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Audit of Department of State Grants and Cooperative Agreements Awarded to Kennesaw State University

SECURITY AND INTELLIGENCE DIVISION

June 2017
OFFICE OF AUDITS
Security and Intelligence Division

OIG HIGHLIGHTS

AUD-SI-17-43

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What OIG Audited

Between FY 2008 and FY 2016, Kennesaw State University (KSU) managed seven Department of State (Department) grant or cooperative agreement awards valued at approximately $3.7 million. Four of the awards were public diplomacy awards from the Bureau of South and Central Asian Affairs (SCA), two awards were democracy and human rights awards from the Bureau of Democracy, Human Rights, and Labor (DRL), and one award was an academic exchange program award from the Bureau of Educational and Cultural Affairs (ECA).

The Office of Inspector General (OIG) conducted this audit to determine whether KSU expended funds and accurately reported financial information related to the Department awards in accordance with Federal requirements and the award terms and conditions.

What OIG Recommends

OIG made four recommendations to SCA, DRL, and ECA to assess and, if appropriate, recover questioned costs identified by OIG as unallowable or unsupported. OIG received responses to a draft of this report from SCA, ECA, and the Bureau of Administration, Office of Logistics Management, Office of Acquisitions (AQM), in coordination with DRL (see Appendices C through E). On the basis of the responses, OIG considers all four recommendations resolved, pending further action. A synopsis of management's response and OIG's reply follows each recommendation in the Results section of this report. KSU's response and a summary of KSU's comments and OIG's replies thereto are presented in Appendices F and G, respectively.

What OIG Found

OIG found that KSU did not always expend funds or accurately report financial information related to Department awards in accordance with Federal requirements and the award's terms and conditions. Specifically, OIG identified and questioned approximately $1.6 million in unsupported or unallowable costs, which is approximately 56 percent of the total amount of award funds expended by KSU between FY 2008 and FY 2016. The questioned costs identified by OIG related to salaries and other direct expense categories. These questioned costs also included $862,985 related to conflict of interest violations found in four of the seven awards. Furthermore, KSU did not always maintain documentation to demonstrate that cost-sharing expenditures were made in accordance with Federal requirements and the terms and conditions of the awards. In addition, indirect costs charged to the awards need to be recalculated because an incorrect cost rate was used to calculate a portion of the awards. Finally, OIG found that KSU did not submit accurate and timely financial reports for six of the seven awards audited.

The identified deficiencies occurred, in part, because the KSU grants management office did not have the technical competencies needed to perform required administration of the awards. As a result, KSU was unable to fulfill Department program goals within the agreed-upon deadlines and Department funding may have been expended for purposes other than those agreed to in award terms and conditions. Specifically, KSU did not complete all program goals within the agreed upon deadlines for five of the seven awards audited. In two instances, primary program goals were not completed at all. For example, KSU failed to develop a secure website and create a blog to support a DRL disability sport development award. In another instance, KSU failed to assist with executing an international educational technology conference in Karachi, Pakistan. The Department learned less than 2 weeks before the conference was scheduled to begin that KSU would not be sending faculty to assist with the event, which according to Department officials was detrimental to the conference because KSU staff had key roles in making presentations and conducting workshops.

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OBJECTIVE

The Office of Inspector General (OIG) conducted this audit to determine whether Kennesaw State University (KSU) accurately reported financial information and expended funds related to Department of State (Department) awards in accordance with Federal requirements and the award terms and conditions.

BACKGROUND

KSU is a public research university with a main campus in Kennesaw, GA, and a secondary campus in Marietta, GA. KSU is a member of the University System of Georgia and is Georgia's third largest university, with a population of approximately 35,000 students. KSU's Marietta, GA, campus is the site of the former Southern Polytechnic State University (SPSU), which was a public state university and an independent part of the University System of Georgia. On November 1, 2013, the Georgia Board of Regents announced that SPSU would consolidate with KSU and, on January 6, 2015, the Georgia Board of Regents of the University System of Georgia approved the consolidation.[1] The administrative process of the consolidation was completed by June 30, 2015.

Between FY 2008 and FY 2016, KSU received approximately $33.2 million in Federal funds via grants and cooperative agreements from 13 U.S. Government agencies, including the Department, both directly and through the Kennesaw State University Research and Service Foundation (KSURSF).[2,3] Between FY 2008 and FY 2015, SPSU also received approximately $4.4 million from seven U.S. Government agencies both directly and via the Southern Polytechnic Applied Research Corporation (SPARC).[4] When KSU merged with SPSU in June 2015, some of the Federal awards granted to SPSU were transferred to KSU.[5]

Between FY2008 and FY2016, KSU managed seven Department grants or cooperative agreements, as shown in Table 1. Four of the awards were public diplomacy awards from the

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[1] The consolidation was to further the university system's goal to "develop operational efficiencies and reinvest the resources and savings for academics for the students."

[2] A research corporation or foundation is a separate 501(c)(3) nonprofit organization dedicated to the support of a college, university, university system, school district, or teaching hospital. As a tax-exempt organization, an institutionally-related foundation has more flexibility to raise and manage private support than state offices or Government subdivisions.

[3] KSURSF is the contracting entity for externally funded projects at KSU. KSURSF was incorporated under Georgia law as a nonprofit corporation on September 7, 2005, and was granted 501(c)(3) status on December 20, 2007. KSURSF is the applicant institution for all proposals for external funding, and awarded projects are subcontracted to KSU under a master agreement between KSURSF and KSU. The term "KSU" will be used throughout this report when discussing both KSURF and KSU.

[4] On July 1, 2011, SPARC was incorporated and began operations to manage research grants for SPSU. The term "SPSU" will be used throughout this report when discussing both SPARC and SPSU.

[5] When KSU consolidated with SPSU in June 2015, SPARC was also consolidated with KSURSF, and KSURSF assumed management of all SPARC's research grants.

Bureau of South and Central Asian Affairs (SCA), two awards were democracy and human rights awards from the Bureau of Democracy, Human Rights, and Labor (DRL), and one award was an academic exchange program award from the Bureau of Educational and Cultural Affairs (ECA). Table 1 presents the Department awards by award number, the Department bureau involved, the start and end date of the award, and the associated amounts for each award that were managed by KSU between FY 2008 and FY 2016.

Table 1: Summary of Department Awards Managed by KSU Between FY 2008 and FY 2016

Award Number	Bureau	Start Date	End Date	Amount Awarded	Amount Expended*
SIN65014GR049	SCA	09/12/2014	11/30/2015	$48,960	$48,959
SIN65014GR053	SCA	09/24/2014	09/30/2015	$74,994	$67,479
SECAGD15CA1074	ECA	08/10/2015	08/31/2018	$479,709	$223,654
SLMAQM08GR0598	DRL	08/04/2008	09/30/2011	$400,000	`$377,424
SLMAQM09GR0542	DRL	03/14/2009	09/30/2011	$740,327	$696,055
SPK33013CA051	SCA	09/01/2013	03/15/2017	$999,987	$777,751
SAF20013CA024	SCA	10/01/2013	03/31/2017	$1,000,000	$743,375
Total				**$3,743,977**	**$2,934,697**

*Amount of Department funds expended by KSU or SPSU according to submitted Federal financial reports for each award as of September 30, 2016.

Source: Generated by OIG based on an analysis of data obtained from USASpending.gov, the Department's System for Award Management, and KSU general ledgers.

SCA Federal Assistance Awards

SCA leads U.S. foreign policy and advances U.S. relations for countries within the South Central Asian region.[6] In addition to supporting SCA, SCA's Office of Press and Public Diplomacy also supports the Office of the Special Representative for Afghanistan and Pakistan on diplomacy programming and press engagement. The Grants Unit, located within the Office of Press and Public Diplomacy, awards more than $100 million per year in public diplomacy grants for the region.

Three SCA posts granted four awards to either SPSU or KSU through three Principal Investigators (PI).[7] The PI directs the program supported by the award and is accountable for proper conduct in carrying out that program. In addition, the PI is required to use award funds appropriately and ensure that all expenditures are consistent with the terms and conditions of the award. Generally, the PI is the person at the recipient organization that is supposed to ensure various rules and regulations are followed. The four SCA awards follow:

[6] The South Central Asian (SCA) region includes the following countries: Bangladesh, Bhutan, India, Kazakhstan, Kyrgyzstan, Maldives, Nepal, Sri Lanka, Tajikistan, Turkmenistan, and Uzbekistan.

[7] Awards SPK33013CA051 and SAF20013CA024 were managed by the same PI.

- **SIN65014GR049** – In FY 2014, Embassy New Delhi, India, awarded KSU a grant of $48,960 to develop a "Climate Change Symposium" featuring a conference on climate change followed by activities involving local climate change leaders in the Indian cities of Kolkata, Patna, and Guwahati. The goal of the program was to encourage the three cities to develop their own goals to address environmental and climate change concerns.

- **SIN65014GR053** – In FY 2014, Embassy New Delhi, India, awarded KSU a grant of $67,479 for a Model United Nations Exchange Program in collaboration with Indian Model United Nations conference organizers, students, and teachers. The goal of the exchange program was to provide an interactive learning experience and develop skills in foreign policy research, drafting resolutions, public speaking, problem solving, and debating.

- **SPK33013CA051** – In FY 2013, Embassy Islamabad, Pakistan, awarded SPSU a cooperative agreement of $999,987 to establish a university partnership in communication design between SPSU and the Indus Valley Institute of Art and Architecture in Karachi, Pakistan. The goals of the cooperative agreement included developing a curriculum to emphasize educational technology in media labs and design studios, hosting six Indus Valley Institute of Art and Architecture faculty and four students for one semester, and organizing and executing an international conference.

- **SAF20013CA024** – In FY 2014, Embassy Kabul, Afghanistan, awarded SPSU a cooperative agreement of $1,000,000 to assist the Kabul Polytechnic University with establishing a Geographic Information System Department in the Faculty of Geology and Mines so that Kabul Polytechnic University graduates could obtain the skills needed for a career in Geographic Information Systems. The goals of the cooperative agreement included renovating and equipping two functioning Geographic Information Systems classrooms, developing four courses tailored to the Afghan context, and training faculty members and technicians on the use and care of the equipment and software and how to teach the basic courses.

DRL Federal Assistance Awards

DRL leads U.S. efforts in promoting democracy, protecting human rights and international freedom, and advancing labor rights globally. Within DRL, the Special Advisor for International Disability Rights leads the U.S. strategy to promote the rights of persons with disabilities internationally. Unlike SCA and ECA, which issue their own Federal assistance awards, DRL uses the Office of Acquisitions Management (AQM) in the Bureau of Administration's Office of Logistics Management to issue its Federal assistance awards.[8]

[8] DRL uses AQM to process all of its grants and cooperative agreements because DRL does not have any grants officers or grants management specialists.

