

UW-Madison believes that we appropriately drew funds from ACM\$. When an appropriation is expiring, time is of the essence. We draw based on actual and projected expenses that will ultimately be incurred prior to the expiration date, in accord with a spending plan provided by the department or subawardee. We would not draw funds in excess of the funds available nor we would we draw for expenses that were incurred after the expiration date. Although expenses may not have yet posted in the GL, we incorporate projected, allowable expenditures in the spending plan in order to not miss an opportunity to be reimbursed for expenses to which the University is entitled under the award.

Office of Research and Sponsored Programs
University of Wisconsin-Madison 21 N. Park St, STE 6401 Madison, Wisconsin 53715
608/262-3822 Fax: 608/262-5111 www.rsp.wisc.edu

Our practice of drawing funds in advance based on spending plans and expenses that have been incurred is, in fact, one that is deemed appropriate by the National Science Foundation. In the NSF Cash Management FAQs, NSF Critical Dates FAQ #6 states, “We encourage institutions and PI’s to incur appropriate and allowable expenditures against the award in an expeditious manner, thereby liquidating the impacted funding within a reasonable timeframe.” This statement acknowledges that NSF understands that institutions need to act in a timely manner so as not to lose access to funds. The NSF FAQs go so far as to describe advance payments as a means of ensuring that funds for appropriately incurred expenditures are available.

NSF Critical Dates FAQ #8

My award was granted a No-Cost Extension with an end date past the cancelation date, can I request advanced payment of the canceling funds so I can expend those funds during the remainder of the project period?

Organizations are cautioned against advancing remaining funds simply to expend remaining balances.

In some circumstances, it would be appropriate to request an advance payment if there are known expenditures that have been incurred prior to the cancelation date (i.e. services performed or supplies received prior to September 30th of the year in question), however these invoices will be paid by your organization after the cancelation date. (emphasis added)

However, it is inappropriate to request advance payments of canceling funds simply to allow further expenditures to be incurred after the September 30th cancelation date, even if the project has been extended to permit further use of non-canceling funds.

The use of canceling funds for expenditures incurred after the cancelation date is not allowable.

The practice of drawing in advance on costs incurred prior to the cancellation date is an acceptable one. In the event that UW-Madison discovers that the estimation of funds incurred exceeds the amount drawn, we work to remit the funds to NSF in a timely manner.

In addition, we would like to specifically respond to each award noted in this finding.

NSF Award Number [REDACTED] (MSN [REDACTED]):

UW-Madison has already returned the \$20,431. This amount was returned on 2/9/2021. Cotton & Company first alerted us to this issue on 3/23/2021, after we had done our review and return of funds. We disagree with the auditors regarding the \$31,861 as not being supported by the General Ledger. We can support all \$479,567.62 that was drawn for and we believe those posted expenditures to be

allowable, reasonable, allocable and within the Period of Performance/Cancellation Date. We do not believe this award should have been part of the finding.

NSF Award Number [REDACTED] (MSN [REDACTED]):

UW-Madison only partially completed its final review of this award in the Fall of 2020. At that time, it was determined there were transfers that needed to occur to correctly generate F&A costs on the project. Due to a variety of time and resource constraints related to the pandemic, these transfers did not happen until April of 2021. The final allowable expenditures posted to the award equal what was reported as the final amount drawn for of \$2,136,220.21. The total amount drawn represents expenditures that are allowable, reasonable, allocable and within the Period of Performance/Cancellation Date. We believe there is no return of funds needed on this award. However, we will reiterate our policies to UW-Madison personnel regarding proper closeout procedures.

Finding 2:

We would like to respond individually to each award noted in this finding.

NSF Award Number [REDACTED] (MSN [REDACTED]):

UW-Madison factored in the credit of \$1,078 in the ACM\$ draw on 3/4/2021, therefore the reimbursement has occurred. The cost transfer to initially correct for the credit occurred on 7/21/2020. We were aware that the amount had to be factored into a draw at that time, but there was a miscommunication that led to delay in this being factored into a draw. We will reiterate our policies to our personnel regarding proper closeout procedures.

NSF Award Number [REDACTED] (MSN [REDACTED]):

The \$562 was returned to NSF on 10/21/20. The UW-Madison accountant did their final review of the award in September of 2020. Therefore, the return payment was done in a timely manner and in accordance with our policies. Cotton & Company did not bring this issue to our attention until 3/23/2021, after our review and return payment had already been made. We do not believe this award should have been included in the finding.

Finding 3

UW-Madison disagrees with Finding 3 and believes that we appropriately applied indirect cost rates in accord with long-standing university practice consistent with peer institutions, National Science Foundation guidance, and Office of Management and Budget guidance.