AQM, on behalf of DRL, awarded two grants to KSU, through the same PI:

- **SLMAQM08GR0598** – In FY 2008, AQM awarded a grant of $400,000 to KSU, which partnered with BlazeSports America[9] to implement a 3-year professional development project in one country to strengthen the youth sport infrastructure and enhance the knowledge and expertise of coaches, educators, sport managers, referees, classifiers, and games organizers in sport programming for youth and young adults with disabilities. Components of the project included train-the-trainer workshops, national disability visibility initiatives, and knowledge transfer and organizational linkages.

- **SLMAQM09GR0542** – In FY 2009, AQM awarded a grant of $740,327 to KSU, which partnered with BlazeSports America to implement a 2-year disability sport development project in one country to promote human rights, empowerment of women, and equal participation in society by persons with disabilities. Components of the project included five disability sport workshops and training clinics for coaches, sports managers, university students, and athletes, as well as a website and blog developed and maintained specifically to support the project.

ECA Federal Assistance Awards

ECA's mission is to "increase mutual understanding between the people [of] the [United States] and the people of other countries by means of educational and cultural exchange that assists in the development of peaceful relations." One way ECA meets its mission is by funding activities that encourage the involvement of American and international participants from traditionally underrepresented groups (such as racial and ethnic minorities) by hosting professional, academic, cultural, and athletic exchanges. ECA's Office of Academic Programs is the primary sponsor of academic exchanges. ECA's Grants Division plans, directs, and executes the grants or cooperative agreements that provide the funding to carry out its mission.

ECA awarded one cooperative agreement of $479,709 to KSU in FY 2015, which consisted of an academic fellowship for approximately 22 students from the Association of Southeast Asian Nations (ASEAN) countries[10] in support of the Young Southeast Asian Leaders Initiative.[11] The students spent 4 weeks living and studying on the KSU campus, followed by a one-week integrated study tour that concluded in Washington, DC. Some of the project's objectives

[9] BlazeSports America is a 501(c)(3) nonprofit organization that is the legacy organization of the 1996 Paralympic Games held in Atlanta, GA. BlazeSports America's mission is to change the lives of individuals with physical disabilities through adaptive sport and recreation.

[10] ASEAN was established on August 8, 1967, and includes 10 member states – Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

[11] The Young Southeast Asian Leaders Initiative is the U.S. Government's to ASEAN's signature program to strengthen leadership development and networking in Southeast Asia. Through a variety of programs and engagements, including educational and cultural exchanges, regional exchanges, and seed funding, the Initiative seeks to build the leadership capabilities of youth in the region, strengthen ties between the United States and Southeast Asia, and nurture the ASEAN community.

included improving the participants' knowledge of U.S. history, government, and society; leadership and teamwork skills; and knowledge of life in the United States.

Federal Regulations and Department Requirements for Awards

A Federal award represents the Department's commitment to provide a recipient with funds to carry out a program or activity within the performance period. The recipient is required to comply with the terms and conditions included in the Federal award. In addition to the specific requirements in the award agreement, the award recipients must comply with Federal regulations and Department requirements. Specifically, Department Federal awards are subject to requirements set forth in Title II of the Code of Federal Regulations (C.F.R.), Section 200 (2 C.F.R. § 200).[12,13] They are also subject to the Department's requirements included in the Standard Terms and Conditions for U.S. Based Organizations (Department's Standard Terms and Conditions), which were included in each grant and cooperative agreement awarded to KSU and SPSU. The Department's policies and procedures are found, respectively, in its Federal Assistance Policy Directive and its Federal Assistance Policy Handbook.

Federal Regulations

The requirements of 2 C.F.R. § 200 provide the principles for determining whether costs associated with grants awarded to non-Federal entities, such as universities, are allowable, reasonable, and allocable. To be allowable, grant cost must be necessary and reasonable for performing the award[14] and the cost must "be adequately documented."[15] In addition, 2 C.F.R. § 200:

- sets forth cost principles for award recipients (e.g., the recipients are responsible for the efficient and effective administration of the Federal award through the application of sound management practices);[16]

- requires award recipients assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award;[17]

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[12] Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 2 C.F.R. § 200, was issued in December 2013 and went into effect in December 2014. The requirements in 2 C.F.R. § 200 consolidated eight OMB Circulars related to Federal grant awards into one authoritative document relating to grants management.

[13] Because 2 C.F.R. § 200 did not go into effect until December 2014, and the period of performance for the audited grants and cooperative agreements ranged from August 2008 to March 2017, OIG used 2 C.F.R. § 200 as authoritative guidance to audit KSU transactions that occurred between December 2014 and September 2016. OIG used the superseded OMB Circulars as authoritative guidance for its review of KSU transactions that occurred between August 1, 2008, and November 30, 2014.

[14] 2 C.F.R. § 200.403(a).

[15] 2 C.F.R. § 200.403(g).

[16] 2 C.F.R. § 200.400(a).

[17] 2 C.F.R. § 200.400(b).

- establishes that award recipients are responsible for oversight of the operations supported by the Federal award supported activities;[18] and

- allows for the Federal awarding agency to impose additional conditions if an award recipient fails to comply with Federal statutes, regulations, or the terms and conditions of the award[19] (e.g., the Federal awarding agency may require payments as reimbursements rather than advance payments or withhold authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance).[20]

Department Requirements

The Department's Standard Terms and Conditions describes the roles and responsibilities of Government personnel who award, administer, and oversee grants. The two individuals with primary oversight and monitoring responsibilities for any grant or cooperative agreement are the Grants Officer (GO) and the Grants Officer Representative (GOR). The GO is responsible for all action on behalf of the Department to enter into, change, or terminate an award. In addition, the GO is responsible for administrative coordination and liaison with the award recipient. The GOR is responsible for the programmatic, technical, and scientific aspects of the award.[21] Both the GO and the GOR ensure that the Department exercises prudent management and oversight of the assistance awards through monitoring and evaluation.[22,23]

The Department provides additional guidance, policies, and standards for managing Federal awards in its Federal Assistance Policy Handbook. While this Handbook is primarily intended for GOs and GORs, it also serves as a comprehensive source for best practices, including Department, Office of Management and Budget (OMB), and U.S. Government Accountability Office guidelines.

Georgia Board of Regents Requirements

Both Federal and Department regulations require award recipients to have policies and procedures related to award management. According to the Board of Regent's policy manual, "the Georgia Constitution grants to the Board of Regents the exclusive right to govern, control, and manage the University System of Georgia, an educational system comprised of twenty-nine institutions of higher learning," including KSU.[24] The manual also explains, "The Board exercises

[18] 2 C.F.R. § 200.328(a).

[19] 2 C.F.R. § 200.338.

[20] 2 C.F.R. § 200.207(b).

[21] U.S. Department of State "Standard Terms and Conditions," dated April 8, 2016.

[22] U.S. Department of State "Federal Assistance Policy Directive," dated January 14, 2016.

[23] During this audit, OIG noted that the GO and/or GOR changed at least once for each award. This lack of continuity affects the Department's ability to exercise prudent management and oversight of assistance awards through monitoring and evaluation.

[24] University System of Georgia, Board of Regents Policy Manual, "Overview."

and fulfills its constitutional obligations, in part, by promulgating rules and policies for the governance of the University System and its constituent units," including a policy manual that has directives and policies relating to the university's management of Federal funds obtained through grants and cooperative agreements.[25]

AUDIT RESULTS

Finding A: Kennesaw State University Did Not Expend Funds or Report Financial Information in Accordance with Award Terms and Conditions

Federal regulations require that awardees only incur costs with Federal funds that are allowable under the award agreement,[26] allocable to the award,[27] and reasonable. Federal regulations also state that awardees should have "records that identify adequately the source and application of funds for federally-funded activities."

OIG found that KSU did not always accurately report financial information or expend funds related to the Department awards in accordance with Federal requirements and the award terms and conditions. Specifically, OIG identified approximately $1.6 million in unsupported or unallowable costs expended by KSU between FY 2008 and FY 2016. OIG identified questioned costs related to salaries and other direct expense categories.[28] These questioned costs also included $862,985 related to conflict of interest violations found in four of the seven awards. Furthermore, OIG found that KSU did not always maintain documentation to demonstrate that cost-sharing expenditures were made in accordance with Federal requirements and the terms and conditions of the awards.[29] In addition, indirect costs charged to the awards need to be recalculated to consider questioned direct costs as well as using the correct cost rate to calculate a portion of the awards. OIG also found that KSU provided inaccurate financial

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[25] Ibid.

[26] The award agreements include detailed budgets describing the categories of expenditures that can be used and the amounts allowed for those categories.

[27] The requirements of 2 C.F.R. § 200.405(a) state that a cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost: (1) is incurred specifically for the Federal award; (2) benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and (3) is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.

[28] In addition to OIG's findings, on October 24, 2016, KSU's Internal Audit Department issued the *Audit Report on the Southern Polytechnic Applied Research Corporation*, which discussed the internal auditors' review of SPARC's overall expenditure transactions, including expenditures for two Department cooperative agreements: SPK33013CA051 and SAF20013CA024. KSU's internal auditors reported: (1) 105 of 242 (40 percent) items selected for review, totaling $335,777, did not have adequate documentation or the documentation could not be located; (2) 6 of 10 (60 percent) cash withdrawals from SPARC's bank account, totaling $6,629, had inadequate or no documentation; and (3) SPARC's Director of Research and Contract Administration had improperly used $5,998 from a Department of Justice grant to purchase 3 Bushmaster AR-15 rifles, 3 Mossberg semiautomatic rifles, 3 Glock pistols, 4 pairs of Oakley sunglasses, a Nexus 7 tablet, and 4 Amazon gift cards.

[29] According to 2 C.F.R. § 200.29, "cost sharing or matching means the portion of project costs not paid by Federal funds."

information regarding the status of awards to the Department and was not timely in submitting financial reports.

As shown in Table 2, OIG identified approximately $1.6 million of questioned costs ($566,194 in unsupported costs and $1,069,568 in unallowable costs), which is approximately 56 percent of the $2.9 million in total Department funding expended by KSU from FY 2008 through FY 2016 (please refer to the Background section for a detailed description of the purpose of each award).

Table 2: Summary of Questioned Costs Identified by OIG

Award Number	Salary	Conflict of Interest	Other Direct Costs	Cost Sharing	Indirect Costs	Total Questioned Costs*
SIN65014GR049	$0	$0	$0	$0	$0	$0
SIN65014GR053	$0	$0	$171	$0	$26	$197
SECAGD15CA1074	$0	$0	$0	$2,579	$0	$2,579
SLMAQM08GR0598	$0	$233,635	$0	$0	$0	$233,635
SLMAQM09GR0542	$0	$605,097	$0	$0	$0	$605,097
SPK33013CA051	$177,149	$7,440	$47,020	$31,788	$89,851	$353,248
SAF20013CA024	$164,094	$16,813	$134,786	$45,081	$80,232	$441,006
Total Questioned	**$341,243**	**$862,985**	**$181,977**	**$79,448**	**$170,109**	**$1,635,762**
Total Unallowable	**$142,014**	**$862,985**	**$18,982**	**$1,431**	**$44,156**	**$1,069,568**
Total Unsupported	**$199,229**	**$0**	**$162,995**	**$78,017**	**$125,953**	**$566,194**

* Questioned costs include unsupported costs and unallowable costs.

Source: Generated by OIG based on its identification of questioned costs during the audit.

The identified deficiencies occurred, in part, because the KSU grants management office did not have the technical competencies needed to perform required financial administration of the awards. As a result, KSU's ability to fulfill program goals within agreed-upon deadlines was adversely affected. Specifically, one award had a component related to conducting an international conference in Karachi, Pakistan. The Department was notified less than 2 weeks before the conference began that KSU would not be sending faculty to assist with executing the event. By not sending faculty to the event, KSU failed to meet a key element of the award. This caused consternation for the Department, the U.S. Consulate General Karachi, Pakistan, and the partner institution that was hosting the event, which had relied on KSU to conduct workshops and seminars.

Salary Expenses

According to the C.F.R., charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed, and these records must be incorporated into the official records and reasonably reflect the total activity for which the employee is compensated, not exceeding 100 percent of compensated activities.[30] In addition, the records must 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.[31] Similarly, OMB Circular A-21 (which was in effect until December 2014) states that "charges for work performed on sponsored agreements by faculty members during the academic year will be based on the individual faculty member's regular compensation for the continuous period which, under the policy of the institution concerned, constitutes the basis of his salary" and "in no event will charges to sponsored agreements, irrespective of the basis of computation, exceed the proportionate share of the base salary for that period."[32]

OIG identified $341,243 in unsupported and unallowable salary costs for two awards audited, as shown in Table 3. For these two awards—SPK33013CA051 and SAF20013CA024—OIG reviewed all available time and effort documentation, salary contracts, and payroll information for the PI in charge of these awards. OIG also reviewed other salary expenditures selected during the expenditure test work to determine whether the amount of salary expense charged to the awards was supported and allowable.

Table 3: Summary of Questioned Costs Related to Salaries

Award Number	Unallowable Costs Due to Extra Compensation	Unallowable Costs Due to Incorrect Salary Percentages	Unsupported Costs	Total Questioned Costs
SPK33013CA051	$36,943	$30,635	$109,571	$177,149
SAF20013CA024	$32,959	$41,477	$89,658	$164,094
Total	**$69,902**	**$72,112**	**$199,229**	**$341,243**

Source: Generated by OIG based on a review of salary expenditures for the awards audited.

Extra Compensation

The PI for the two awards was required to spend 50 percent of his time on each award during the first year of the awards. However, according to documentation and KSU officials, the PI did not work 50 percent of his time on each award, as required by the agreements. In fact, the PI maintained a full course load teaching classes at SPSU during the first year of the awards. The PI then worked on the awards, in addition to teaching classes, thereby receiving "extra compensation"[33] without the knowledge or approval of the Department, the sponsoring agency. This practice is contrary to Federal regulations for the compensation of personal services related

[30] 2 C.F.R. § 200.430(h)(1)(i)(iii).

[31] 2 C.F.R. § 200.430(h)(1)(i)(vii).

[32] OMB Circular A-21 § J.10.d, "Salary rates for faculty members."

[33] Extra compensation is money paid to employees for tasks performed in addition to the employee's normal job responsibilities.

to grants and cooperative agreements. Specifically, OMB Circular A-21 § J.8.d[34] states that faculty member salary charges for the academic year:

> will be based on the individual faculty member's regular compensation which … constitutes the basis of his salary. Charges for work performed on sponsored agreements during all or any portion of such period are allowable at the base salary rate. In no event will charges to sponsored agreements, irrespective of the basis of computation, exceed the proportionate share of the base salary for that period … Since intra-university consulting is assumed to be undertaken as a university obligation requiring no compensation in addition to full-time base salary, the principle also applies to faculty members who function as consultants or otherwise contribute to a sponsored agreement conducted by another faculty member of the same institution. However, in unusual cases where … the work performed by the consultant is in addition to his regular departmental load, any charges for such work representing extra compensation above the base salary are allowable provided that such consulting arrangements are specifically provided for in the agreement or approved in writing by the sponsoring agency.

Similarly, 2 C.F.R. § 200.430(h)(2) implements related requirements:

> Charges for work performed on Federal awards by faculty members during the academic year are allowable at the [institutional base salary] rate. Except as noted in paragraph (h)(1)(ii) of this section, in no event will charges to Federal awards, irrespective of the basis of computation, exceed the proportionate share of the [institutional base salary] for that period. This principle applies to all members of faculty at an institution. [Institutional base salary] is defined as the annual compensation paid by an [institute of higher education] for an individual's appointment, whether that individual's time is spent on research, instruction, administration, or other activities. [Institutional base salary] excludes any income that an individual earns outside of duties performed for the [institute of higher education]. Unless there is prior approval by the Federal awarding agency, charges of a faculty member's salary to a Federal award must not exceed the proportionate share of the [institutional base salary] for the period during which the faculty member worked on the award.

Accordingly, extra compensation above the base salary for faculty members can only be charged to Federal awards in unusual cases, when specifically authorized by the awarding agency. Since the extra compensation was not authorized by the Department, OIG determined that the total amount of extra compensation charged to the awards, $69,902, is an unallowable expense.

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[34] This OMB Circular would apply to SPK33013CA051 and SAF20013CA024 through December 2015, when the awards were novated and applicable Federal regulations were changed from OMB Circular A-21 to 2 C.F.R. § 200.

Time and Effort Reporting

According to KSU officials, there was confusion related to the PI's salary during the merger, but KSU ended the extra compensation payments that SPSU permitted. However, following the merger, KSU required the PI to work 50 percent of his time on each award in years 2 and 3, even though this was not the percentage agreed to in the awards. Specifically, SPK33013CA051 called for the PI to work 20 percent of his time during years 2 and 3 and SAF20013CA024 called for the PI to work 30 percent of his time during year 2 (there was no approved budget for year 3). The PI stated he refused to file time and effort reports for these awards because he knew the budget did not allow for it; however, KSU charged the salary expense to the awards anyway.[35] In addition to the PI, there were other KSU employees who worked on the awards beyond the percentages allowed in the budget. Therefore, OIG determined a portion of these salary expenses for years 2 and 3 to be unallowable, totaling $72,112.

OIG also found that SPSU did not maintain required time and effort documentation to support the other salary costs charged to awards SPK33013CA051 and SAF20013CA024.[36] KSU officials stated they were unable to determine how SPSU kept records related to time and effort reporting. Therefore, OIG determined that the salary expenses (beyond those amounts identified as unallowed salary costs) for these two awards, totaling $199,229, were unsupported costs.

Noncompliance With Conflict of Interest Requirements

According to the C.F.R., the recipient of a Federal award must maintain written standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award, and administration of contracts.[37] According to OMB Circular A-110[38] (which was in effect until December 2014):

> no employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved. Such a conflict would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the

[35] In addition to OIG's findings, on December 17, 2014, KSU's Internal Audit Department issued the *Agreed-Upon Procedures Report for SPSU's Extra Compensation Payments*, which reported that: (1) employees at SPSU receiving extra compensation did not consistently obtain required approvals; (2) supporting documentation for extra compensation was not properly maintained; and (3) the work performed for extra compensation payments did not consistently satisfy the Board of Regents' requirement that organizations should produce sufficient income to be self-supporting.

[36] Awards SPK33013CA051 and SAF20013CA024 were issued in both September and October 2013, respectively, under OMB Circular A-21 guidance and were amended in December 2015, at which time the award was switched to the 2 C.F.R. § 200 guidance.

[37] 2 C.F.R. § 200.318 (c)(1).

[38] "Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations."

> parties indicated herein, has a financial or other interest in the firm selected for an award. The officers, employees, and agents of the recipient shall neither solicit nor accept gratuities, favors, or anything of monetary value from contractors, or parties to sub-agreements.

The Georgia Board of Regents Policy Manual, which is considered the recipient's policy, states:

> an employee shall make every reasonable effort to avoid even the appearance of a conflict of interest. An appearance of conflict exists when a reasonable person will conclude from the circumstances that the employee's ability to protect the public interest, or perform public duties, is compromised by personal interest. An appearance of conflict can exist even in the absence of a legal conflict of interest.[39]

OIG found instances where a PI paid stipends from Department awards to his children and also found instances where a different PI made subawards from Department grants to an organization run by his spouse and from which he received a salary. These instances of noncompliance with conflict of interest requirements resulted in unallowed costs totaling $862,985, as shown in Table 4.

Table 4: Summary of Unallowable Costs Due to Noncompliance With Conflict of Interest Requirements

Award Number	Stipends Paid to Family Members	Sub-award to Related Party	Total Unallowable Costs
SPK33013CA051	$7,440	$0	$7,440
SAF20013CA024	$16,813	$0	$16,813
SLMAQM08GR0598	$0	$233,635	$233,635
SLMAQM09GR0542	$0	$605,097	$605,097
Total	**$24,253**	**$838,732**	**$862,985**

Source: Generated by OIG based on the review of award expenditures in consideration of conflict of interest requirements.

Stipends Paid to Principal Investigator's Children

OIG found that the PI for awards SPK33013CA051 and SAF20013CA024 hired his son and daughter (who were undergraduate students at SPSU) as research assistants to work on the Department awards, which was a conflict of interest. In addition to the conflict of interest, the children did not complete time and effort reports or timesheets. Moreover, OIG could not verify the duties and responsibilities of the PI's children or whether they actually performed work for

[39] *Board of Regents Policy Manual*, Section 8.2, "General Policies for all Personnel."

either award.[40] OIG also found that one cooperative agreement (SPK33013CA051) did not allow payments to undergraduate students and that the other cooperative agreement (SAF20013CA024) only allowed for payment to one graduate student per year for the first 2 years of the award. For these reasons, OIG considers the $24,253 in stipends paid to the PI's children from awards SPK33013CA051 and SAF20013CA024 to be unallowable costs.

Subawards Made to an Organization Run by a Principal Investigator's Spouse

OIG found that the PI for awards SLMAQM08GR0598 and SLMAQM09GR0542 provided fixed price subawards[41] to BlazeSports America, a nonprofit organization where the PI's spouse was employed as the Executive Director at the time of the Department's grants.[42] Moreover, BlazeSports America paid the PI money during the grant periods. As shown in Table 5, out of a total of $1,140,327 awarded by the Department for the two grants, the PI subawarded $853,778 (75 percent) of the Department grant funds to BlazeSports America. Of the amount subawarded, SPSU paid a total of $838,732 in Department funds to BlazeSports America.