UW-Madison directs that all proposals must include the current federally negotiated indirect cost rate. To facilitate use of this rate, the Office of Research and Sponsored Programs posts a copy of the official signed F&A rate agreement, as well as publishing a memo upon release of a new rate agreement, on our website. When a new rate agreement is released, the University typically has a significant number of pending proposals that were submitted using a previously negotiated indirect cost rate. For well over a decade, we have provided guidance to our campus community that the University does not want to apply rates in a way that would reduce the amount of direct costs currently available to research projects. Research was planned and developed with a specific budgeted amount in mind. Thus, we administer new rates as follows:

- All applications submitted after the release of the new rate agreement should immediately use the new rates.
- Rates included in applications submitted prior to release of the new rate agreement will be accepted by the University for the life of that competitive segment unless the Sponsor increases the applicable F&A rate and provides the additional funding in the overall award.
- Rates currently in effect on all active awards will be continued for the balance of the funded period. In addition, non-competing continuation applications under these awards may continue to use the rate in effect.

Information from other research universities reveals that the practices that UW-Madison employs is consistent with peer institutions. Other universities have described a similar approach in their responses to NSF OIG audit reports¹. In addition to allowing the use of rates submitted in applications, other universities have also allowed transferred awards to retain the rate agreed upon by the NSF and the previously-awarded institution.² There appears to be wide acceptance of the practice of allowing indirect cost rates budgeted in proposals to be used for F&A recovery during the award so that the institution does not increase its F&A recovery to the detriment of direct costs needed for research.

The auditors cite NSF PAPPG Part I, Chapter II, Section C.2.g.(viii), which contains Proposal Preparation Instructions. PAPPG 20-1 states, “Except where specifically identified in an NSF program solicitation, the applicable U.S. Federally negotiated indirect cost rate(s) must be used in computing indirect costs (F&A) **for a proposal**. Use of an indirect cost rate lower than the organization's current negotiated indirect cost rate is considered a violation of NSF’s cost sharing policy.” (emphasis added) In fact, UW-Madison was compliant with PAPPG Chapter II, Section C.2.g.(viii), because the proposals submitted to NSF had the negotiated indirect cost rate in effect at the time the proposal was submitted. Given that the University used the negotiated indirect cost rate in effect at the time of the proposal, the proposals were not in violation of NSF’s cost sharing policy.

¹ [University of Florida](#), [University of Connecticut](#), and [University of North Carolina Chapel Hill](#)

² [University of Connecticut](#) and [Duke University](#)

The auditors indicate that 2 CFR Part 200, Appendix III, Section C.7 directs that “Federal agencies must use the negotiated rates in effect at the time of the initial award throughout the life of the award.” Though that may be the case, the award letters issued by the National Science Foundation contained the indirect cost rates reflected in the proposals. Based on long-standing institutional practice and the rates contained in the NSF award letters, UW-Madison set up the projects with the indirect cost rates stipulated in the proposals.

The National Science Foundation has communicated in the past that use of proposal indirect cost rates was acceptable. The first instance³ is contained in an email message from 2017 from the NSF Policy Office, in response to an inquiry from a research institution. The institution sought clarification as to whether a voluntary election not to request full indirect cost reimbursement constituted a violation of the NSF cost sharing policy. The response from the NSF Policy Office stated:

In the two FAQs you cite below, the operative word is “proposal”. The responses refer strictly to proposal submission and pre-award scenarios and should not be construed as being applicable to post-award situations. In order to be voluntary “committed” cost sharing, the cost sharing would have to be proposed and accepted by NSF and included in the approved budget referenced in the NSF award notice. As noted in the FAQs, unless otherwise specified in an NSF program solicitation, as long as you use your current negotiated indirect cost rate agreement in computing indirect costs when submitting a proposal, you are in compliance with NSF’s cost sharing policy.

This message indicates that, as long as we are using the “current negotiated indirect cost rate agreement in computing indirect costs when submitting a proposal”, we are in compliance with NSF’s cost sharing policy. The secondary message is that the NSF Policy Office would find it acceptable for an institution of higher education (IHE) to voluntarily elect not to request full indirect cost reimbursement for an award.

This same message is posted in an [FAQ](#) on PAPPG 20-1 on the NSF website. In the section on Indirect Costs, NSF published the following:

PAPPG Chapter II.C.2.g(viii) states, “Except where specifically identified in an NSF program solicitation, the applicable U.S. Federally negotiated indirect cost rate(s) must be used in computing indirect costs (F&A) for a proposal.” Does this mean that an IHE is required to claim the entirety of its negotiated indirect cost rate?