Table 5: Summary of Funds Subawarded to BlazeSports America

Award Number	Grant Amount	Subaward Amount	Payments Made
SLMAQM08GR0598	$400,000	$248,635	$233,635
SLMAQM09GR0542	$740,327	$605,143	$605,097
Total	**$1,140,327**	**$853,778**	**$838,732**

Source: Generated by OIG based on documentation contained in the grant agreement.

The PI's significant subawards to an organization run by his spouse was a conflict of interest. OIG found that the PI's spouse submitted all of the invoices to the PI for payment, and the PI approved the payments to BlazeSports America. Furthermore, OIG found that none of the BlazeSports America invoices had adequate details to determine what work was performed and, in some instances, the invoices appeared to include items that were not allowable for the subawards. For example, the PI's stepson was paid a salary from the Department grant funds that were subawarded to BlazeSports America. BlazeSports America was also unable to provide

[40] In addition to OIG's findings, on November 23, 2016, KSU's Internal Audit Department issued a *Draft Advisory Services Report on Two U.S. Department of State Grants*, in which the internal auditors reported that (1) the appearance of a conflict of interest was created when award funds were used to pay stipends to the PI's son and daughter; (2) there was no supporting documentation evidencing what work was performed by the undergraduates; and (3) there was conflicting information regarding which award each of the children worked on.

[41] 2 C.F.R. § 200, Subpart D, 200.332, *Fixed amount subawards*, states that with written approval by the Federal awarding agency, fixed amount subawards are permitted up to the simplified acquisition threshold ($150,000). OMB Circular A-110 did not have guidance relating to this topic.

[42] According to BlazeSports America's Forms 990 from 2009 through 2011, funding from awards SLMAQM08GR0598 and SLMAQM09GR0542 made up 15 to 28 percent of BlazeSports America's total revenue.

supporting documentation for its expenses.[43] For these reasons, OIG considers all of the payments to BlazeSports America, totaling $838,732, to be unallowable costs.

Furthermore, OIG found that the PI was paid $19,533 by BlazeSports America during the same timeframe as the Department's grants, although OIG could not verify whether the payments were made using Department grant funds.

When asked about the conflict of interest issues, KSU officials indicated that they reviewed the relationship between the PI and BlazeSports America based on several allegations made to KSU officials.[44] As a result of the internal investigations, KSU instituted a second level of review of the BlazeSports America invoices on June 1, 2010, in an attempt to address conflict of interest concerns; however, the officials reviewing the invoices did not have personal knowledge of the grant activities. In addition, the invoices were largely a fixed total amount without providing details to allow OIG to assess the allowability of the costs.

Other Direct Costs

According to 2 C.F.R. § 200.403, to be considered allowable under Federal awards, costs must: (1) be necessary and reasonable for the performance of the Federal award,[45] (2) conform to limitations or exclusions, (3) be consistent with policy and procedures, (4) be accorded consistent treatment, (5) be adequately documented, (6) not be included as a cost to meet cost-sharing requirements, and (7) be determined in accordance with generally accepted accounting principles. Furthermore, Federal regulations state that grantees should have "records that

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[43] Georgia Board of Regents Record Retention policy requires that all records related to research grants be retained for 7 years after the end of the grant period; this means that records should have been retained until September 30, 2018. BlazeSports America officials stated that the organization's record retention policy was based on the Board of Regent's policy; that is, BlazeSports America should also have retained documents for 7 years. BlazeSports America initially stated to OIG that it had records related to the two grants. OIG made multiple requests over the course of 2 months, but BlazeSports America did not provide supporting documentation to OIG for funds it received from the Department's grants. It ultimately explained that it did not, in fact, have these records.

[44] The first complaint was made in 2007 regarding another Department grant awarded to KSU that was administered by the same PI with a similar arrangement with BlazeSports America. According to KSU officials, KSU's Legal Affairs office cleared the PI of a conflict of interest violation mainly due to an email from a Department bureau that was not involved in the grant, which stated that it saw no conflict of interest in the arrangements between the PI and BlazeSports America. The email was dated more than a year prior to the grant being reviewed by KSU's Legal Affairs and referenced an unrelated grant. The second complaint was an anonymous KSU hotline complaint alleging that the PI was submitting fraudulent invoices for both his own work and BlazeSports America, as well as being paid as a consultant to BlazeSports America. KSU Legal Affairs and the KSU Internal Auditors conducted a joint investigation in January 2010 and reported that they were unable to find documentation supporting the claims relating to fraudulent invoices. However, the report recommended that (1) KSU clearly disclose the relationship in any future grant applications, (2) chain of command be followed in supervising the PI's wife, and (3) all future grants be administered on a cost reimbursable basis. Hotline complaints to KSU continued in 2012, with another allegation that the PI was being paid both by BlazeSports America and the university. KSU undertook another investigation and found that the PI had received $18,000 from Blaze Sports in 2010.

[45] The guidelines in 2 C.F.R. § 200.404 define a cost as reasonable if it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

identify adequately the source and application of funds for Federally-funded activities." These records must "be supported by source documentation."[46] In addition, Federal regulations require that "financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of 3 years from the date of submission of the final expenditure report."[47] Georgia Board of Regents requirements extend this record retention policy to 7 years.

Federal regulations in 2 C.F.R. § 200 also state that:

> a cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:
>
> 1. Is incurred specifically for the Federal award;
> 2. Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
> 3. Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.[48]

During the audit, OIG tested a total of 236 expenditures, totaling $2,354,344. The expenditures tested included salary expense, travel expense, subrecipient expenses, and other direct costs. As detailed in Table 6, OIG identified $181,977 in other unallowable or unsupported costs that are not otherwise addressed in this report.

Table 6: Summary of Questioned Costs Related to Other Direct Costs

Award Number	Unallowable Costs	Unsupported Costs	Questioned Costs
SIN65014GR053	$171	$0	$171
SPK33013CA051	$7,218	$39,802	$47,020
SAF20013CA024	$11,593	$123,193	$134,786
Total	**$18,982**	**$162,995**	**$181,977**

Source: Generated by OIG based on an analysis of award expenditures related to direct costs.

Collectively, OIG identified $162,995 in unsupported costs associated with direct costs. For example, KSU could not provide sufficient supporting documentation for computer equipment

[46] 2 C.F.R. § 200.302(b)(3).

[47] 2 C.F.R. § 200.333.

[48] 2 C.F.R. § 200.405*(a)*.

totaling $30,234 for award SAF20013CA24.[49] OIG also identified a total of $18,982 in unallowable costs collectively with the awards. For example, the PI for award SAF20013CA024 purchased two Apple MacBook Pros, totaling $4,525, for his personal use. Furthermore, OIG identified examples of expenses that were unallocable. For example, KSU charged $1,443 in travel expenditures to award SPK330113CA051 that should have been charged to award SAF20013CA024. Please refer to Appendix B for additional details.

Cost Share Requirements

According to 2 C.F.R. § 200.306:

> for all Federal awards, any shared costs or matching funds and all contributions, including cash and third party in-kind contributions, must be accepted as part of the non-Federal entity's cost sharing or matching when such contributions meet all of the following criteria: (1) Are verifiable from the non-Federal entity's records; (2) Are not included as contributions for any other Federal award; (3) Are necessary and reasonable for accomplishment of project or program objectives; (4) Are allowable under Subpart E—Cost Principles of this part; (5) Are not paid by the Federal Government under another Federal award, except where the Federal statute authorizing a program specifically provides that Federal funds made available for such program can be applied to matching or cost sharing requirements of other Federal programs; (6) Are provided for in the approved budget when required by the Federal awarding agency; and (7) Conform to other provisions of this part, as applicable.[50]

Each cooperative agreement stated:

> it is understood and agreed that the recipient must provide the minimum amount of cost-sharing as stipulated in the recipient's budget approved by the GO. Cost-sharing may be in the form of allowable direct or indirect costs. The recipient must maintain written records to support all allowable costs which are claimed as being its contribution to cost participation, as well as costs to be paid by the Federal Government. Such records are subject to audit. In the event the recipient does not provide the minimum amount of cost-sharing as stipulated in the recipient's approved budget, the Department's contribution will be reduced in proportion to the recipient's contribution.[51]

[49] KSU was able to provide various quotes for the computer equipment but no evidence (such as an invoice or receipt) of the dollar amount actually expended.

[50] 2 C.F.R. § 200.306(b).

[51] Cooperative Agreement for Award SECAGD15CA1074, SPK33013CA051, and SAF20013CA024, U.S. Department of State, Post/Program Specifics, Data Elements – 4, Cost Sharing.

OIG reviewed cost sharing amounts reported on the Federal financial report as of September 30, 2016, and found that KSU could not support amounts claimed as fulfilling the cost sharing requirements outlined in the budgets for three of the seven awards audited, resulting in questioned costs of $79,448, as shown in Table 7.[52]

Table 7: Summary of Questioned Costs Relating to Cost Sharing Requirements

Award Number	Amount of Cost Share Reported	Amount of Cost Share Reported, But Unsupported	Amount of Cost Share Reported, But Unallowable	Total Questioned Cost share
SPK33013CA051	$31,788	$31,788	$0	$31,788
SAF20013CA024	$45,081	$45,081	$0	$45,081
SECAGD15CA1074	$22,023	$1,148	$1,431	$2,579
Total	**$98,892**	**$78,017**	**$1,431**	**$79,448**

Source: Generated by OIG based on an analysis of award expenditures related to cost sharing requirements.

KSU was unable to provide supporting documentation for the $76,869 in cost share amounts claimed relating to awards SPK33013CA051 and SAF20013CA024, which OIG considers unsupported costs. KSU officials stated that no documentation existed for cost-sharing because SPSU did not provide any information to KSU during the merger. In addition to the lack of supporting documentation for cost share amounts, OIG also found that KSU did not always comply with the award agreement for the types of costs that should be included in the cost share amount. Specifically, the budget justification for award SPK33013CA051 stated that "all of the PI's travel is in-kind/matching." However, KSU used Department funding to pay for the PI's travel on multiple occasions, rather than using KSU funding as required by the cooperative agreement. According to KSU officials, they continued to report the same figures on the Federal financial reports that SPSU had previously reported because they could not substantiate the amounts.

OIG also found unallowable amounts and a lack of supporting documentation for the cost share for award SECAGD15CA1074. Specifically, items were included within the cost share that were not in the budget justification, and other items did not have supporting documentation. For example, OIG identified $1,148 in unsupported costs for flights and meals and $1,431 in unallowable costs related to the purchase of messenger bags and a meal packing program.

Indirect Costs

When implementing a Federal award, in addition to direct costs, awardees generally also charge indirect costs to the award. Federal regulations define indirect costs as "costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable

[52] Each of the three awards were still active as of September 30, 2016; therefore, OIG only reviewed those amounts of cost share claimed by KSU as of that date. According to the cost share arrangements, KSU had until the end of the performance period of each grant to fulfill the total cost share amount.

to the cost objectives specifically benefited, without effort disproportionate to the results achieved."[53] The Negotiated Indirect Cost Rate Agreement[54] for KSU showed its on-campus indirect cost rate was 34.6 percent of its Modified Total Direct Costs,[55] and the Negotiated Indirect Cost Rate Agreement originating with SPSU showed its on-campus indirect cost rate was 46.8 percent of direct salaries and wages.[56]

Because the amount of indirect costs charged by an awardee is based on the amount of direct costs charged, the exceptions OIG identified related to direct costs would mean that KSU also overcharged the Department for indirect costs. Furthermore, OIG found that KSU did not always use the correct rate to determine indirect costs. Specifically, after KSU and SPSU merged, KSU began using its on-campus indirect cost rate of 34.6 percent for awards SPK33013CA051 and SAF20013CA024. Although KSU's overall indirect cost rate is lower, SPSU's rate was only charged on salary costs while KSU's rate was charged on almost all direct costs. Therefore, the overall effect of using KSU's indirect cost rate was a higher amount of indirect costs charged to the awards. KSU did not obtain approval from the Department to use its rate for the awards that originated at SPSU, instead of SPSU's rate, resulting in unallowable indirect costs. On the basis of these exceptions, OIG calculated that KSU overcharged the Department by $170,109 for indirect costs, as shown in Table 8.

Table 8: Summary of Questioned Costs Relating to Indirect Costs

Award Number	Unsupported Indirect Costs	Unallowable Indirect Costs	Questioned Costs
SIN65014GR053	$0	$26	$26
SPK33013CA051	$68,569	$21,282	$89,851
SAF20013CA024	$57,384	$22,848	$80,232
Total	**$125,953**	**$44,156**	**$170,109**

Source: Generated by OIG based on an analysis of award expenditures related to indirect costs.

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[53] 2 C.F.R. § 200.56.

[54] The Department's Federal Assistance Policy Handbook explains the Negotiated Indirect Cost Rate Agreement as follows: "Each organization [doing business with a U.S. Government agency] negotiates its indirect cost rates with one government agency which has been assigned cognizance. Usually the cognizant government agency is that agency which has the largest dollar volume of contracts with the firm or organization. The resulting Negotiated Indirect Cost Rate Agreement (NICRA) is binding on the entire government. The NICRA contains both final rates for past periods and provisional, or billing rates, for current and future periods. The provisional (billing) rate is established for use in reimbursing indirect costs under cost-reimbursement grants until a final rate can be established. The billing rate may be revised by the cognizant agency to prevent substantial overpayment or underpayment in the event of a significant change in the firm's business volume. A final indirect cost rate is established after the close of the contractor's fiscal year and once established is not subject to change."

[55] Modified Total Direct Costs means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first $25,000 of each subaward. Modified Total Direct Costs excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs, and the portion of each subaward in excess of $25,000.

[56] Under KSU's Negotiated Indirect Cost Rate Agreement an off-campus rate of 15.2 percent was to be used if at least 50 percent of the project was conducted off campus. By comparison, SPSU's off-campus rate was 28 percent.

Inaccurate and Untimely Financial Reporting

Federal regulations state that Federal agencies must collect financial information and performance reports from the recipient according to the terms and conditions of the award, but no less frequently than annually.[57] The Government-wide form for reporting financial assistance expenditures is the SF-425, "Federal Financial Report."[58] According to the Department's Federal Assistance Policy Directive, Federal financial reports must be submitted to the GO and GOR according to the terms and conditions of the award.[59] The award agreements required KSU to either submit financial progress reports at certain intervals, such as quarterly, or with each payment request. In addition, a final self-certified financial report and program report was required to be submitted to the GO within 90 days after the award period end date. OIG found that KSU did not submit timely or accurate financial reports to the Department for six of the seven awards audited, as shown in Table 9.

Table 9: Summary of Late or Inaccurate Financial Reports

Award Number	Number of Financial Reports Submitted	Number of Reports Submitted Late or With Inaccuracies	Percentage of Reports Submitted Late or With Inaccuracies
SIN65014GR049	1	0	100
SIN65014GR053	1	1	0
SECAGD15CA1074	5	5	100
SLMAQM08GR0598	13	13	100
SLMAQM09GR0542	11	11	100
SPK33013CA051	14	14	100
SAF20013CA024	12	12	100
Total	**57**	**56**	**98**

Source: Generated by OIG based on an analysis of financial reports submitted by KSU, as of September 30, 2016, in relation to the awards audited.

For example, as shown in Table 10, OIG reviewed the total amount of expenditures shown in the KSU general ledgers as of September 30, 2016, for award SPK33013CA051, and noted that a different amount was shown on the September 30, 2016, SF-425 and the September 30, 2016, SF-270.[60]

Table 10: Example of Inaccurate Financial Data as of September 30, 2016

Award Number	KSU General Ledger	Form SF-425	Form SF-270
SPK33013CA051	$678,640	$777,751	$756,071

[57] 2 C.F.R. § 200.327.

[58] U.S. Department of State, Federal Assistance Policy Directive 3.01-B (January 2016), "Financial Reporting."

[59] Ibid.

[60] SF-270, "Request for Advancement or Reimbursement."

Source: Generated by OIG based on SPSU and KSU financial records.

OIG also found that for five of seven awards, both the indirect cost rate and the amount were routinely either not reported on the Federal financial report, as required, or the indirect cost rate was reported incorrectly. In addition, for five of seven awards, cost sharing amounts were either routinely not reported on the Federal financial report, as required, or were reported incorrectly. Furthermore, OIG found multiple instances in which there were mathematical errors on the forms, and the amounts were not reported consistently from quarter to quarter.

Awards Not Sufficiently Administered by the Awardee

The deficiencies identified in this report occurred, in part, because the KSU grants management office did not have the technical competencies needed to perform required financial administration of the awards. According to the *Department's Federal Assistance Policy Handbook*, signs that a recipient might not be able to satisfactorily complete its task include lack of experience, management problems, and past poor performance. OIG found there were no formally trained accounting personnel overseeing the grantee financial management at KSU. This led to deficiencies in properly accounting for grant expenditures and reporting financial information to the Department. For example, OIG noted that the failure to submit financial reports timely, consistently, and accurately occurred, in part, because KSU staff misunderstood how to complete the reports. OIG reviewed email correspondence between KSU and AQM (sent in 2013) in which KSU officials stated that they left the indirect costs off the financial reporting because of confusion on how to complete the forms. Similar errors in submissions to ECA in 2016 were also attributed to a lack of understanding on how to complete the forms. OIG notes that this inability to complete the forms lasted up to 7 years without resolution. SCA identified KSU as a high risk organization[61] for one award because of KSU's lack of experience in successfully implementing a program in Pakistan, which is an inherently difficult environment in which to carry out a project. However, ECA and DRL (the other two bureaus that were responsible for awards addressed in this audit)[62] did not identify KSU as high risk.

Deficiencies in Award Administration Led To Problems Fulfilling Program Goals

As a result of the deficiencies in award administration, Department funding may have been expended for purposes other than those agreed to in award terms and conditions. Additionally, according to Department officials, the lack of oversight and technical competencies at KSU affected the fulfillment of program goals outlined in the awards. Specifically, KSU did not complete all program goals within agreed upon deadlines for four of the seven awards audited. In two cases, primary program goals were not completed at all. For example, KSU failed to develop a secure website and create a blog to support a DRL disability sport development project (SLMAQM09GR0542), which was one of three performance goals for the award. In

[61] The Department has an established Risk Based Management Framework, based on guidance from OMB that places an emphasis on reducing the potential for fraud, waste, and abuse while focusing on improving performance and program outcomes. The policy requires all bureaus, offices, and posts to conduct a risk assessment on all competitive and noncompetitive awards.

[62] The two DRL awards included in the audit ended in FY 2011.

another instance, KSU did not send faculty to participate in an international conference in Karachi, Pakistan, which was a key element of an SCA award (SPK33013CA051). In this instance, KSU emailed Indus Valley Institute of Art and Architecture on February 9, 2017, and stated that KSU faculty would not be attending the upcoming conference, which was scheduled to begin on February 20, 2017. The Department learned of KSU's decision only indirectly after being contacted by Indus Valley Institute of Art and Architecture less than 2 weeks before the conference was to begin. According to Department officials, KSU's decision not to participate at the conference without providing sufficient advance notice to the Department affirmatively harmed the conference because KSU staff had key roles, such as making presentations and conducting workshops. Moreover, KSU's absence created unexpected challenges for the Indus Valley Institute of Art and Architecture, as well as the U.S. Consulate in Karachi, Pakistan, both of which had to step in to replace the roles that KSU was to fill. In addition, KSU's decision not to participate in the conference violated the terms and conditions of the award agreement.

Recommendation 1: OIG recommends that the Bureau of South and Central Asian Affairs (a) determine whether the $229,405 in unallowable costs and $565,046 in unsupported costs related to awards SAF20013CA024, SPK33013CA051, and SIN65014GR053 (see tables B.1, B.5 and B.6 in Appendix B) are allowable and supported, and (b) recover any costs determined to be unallowable or unsupported.

Management Response: SCA concurred with this recommendation, stating that it "will closely examine all of the expenses incurred against the above-mentioned grant[s]."

OIG Reply: Based on SCA concurrence with the recommendation and planned actions, OIG considers the recommendation resolved, pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that SCA has taken action regarding the $794,451 in questioned costs, including the recovery of the costs determined to be disallowed.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, in coordination with the Bureau of Democracy, Human Rights, and Labor, (a) determine whether the $838,732 in unallowable costs related to awards SLMAQM08GR0598 and SLMAQM09GR0542 (see tables B.3 and B.4 in Appendix B) are allowable, and (b) recover any costs determined to be unallowable.

Management Response: In coordination with DRL, AQM concurred with this recommendation, stating that it will seek to recover the $838,732 in unallowable costs related to SLMAQM08GR0598 and SLMAQM09GR0542.

OIG Reply: Based on AQM concurrence with the recommendation and planned actions, OIG considers the recommendation resolved, pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that AQM has taken action regarding the $838,732 in questioned costs, including the recovery of the costs determined to be disallowed.

Recommendation 3: OIG recommends that the Bureau of Education and Cultural Affairs (a) determine whether the $1,431 in unallowable cost share amounts and $1,148 in unsupported cost share amounts reported for award SECAGD15CA1074 (see table B.2 in Appendix B) are allowable and supported, and (b) recover any costs determined to be unallowable or unsupported.

Management Response: ECA concurred with this recommendation, stating that it "will review the questioned cost share amounts" and "will recover any costs determined to be unallowable or unsupported."

OIG Reply: Based on ECA concurrence with the recommendation and planned actions, OIG considers the recommendation resolved, pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that ECA has taken action regarding the $2,579 in questioned costs, including the recovery of the costs determined to be disallowed.