Once the award is made and as long as the IDC rates in effect at the time of award were used to calculate the proposal budget, undercharges of F&A are not monitored by NSF and would be considered voluntary uncommitted cost share. (emphasis added)

³ June 2017 email exchange between [REDACTED], University [REDACTED] and [REDACTED]; NSF Policy Office

The meaning is clear: According to NSF policy, it is acceptable practice to voluntarily forgo the full F&A recovery during the life of the award. Further, in Part I, Chapter II, [Section C.2.g.xii](#), the NSF PAPPG states, “While not required by NSF, the grantee may, at its own discretion, continue to contribute voluntary uncommitted cost sharing to NSF-sponsored projects. **As noted above, however, these resources are not auditable by NSF and should not be included in the proposal budget or budget justification.**”

After the implementation of 2 CFR 200, the Office of Management and Budget conveyed the same message as NSF. OMB wrote in their [FAQs on 2 CFR 200](#):

.414-8 (Also applicable to 200.331) Federally negotiated indirect cost rates –voluntary under-charging or waiving IDC

Section 200.414(c) says “The negotiated rates must be accepted by all Federal awarding agencies. A Federal awarding agency may use a rate different from the negotiated rate...only when required by Federal statute or regulation, or when approved by a Federal awarding agency head or delegate based on documented justification.” For pass-through entities, FAQ .331-6 says “If the subrecipient already has a negotiated F&A rate with the Federal government, the negotiated rate must be used. It also is not permissible for pass-through entities to force or entice a proposed subrecipient without a negotiated rate to accept less than the de minimis rate.” However, some non-Federal entities voluntarily choose to not charge indirect costs for certain Federal programs or choose to charge less than their full negotiated rate, to allow a greater share of the Federal program funds to be used for the direct program costs. Can Federal awarding agencies and pass-through entities permit this practice when it is truly voluntary?

Yes. If a non-Federal entity receiving a direct Federal award or a subrecipient voluntarily chooses to waive indirect costs or charge less than the full indirect cost rate, Federal awarding agencies and pass-through entities can allow this. The decision must be made solely by the non-Federal entity or subrecipient that is eligible for IDC reimbursement, and must not be encouraged or coerced in any way by the Federal awarding agency or pass-through entity. (emphasis added)

The Office of Management and Budget, in FAQs about 2 CFR 200, the most significant financial assistance regulatory update in decades, states plainly that a non-federal entity may voluntarily choose to charge less than the full indirect cost rate for a Federal award.

The practice that UW-Madison employs of applying the indirect cost rate in the proposal is acceptable. This is the approach shared by peer institutions, as well as sanctioned by the National Science Foundation and the Office of Management and Budget.

Finding 4:

We agree with this finding. In addition, UW-Madison no longer has the Research Experiences for Undergraduates (REU) indirect cost mapping option, so this will not be selected for any awards in the future and the issue will not recur. The REU mapping option was deactivated on 11/23/2020. Cotton & Company did not bring this issue to our attention until 3/23/2021.

We appreciate your attention to our response.

Sincerely,



Kim Moreland
Associate Vice Chancellor and Director
Office of Research and Sponsored Programs
University of Wisconsin-Madison

APPENDIX E: OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES, SCOPE, AND METHODOLOGY

The NSF OIG Office of Audits engaged Cotton & Company LLP (referred to as “we”) to conduct a limited-scope performance audit, the objective of which was to determine whether UW-Madison used the administrative COVID-19 flexibilities authorized by OMB and, if so, whether UW-Madison was complying with the associated guidelines.

To complete this limited-scope performance audit, we performed the following steps, as outlined within our NSF OIG-approved audit plan:

- Gained an understanding of the audit requirements, which included developing an audit program that ensured the audit team would complete all the steps outlined in the approved audit plan.
 - This included determining whether internal controls and/or information systems were significant to the audit objectives.
- Gained an understanding of applicable Federal²¹ and NSF criteria,²² including the following guidance that OMB and NSF published in response to the COVID-19 pandemic:
 - [M-20-17 Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus \(COVID-19\) due to Loss of Operations](#)
 - [NSF Implementation of OMB Memorandum M-20-17](#)
 - [M-20-20 Repurposing Existing Federal Financial Assistance Programs and Awards to Support the Emergency Response to the Novel Coronavirus \(COVID-19\)](#)
 - [NSF Implementation of OMB Memorandum M-20-20](#)
 - [M-20-26 Extension of Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus \(COVID-19\) due to Loss of Operations](#)
 - [NSF Implementation of OMB Memorandum M-20-26](#)
 - [Important Notice No. 146 - NSF Letter to Community Regarding COVID-19](#)
 - [Impact on Existing Deadline Dates](#)
 - [Impact on Solicitations](#)
 - [NSF Guidance on the Effects of COVID-19 on Human Subjects Research](#)
 - [NSF Guidance on the Effects of COVID-19 on Vertebrate Animal Research](#)
 - [NSF Guidance for Major Facilities and Contracts Regarding COVID-19](#)
 - [FAQs About the Coronavirus Disease 2019 \(COVID-19\) for NSF Proposers and Awardees](#)

²¹ We assessed UW-Madison’s compliance with 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*; 2 CFR Part 220, *Cost Principles for Educational Institutions* (OMB Circular A-21); and 2 CFR Part 215, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations* (OMB Circular A-110), as appropriate.

²² We assessed UW-Madison’s compliance with *NSF PAPPs* 13-1, 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.

- [FAQs About the Coronavirus Disease 2019 \(COVID-19\) for NSF SBIR and STTR Grantees](#)
 - [FAQs About the Coronavirus Disease 2019 \(COVID-19\) for NSF Major Facility Cooperative Agreement Recipients](#)
 - [FAQs About the Coronavirus Disease 2019 \(COVID-19\) for REU Sites, RET Sites, IRES Sites, and Similar Activities](#)
 - [FAQs About the Coronavirus Disease 2019 \(COVID-19\) for NSF Panelists](#)
 - In planning and performing this audit, we considered UW-Madison’s internal controls, within the audit’s scope, solely to understand whether the directives/policies and procedures UW-Madison has in place ensure charges against NSF awards comply with relevant Federal regulations and NSF award terms.
- Requested, obtained, and reviewed UW-Madison documentation to ensure we had sufficient, appropriate documentation to allow us to schedule applicable interviews and to select our audit sample.
 - Our work required us to rely on computer-processed data obtained from UW-Madison and NSF OIG. NSF OIG provided award data that UW-Madison reported through ACM\$ during our audit period.
 - We assessed the reliability of the general ledger data that UW-Madison provided by (a) comparing the costs charged to NSF awards per UW-Madison’s accounting records to the reported net expenditures reflected in the ACM\$ drawdown requests that UW-Madison submitted to NSF during the audit’s period of performance; and (b) reviewing the parameters that UW-Madison used to extract transaction data from its accounting systems. We identified two findings related to discrepancies between the amounts supported by UW-Madison’s general ledger and the amounts that UW-Madison claimed per NSF’s ACM\$ system (see Findings 1 and 2); however, we found UW-Madison’s computer-processed data to be sufficiently reliable for the purposes of the audit, as UW-Madison was able to provide justification for all discrepancies identified.
 - 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, or the controls over, NSF’s databases were accurate or reliable; however, the independent auditor’s report on NSF’s financial statements for FY 2020 found no reportable instances in which NSF’s financial management systems did not substantially comply with applicable requirements.
 - UW-Madison provided detailed transaction-level data to support all costs charged to NSF awards during the period. This data resulted in a total audit universe of \$55,085,782 in costs claimed on 581 NSF awards.

- Gained an understanding of whether and how UW-Madison implemented the OMB/NSF administrative flexibilities by:
 - Analyzing UW-Madison’s responses to the COVID-19 flexibility surveys included in **Appendix A** and **Appendix B**.
 - Summarizing all guidance, policies, and procedures that UW-Madison issued in response to the COVID-19 pandemic.
 - Conducting walkthroughs and interviews with UW-Madison staff to evaluate how UW-Madison implemented the flexibilities and how that implementation fit within UW-Madison’s overall grant management environment.
- Brainstormed and executed a series of data analytic tests aimed at identifying expenses that UW-Madison incurred in accordance with the COVID-19 flexibilities, or that we identified as high risk for other related reasons.
- Judgmentally selected 37 transactions to test based on the results of our data analytic tests, as approved by NSF OIG.
- Reviewed the supporting documentation that UW-Madison provided and requested additional documentation as necessary to ensure that we obtained sufficient, appropriate evidence to enable us to assess the allowability of each sampled transaction.
 - The goals of this testing included evaluating whether the sampled transactions related to UW-Madison’s implementation of the OMB/NSF flexibilities and whether the transactions were allowable, allocable, reasonable, and in conformity with applicable Federal guidance, NSF terms and conditions, and OMB/NSF flexibility guidelines.

At the conclusion of our fieldwork, we provided a summary of our results to NSF OIG personnel for review. We also provided a discussion draft report to UW-Madison personnel to ensure UW-Madison was aware of each potential finding and to provide UW-Madison with an opportunity to submit any additional documentation available to support the questioned costs.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards*, 2018 Revision, 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.



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