Recommendation 4: OIG recommends that the Bureau of Education and Cultural Affairs deem Kennesaw State University as high risk, and develop and execute a corrective action plan to ensure that the University has the skills and abilities it needs to submit accurate financial reports and complete program goals within agreed-upon deadlines.

Management Response: ECA concurred with this recommendation, stating that it "will deem" KSU as "high risk and develop a corrective action plan to ensure that the University has the skills and abilities it needs to submit accurate financial reports and complete program goals within agreed-upon deadlines."

OIG Reply: Based on ECA concurrence with the recommendation and planned actions, OIG considers the recommendation resolved, pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that ECA has deemed KSU as high risk and executed a corrective action plan to ensure that the University submits accurate financial reports and completes program goals within agreed upon deadlines.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of South and Central Asian Affairs (a) determine whether the $229,405 in unallowable costs and $565,046 in unsupported costs related to awards SAF20013CA024, SPK33013CA051, and SIN65014GR053 (see tables B.1, B.5 and B.6 in Appendix B) are allowable and supported, and (b) recover any costs determined to be unallowable or unsupported.

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Recommendation 3: OIG recommends that the Bureau of Education and Cultural Affairs (a) determine whether the $1,431 in unallowable cost share amounts and $1,148 in unsupported cost share amounts reported for award SECAGD15CA1074 (see table B.2 in Appendix B) are allowable and supported, and (b) recover any costs determined to be unallowable or unsupported.

Recommendation 4: OIG recommends that the Bureau of Education and Cultural Affairs deem Kennesaw State University as high risk, and develop and execute a corrective action plan to ensure that the University has the skills and abilities it needs to submit accurate financial reports and complete program goals within agreed-upon deadlines.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The Department of State's (Department) Bureau of South and Central Asian Affairs (SCA) requested the Office of Inspector General (OIG) to initiate a performance audit to determine whether Kennesaw State University (KSU) expended funds and accurately reported financial information related to Department awards in accordance with Federal requirements and the award terms and conditions.

The Office of Audits conducted this audit from November 2016 to February 2017. Audit work was performed in the Washington, DC, metropolitan area and at Kennesaw, GA. OIG conducted this performance audit in accordance with generally accepted Government auditing standards. These standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions presented in this report.

To obtain background information, including criteria, OIG researched and reviewed Federal laws and regulations, including Title II of the Code of Federal Regulations, Part 200 (2 C.F.R. § 200), which consolidated eight Office of Management and Budget (OMB) Circulars into one authoritative document relating to Federal assistance awards. OIG also researched and reviewed Department policies relating to the Federal assistance awards, such as the Foreign Affairs Manual and the Department's "Standard Terms and Conditions" for Federal assistance awards, as well as the Georgia Board of Regents Policy Manual. Additionally, OIG reviewed seven grants and cooperative agreements awarded by the Department during FY 2008 through FY 2016. OIG also communicated with key personnel, including individuals from SCA, the Bureau of Educational and Cultural Affairs (ECA), the Bureau of Democracy, Human Rights, and Labor (DRL), and the Office of Acquisitions Management (AQM) in the Bureau of Administration's Office of Logistics Management to gain an understanding of each bureaus' administration of Federal assistance awards.

OIG travelled to KSU from December 11 to 16, 2016, and met with KSU personnel to gain an understanding of KSU operations related to Federal assistance awards, including financial processes associated with expenditures. Specifically, OIG conducted interviews with KSU officials and discussed expenditures included in the Federal assistance awards and reviewed available supporting documentation and performance requirements, according to the award agreements. OIG also reviewed KSU's Sponsored Awards Handbook, which provides an overview of the activities required for researchers to prepare, submit, and manage externally funded projects.

Work Related to Internal Controls

OIG performed steps to assess the adequacy of internal controls for award management at KSU. Specifically, OIG reviewed awardee documentation and held interviews with University officials. Although OIG identified certain limited controls for the grant management process at KSU, OIG chose not to rely on or specifically test those controls to determine the allowability of expenditures. In addition, OIG found a complete lack of internal controls within the SPSU grants management process; therefore, OIG was not able to test internal controls at that University. However, OIG was able to verify from Department officials and supporting documentation that KSU complied with performance requirements for some of the Federal assistance awards. Details of the internal control deficiencies identified during the audit are presented in the Audit Results section of this report.

Use of Computer-Processed Data

During the course of this audit, OIG used electronically processed data from Abila Fund Accounting (Abila) and GeorgiaFIRST PeopleSoft Financials (PeopleSoft).

Abila Fund Accounting

Abila Fund Accounting is Kennesaw State University Research and Service Foundation's financial system. OIG assessed the reliability of Abila data by reviewing existing information about the data, interviewing officials knowledgeable about the data, reviewing the data for errors, and comparing the data to hardcopy records. Specifically, OIG reviewed information obtained from the "Abila MIP Getting Started Guide" to gain an understanding of Abila and interviewed accounting staff who used the system on a regular basis. In addition, OIG reviewed the general ledgers for mathematical accuracy. OIG also judgmentally selected a sample of expenditures for review from the award general ledgers and requested supporting documents for each expenditure (please refer to the Detailed Sample Methodology for a description of our sampling methodology and expenditures reviewed). OIG then compared the supporting documents to the general ledgers to assess the accuracy of the data obtained from Abila. OIG found that the financial information contained in Abila was not always entered correctly or was incomplete. Although Abila data by itself was not always reliable, OIG believes that the data used in conjunction with hardcopy financial records and testimonial evidence supplied by accounting staff provide a reasonable basis for determining the deficiencies identified in the Audit Results section of this report.

GeorgiaFIRST PeopleSoft Financials

The GeorgiaFIRST PeopleSoft Financials application is KSU's financial system. OIG assessed the reliability of PeopleSoft data by reviewing existing information about the data, interviewing officials knowledgeable about the data, reviewing the data for errors, and comparing the data to hardcopy records. Specifically, OIG reviewed information obtained from the University System of Georgia to gain an understanding of PeopleSoft and interviewed accounting staff who used the system on a regular basis. In addition, OIG reviewed the general ledgers for mathematical accuracy. OIG also judgmentally selected a sample of expenditures for review from the award general ledgers and requested supporting documents for each expenditure (please refer to the Detailed Sample Methodology for a description of our sampling methodology and expenditures reviewed). OIG then compared the supporting documents to the general ledgers to assess the accuracy of the data obtained from PeopleSoft. OIG found that the financial information was not always entered correctly into PeopleSoft or was incomplete. Although PeopleSoft data by itself was not always reliable, OIG believes that the data used in conjunction with hardcopy financial records and testimonial evidence provided by accounting staff provide a reasonable basis for determining the deficiencies identified in the Audit Results section of this report.

Detailed Sampling Methodology

The objectives of the sampling process were to select a sample of expenditures and performance indicators for review. OIG employed a non-statistical sampling method known as judgmental sampling to carry out its audit fieldwork. Specifically, OIG selected a sample of expenditures from each award to determine whether KSU expended funds in accordance with the award's terms and conditions, program budget, and Federal requirements. OIG selected transactions in various categories of expenditures and high risk transactions, such as high dollar amounts and items with unusual descriptions. In addition, OIG selected one performance indicator from each award to determine whether performance indicators established for the award were met and accurately reported.

Expenditure Selection Methodology

OIG obtained the general ledgers as of September 30, 2016, from KSU for each of the seven awards and judgmentally selected a total of 156 expenditures totaling $1,594,529. OIG took into account the type (salary, travel, supplies, contractual, and other direct expenses) and amount (both high and low) of each expenditure when making the selection for review. During the OIG's analysis of the expenditures selected, OIG identified issues that are presented in the Audit Results section of this report. As a result of the issues identified, OIG judgmentally selected an additional sample of 80 expenses totaling $759,815 from four awards to conduct further testing. Specifically, for awards SPK33013CA051 and SAF20013CA024, we selected all transactions over $1,000, and for awards SLMAQM08GR0598 and SLMAQM09GR0542, we selected all payments to BlazeSports. Overall, we selected and reviewed $2,354,344 out of the $2,934,697 (80 percent) expended. Table A.1 shows the number of expenditures selected for testing.

Table A.1: Summary of Expenditures Selected for Testing

Award Number	Initial Number of Expenditures Selected	Additional Number of Expenditures Selected	Total Expenditures Selected
SIN65014GR049	10	0	10
SIN65014GR053	10	0	10
SECAGD15CA1074	15	0	15
SLMAQM08GR0598	15	17	32
SLMAQM09GR0542	15	12	27
SPK33013CA051	45	19	64
SAF20013CA024	46	32	78
Total	**156**	**80**	**236**

Source: Generated by OIG based on the audit sampling plan and expenditure testing procedures.

Performance Indicator Selection Methodology

OIG obtained the file for each of the seven awards included in the audit and reviewed the information related to performance. OIG judgmentally selected one performance indicator from each award to independently verify whether the performance indicator was achieved. Issues identified by OIG regarding program performance are presented in the Audit Results section of this report.

APPENDIX B: QUESTIONED COSTS IDENTIFIED DURING THE AUDIT

Tables B.1 through B.6 provide details on the questioned costs identified by the Office of Inspector General during expenditure testing.

Table B.1: Unsupported and Unallowable Costs – Grant Agreement Number – SIN65014GR053

Description	Expenditure Amount	Unsupported Costs	Unallowable Costs	Total Questioned Costs
Reimburse KSU Materials and Supplies – Hotel Credit	$2,781.60	$0	$170.80	$170.80
Associated Indirect Expense	$422.80	$0	$25.96	$25.96
Total	**$3,204.40**	**$0**	**$196.76**	**$196.76**

Source: Generated by OIG based on results of testing a judgmental sample of expenditures.

Table B.2: Unsupported and Unallowable Costs – Grant Agreement Number – SECAGD15CA1074

Description	Expenditure Amount	Unsupported Costs	Unallowable Costs	Total Questioned Costs
Cost Sharing	$22,023.18	$1,148.23	$1,430.92	$2,579.15
Total	**$22,023.18**	**$1,148.23**	**$1,430.92**	**$2,579.15**

Source: Generated by OIG based on results of testing a judgmental sample of expenditures.

Table B.3: Unsupported and Unallowable Costs – Grant Agreement Number – SLMAQM08GR0598

Description	Expenditure Amount	Unsupported Costs	Unallowable Costs	Total Questioned Costs
Payments to BlazeSports	$233,635.00	$0	$233,635.00	$233,635.00
Total	**$233,635.00**	**$0**	**$233,635.00**	**$233,635.00**

Source: Generated by OIG based on results of testing a judgmental sample of expenditures.

Table B.4: Unsupported and Unallowable Costs – Grant Agreement Number – SLMAQM09GR0542

Description	Expenditure Amount	Unsupported Costs	Unallowable Costs	Total Questioned Costs
Payments to BlazeSports	$605,097.00	$0	$605,097.00	$605,097.00
Total	**$605,097.00**	**$0**	**$605,097.00**	**$605,097.00**

Source: Generated by OIG based on results of testing a judgmental sample of expenditures.

Table B.5: Unsupported and Unallowable Costs – Cooperative Agreement Number – SPK33013CA051

Description	Expenditure Amount	Unsupported Costs	Unallowable Costs	Total Questioned Costs
Travel	$1,425.44	$0	$1,425.44	$1,425.44
Travel	$1,960.00	$1,960.00	$0	$1,960.00
Travel	$1,419.80	$969.80	$0	$969.80
Travel	$3,159.00	$2,679.00	$0	$2,679.00
Travel	$2,878.14	$0	$2,878.14	$2,878.14
Travel	$5,652.12	$2,343.98	$0	$2,343.98
Office Supplies	$2,399.00	$2,399.00	$0	$2,399.00
Other Operating Expense	$3,500.00	$3,500.00	$0	$3,500.00
Travel	$1,442.50	$0	$1,442.50	$1,442.50
Travel	$3,000.00	$3,000.00	$0	$3,000.00
Travel	$1,000.00	$1,000.00	$0	$1,000.00
Travel	$1,066.05	$60.00	$0	$60.00
Travel	$3,159.00	$3,159.00	$0	$3,159.00
Research Supplies	$1,071.62	$0	$1,071.62	$1,071.62
Other Operating Expense	$7,652.58	$7,652.58	$0	$7,652.58
Other Operating Expense	$6,997.06	$6,997.06	$0	$6,997.06
Reimburse KSU Scholarships	$40,328.86	$20.00	$0	$20.00
Reimburse KSU Materials and Supplies	$1,750.44	$1,750.44	$0	$1,750.44
Reimburse KSU Postage	$400.14	$0	$400.14	$400.14
Reimburse KSU Licenses Permits	$558.24	$558.24	$0	$558.24
Reimburse KSU Hotel	$5,330.65	$1,719.29	$0	$1,719.29
Reimburse KSU Travel Meals	$13,007.18	$33.29	$0	$33.29
Salaries and Wages	$341,167.34	$109,571.02	$67,578.11	$177,149.13
Research Assistant (Rugaya Abaza)	$7,440.00	$0	$7,440.00	$7,440.00
Cost Sharing	$31,788.00	$31,788.00	$0	$31,788.00
Associated Indirect Costs	$155,156.12	$68,568.69	$21,282.60	$89,851.29
Total	**$644,709.28**	**$249,729.39**	**$103,518.55**	**$353,247.94**

Source: Generated by OIG based on results of testing a judgmental sample of expenditures.

Table B.6: Unsupported and Unallowable Costs – Cooperative Agreement Number – SAF20013CA024

Description	Expenditure Amount	Unsupported Costs	Unallowable Costs	Total Questioned Costs
Travel	$3,350.49	$368.18	$2,156.31	$2,524.49
Travel	$2,000.00	$2,000.00	$0	$2,000.00
Office Supplies	$30,233.89	$30,233.89	$0	$30,233.89
Office Supplies	$2,617.94	$0	$2,617.94	$2,617.94
Other Operating Expense	$5,566.00	$5,566.00	$0	$5,566.00
Other Operating Expense - Freight	$9,800.00	$9,800.00	$0	$9,800.00
Other Operating Expense - Freight	$9,938.00	$9,938.00	$0	$9,938.00
Other Operating Expense - Freight	$14,839.85	$14,839.85	$0	$14,839.85
Travel	$1,012.65	$2.65	$50.00	$52.65
Travel	$1,220.00	$75.00	$102.75	$177.75
Office Supplies	$4,242.00	$4,242.00	$0	$4,242.00
Office Supplies	$2,880.00	$2,880.00	$0	$2,880.00
Office Supplies	$1,906.94	$0	$1,906.94	$1,906.94
Other Operating Expense	$1,026.58	$0	$911.58	$911.58
Other Operating Expense	$5,280.00	$5,280.00	$0	$5,280.00
Other Operating Expense	$3,245.41	$3,245.41	$0	$3,245.41
Other Operating Expense - Freight	$1,660.00	$1,660.00	$0	$1,660.00
Other Operating Expense - Freight	$12,850.00	$12,850.00	$0	$12,850.00
Software	$1,908.00	$1,908.00	$0	$1,908.00
Equipment Purchase - Inventory	$18,200.00	$18,200.00	$0	$18,200.00
Reimburse KSU Materials and Supplies	$1,355.96	$0	$1,100.00	$1,100.00
Reimburse KSU Licenses Permits	$1,094.93	$40.00	$0	$40.00
Reimburse KSU Hotel	$4,455.87	$64.32	$0	$64.32
Reimburse KSU Travel Meals	$7,465.25	$0	$2,747.25	$2,747.25
Salaries and Wages	$201,394.94	$89,657.77	$74,436.42	$164,094.19

Description	Expenditure Amount	Unsupported Costs	Unallowable Costs	Total Questioned Costs
Research Assistants (Rugaya and Suhaib Abaza)	$16,812.50	$0	$16,812.50	$16,812.50
Cost Sharing	$45,081.00	$45,081.00	$0	$45,081.00
Associated Indirect Costs	$97,689.22	$57,384.46	$22,848.01	$80,232.47
Total	**$509,127.42**	**$315,316.53**	**$125,689.70**	**$441,006.23**

Source: Generated by OIG based on results of testing a judgmental sample of expenditures.

APPENDIX C: BUREAU OF SOUTH AND CENTRAL ASIAN AFFAIRS MANAGEMENT RESPONSE

Bureau of South and Central Asian Affairs

UNCLASSIFIED May 10, 2017

TO: OIG/AUD – Norman P. Brown

FROM: SCA – DAS Nini Forino, Acting nf

SUBJECT: Report – *Audit of Department of State Grants and Cooperative Agreements Awarded to Kennesaw State University*

(U) In response to the recommendations contained in the Office of the Inspector General *Audit of Department of State Grants and Cooperative Agreements Awarded to Kennesaw State University*, the Bureau of South and Central Asian Affairs' Office of Press and Public Diplomacy (SCA/PPD) submits the following response:

(U) **OIG Reply to Recommendation 1:**

(U) OIG recommends that the Bureau of South and Central Asian Affairs (a) determine whether the $229,405 in unallowable costs and $565,046 in unsupported costs related to awards SAF20013CA024, SPK33013CA051, and SIN65014GR053 are allowable, and (b) recover any costs determined to be unallowable.

(U) SCA/PPD Response: Concur. SCA/PPD will closely examine all of the expenses incurred against the above-mentioned grant.

Attachments:

Tab 1 – OIG Request for Audit Report Response
Tab 2 – OIG Draft Audit Report

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Approved:	SCA – DAS Nini Forino, Acting	
Drafted:	SCA/PPD – Jacqueline Viselli, ext. 7-9544	
Cleared:	SCA/PPD – Tess Del Prete	(ok)
	SCA/PPD – Grachelle Javellana	(ok)
	SCA/PPD – Ebony Custis	(ok)
	SCA/PPD – Katherine Reedy	(ok)

APPENDIX D: BUREAU OF ADMINISTRATION, OFFICE OF LOGISTICS MANAGEMENT, OFFICE OF ACQUISITIONS MANAGEMENT, RESPONSE

United States Department of State

Washington, D.C. 20520

May 9, 2017

UNCLASSIFIED
MEMORANDUM

TO: OIG/AUD – Norman P. Brown

FROM: A/LM – Jennifer A. McIntyre

SUBJECT: Draft Report *Audit of Department of State Grants and Cooperative Agreements Awarded to Kennesaw State University*

Below is the Office of Logistics Management's response to the subject report. The point of contact for this response is Jim Moore who may be reached at 703-875-6285.

Recommendation 2. OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, in coordination with the Bureau of Democracy, Human Rights, and Labor, (a) determine whether the $838,732 in unallowable costs related to awards SLMAQM08GR0598 and SLMAQM09GR0542 (see tables B.3 and B.4 in Appendix B) are allowable, and (b) recover any costs determined to be unallowable.

Management Response to Draft Report: In coordination with DRL, AQM concurs with the OIG determination that $838,732 for costs related to awards SLMAQM08GR0598 and SLMAQM09GR0542 are unsupported and unallowable and will seek to recover these costs.

APPENDIX E: BUREAU OF EDUCATIONAL AND CULTURAL AFFAIRS MANAGEMENT RESPONSE

United States Department of State

Bureau of Educational and Cultural Affairs
Washington, D.C. 20547

www.state.gov

May 10, 2017

UNCLASSIFIED

MEMORANDUM

SUBJECT: Response to Office of Inspector General Draft Report No. OIG-SI-17-XX "Audit of Department of State Grants and Cooperative Agreements Awarded to Kennesaw State University" dated April 2017

FROM: Tony Fournier, Acting Chief, U.S. Department of State, Bureau of Educational and Cultural Affairs, Grants Division

TO: Norman P. Brown, Assistant Inspector General for Audits, U.S. Department of State, Office of Inspector General, Office of Audits

Thank you for the opportunity to respond to the issues and recommendations in the subject audit report. Following is a summary of the U.S. Department of State, Bureau of Educational and Cultural Affairs' (ECA) overall position, along with its position on each of the report recommendations.

ECA'S OVERALL POSITION

The Bureau of Educational and Cultural Affairs agrees with the "Audit of Department of State Grants and Cooperative Agreements Awarded to Kennesaw State University" Report Recommendations 3 and 4.

ECA'S RESPONSE TO REPORT RECOMMENDATIONS

No.	OIG Recommendation	ECA Initial Response
3	OIG recommends that the Bureau of Education and Cultural Affairs (a) determine whether the $1,431 in unallowable cost share amounts and $1,148 in unsupported cost share amounts reported for award SECAGD15CA1074 (see table B.2 in Appendix B) are allowable and supported, and (b) recover any costs determined to be unallowable or unsupported.	The Bureau of Education and Cultural Affairs agrees with Recommendation 3. The ECA Grants Officer will review the questioned cost share amounts and make a determination whether the costs are allowable and supported. ECA will recover any costs determined to be unallowable or unsupported.

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4	OIG recommends that the Bureau of Education and Cultural Affairs deem Kennesaw State University as high risk, and develop and execute a corrective action plan to ensure that the University has the skills and abilities it needs to submit accurate financial reports and complete program goals within agreed-upon deadlines.	The Bureau of Education and Cultural Affairs agrees with Recommendation 4. Based on this Audit, the ECA Grants Officer will deem Kennesaw State University as high risk and develop a corrective action plan to ensure the University has the skills and abilities it needs to submit accurate financial reports and complete program goals within agreed-upon deadlines.

CONTACT INFORMATION

If you have any questions regarding this response, please contact Andrea Culhane, Grants Officer, at CulhaneAA@state.gov, or Tony Fournier, Acting Grants Division Chief, at FournierT@state.gov, of the Bureau of Educational and Cultural Affairs, Grants Division (ECA-IIP/EX/G).

Tony Fournier, ECA-IIP/EX/G Acting Division Chief

5/10/2017
Date

cc: ECA/S/E – Lana S. Muck
ECA/A/E/USS – Britta S. Bjornlund
ECA/A/E/USS - Kevin H. Orchison
ECA-IIP/EX/G- Andrea A. Culhane
ECA-IIP/EX/G- Ivy S. Garrett

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APPENDIX F: KENNESAW STATE UNIVERSITY RESPONSE

KENNESAW STATE UNIVERSITY
Office of the President

May 23, 2017

Mr. Norman P. Brown
Assistant Inspector General for Audits
Office of the Inspector General
United States Department of State
1700 N. Moore Street
Arlington, Virginia 22209

Re: *April 26, 2017, Draft Audit of the Department of State Grants and Cooperative Agreements Awarded to Kennesaw State University*
Response of Kennesaw State University

Dear Mr. Brown:

Please find enclosed Kennesaw State University's ("KSU" or "University") response ("Response") to the United States Department of State ("Department") Office of the Inspector General's ("OIG") April 26, 2017, Draft Audit of the Department of State Grants and Cooperative Agreements Awarded to Kennesaw State University ("Draft Audit" or "Audit").

In this Response, the University acknowledges a number of the OIG's findings and recommendations, particularly in relation to two (2) United States Department of State grants originally awarded to Southern Polytechnic Applied Research Corporation ("SPARC") and novated to Kennesaw State University's Research and Service Foundation ("KSURSF") in late 2015. These challenges were originally discovered by KSU, which investigated them, brought them to the Department of State's attention, and pursued appropriate personnel action.

However, the University respectfully requests the Department of State consider this Response as contextualizing other findings and conclusions of the OIG. This includes, but is not limited to, OIG's conclusion that KSU did not appropriately budget and deduct salary expenses in two (2) Departmental awards, knowingly failed to follow federal conflict of interest requirements for a principal investigator in two (2) awards, engaged in inappropriate cost sharing requirements in two (2) awards, and submitted late or inaccurate financial reports in six (6) of seven (7) awards.
The University particularly opposes the audit team's determination that the University did not meet program goals in four (4) out of seven (7) awards. In support, the OIG audit team can solely substantiate a single instance – and this involved a situation in which the University followed the explicit guidance of the United States Department of State regarding non-essential travel to Pakistan. In addition, the University is able to substantiate costs in a significant number of areas in SPARC-administered awards in which the OIG recommended disallowance due to inadequate documentation.

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Phone 470-578-6033 | Fax 470-578-9117 | www.kennesaw.edu

Beyond differences of opinion and factual corrections, it is my hope you will consider the University's enclosed response, and determine the findings and recommendations contained in the Draft Audit neither advance the public service goals of the United States Department of State nor Kennesaw State University.

Thank you for considering the University's response.

Sincerely,

KENNESAW STATE UNIVERSITY

Sam S. Olens
President

xc: Jeff Milsteen
John Marshall
Mike Dishman
Henry Spinks
Lynda Johnson
Ken Harmon
Julie Peterson
Carolyn Elliott-Farino
Anna McCoy
Brenda Stopher
Dianne Summey
Charles Amlaner

April 26, 2017, Draft Audit of the Department of State Grants and Cooperative Agreements Awarded to Kennesaw State University

Response of Kennesaw State University

Having considered the United States Department of State's Office of the Inspector General's Draft Audit of Department of State Grants and Cooperative Agreements Awarded to Kennesaw State University, Kennesaw State University responds as follows –

(a) The OIG erred in recommending disallowing all expenditures to BlazeSports America in awards SLMAQM08GR0598 and SMLAQM09GR0542 and recommending the Department recover those funds from Kennesaw State University.

Approximately half of the questioned costs in the Draft Audit ($838,732) stem from the OIG audit team recommending disallowing all Department funds subawarded from awards SLMAQM08GR0598 and SMLAQM09GR0542 to BlazeSports America, a 501(c)(3) nonprofit corporation focused on increasing access and participation by individuals with disabilities in organized sports. *Draft Audit*, at 13-14. The audit team recommends doing so primarily and summarily on the basis that the principal investigator did not disclose his co-principal investigator – his spouse – was also the Chief Executive Officer of BlazeSports America at the time of the sub-award. The audit team further disallowed the expenses as a result of BlazeSports America's alleged inability to provide supporting documentation for expenses incurred between 2008 and 2011. *Draft Audit,* at 13-14.

Kennesaw State University respectfully disagrees. First, the Department was well-aware of the relationship between the principal investigator and the Chief Executive Officer of BlazeSports America, and previously determined a conflict of interest did not exist. Second, in grant submissions, the principal investigator's spouse was explicitly identified as a co-principal investigator and BlazeSports America was explicitly identified as an institutional partner. Consequently, the conflict of interest provisions identified in OMB Circular A-110, which envision a preferential (and likely non-disclosed) subaward following the award of a grant, did not occur and are not applicable. Third, the Department Grant Officer supervising awards SLMAQM08GR0598 and SMLAQM09GR0542, as well as other Department personnel, consistently determined BlazeSports America met Department requirements for documentation of costs, approving payments to BlazeSports America during the time periods relevant to the grant. Fourth, the Departmental Grants Officer supervising the awards determined that KSU met the conditions of the awards. The OIG audit team does not challenge whether KSU met all of the other requirements of the awards, asserting instead only one requirement was not met – an alleged failure to provide a blog and website.[1] Finally, the vast majority of the funds expended by BlazeSports America were on fixed price subawards approved by the Department. Per OMB Circular A-21, the cost principles in effect at the time of the award, Section A. 3. states, "These principles shall be used in determining the allowable costs of work performed by colleges and universities under sponsored agreements. The principles shall also be used in determining the costs of work performed by such institutions under subgrants, cost reimbursement subcontracts, and other awards made to them under sponsored agreements. They also shall be used as a guide in the pricing of fixed price contracts and subcontracts where costs are used in determining the appropriate price." Recipients and subrecipients working under fixed price agreements are not required to provide justification of actual costs incurred.

(1) The Department was aware of the relationship between the principal investigator in awards SLMAQM08GR0598 and SMLAQM09GR0542 and the CEO of BlazeSports America, and previously determined an impermissible conflict of interest did not occur.

The OIG audit team determined an impermissible conflict of interest occurred in awards SLMAQM08GR0598 and SMLAQM09GR0542. The OIG audit team bases this conclusion on its interpretation of OMB Circular A110, which it quotes as prohibiting "employees, officers, or agents" from selecting or participating in the selection of awards to organizations in which a member of that individual's family "has a financial or other interest in the firm selected for an award." *Draft Audit*, at 11-12. The Draft Audit asserts this occurred as the principal investigator of SLMAQM08GR0598 and SMLAQM09GR0542 was married to the Chief Executive Officer of BlazeSports America, which the audit team characterizes as a subcontractor. "The PI's significant subawards to an organization run by his spouse was a conflict of interest." *Draft Audit*, at 13.

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[1] The OIG audit team concedes KSU met three (3) of four (4) program goals outlined in SMLAQM09GR0542, solely contending "KSU failed to develop a secure website and create a blog to support a DRL disability sport development project[.]" *Draft Audit*, at 21. However, it is unclear how OIG reached this conclusion. At no point between 2008 and 2016 did Department personnel suggest the program goals of SMLAQM09GR0542 were not met. To the contrary, on December 13, 2011, at the request of a Department Grants Officer, the principal investigator completed a Department-created report detailing "Website Activity during the period [FY11]." The report detailed 27,297 total visitors to the website, with 13,090 repeat visitors, and 276 visitors from the targeted region. The report further detailed 17,324 visitors to "BlazeTV Channel," with 653 visitors from the targeted region. *Please see Exhibit D.* Similarly, the final progress reports for SLMAQM08GR0598 and SLMAQM09GR0542 document that a website and blog were created: "Website was placed online in early second quarter of 2010 and is being constantly updated. Website address is www.blazesports.org - includes a broad array of information and tools in support of the project and sport for people with disabilities ... [individuals in the targeted region] continue to access and utilize information and resources available on the BlazeSports website, Blaze Blog, and Blaze TV."

OIG further contends the relationship was impermissible as: "the PI's spouse submitted all of the invoices to the PI for payment, and the PI approved the payments to BlazeSports America." *Id.*

With respect, the OIG audit team's representation of the relationship between the principal investigator and his spouse, as well as the relationship between KSU and BlazeSports America, is incomplete and misleading. The principal investigator and his spouse are a team of academic partners who are regarded as international authorities in the area of sports participation by individuals with disabilities. Both have published and presented extensively in this area, and have served as principal and co-principal investigator on numerous funded awards. Between 1998 and 2011, the principal investigator and his spouse – serving as principal and co-principal investigator – received approximately $3,394,834 across eighteen (18) awarded research and projects relating to sports and disabilities. This includes six (6) Department awards funded prior to SLMAQM08GR0598 and SMLAQM09GR0542.[2] *Please see Exhibit E.*

BlazeSports America is similarly experienced. As explicitly described in award proposals submitted by the principal investigator and co-principal investigator, "BlazeSports America is a comprehensive Georgia-based sports and recreation program for children and adults with physical disabilities[,]" serving "63 clubs in 32 states and the District of Columbia." *Exhibits E, F.* BlazeSports has a fifteen (15) year established partnership with the Department of State, serving "as a primary partner" in a number of "Department of State projects in North Africa and the Middle East." *Exhibits E, F.*

The six (6) Department awards preceding SLMAQM08GR0598 and SMLAQM09GR0542 clearly and explicitly identified the principal investigator and his spouse as the principal investigator and co-principal investigator on the proposed project – a practice followed in SLMAQM08GR0598 and SMLAQM09GR0542. *Exhibits E, F.* Similarly, in the funding proposals for SLMAQM08GR0598 and SMLAQM09GR0542, BlazeSports America is explicitly identified as an institutional partner with Kennesaw State University: "Kennesaw State University (KSU), with partners BlazeSports America and the [targeted region's] National Paralympic Committee, proposes . . . ." *Exhibits E, F.* This relationship is explicitly acknowledged and approved by the Department in the "Award Specifics" in both grants, including the proposed scope of work and project budgets, which explicitly authorize payments of subawards to BlazeSports America. *Exhibits E, F.* Further, per the award terms for both grants, KSU was required to submit a copy of the sub-award with BlazeSports America for approval by the Department Grants Officer; this was done and KSU received approval for the subawards from the Department.

KSU's relationship with the principal investigator and BlazeSports America began in 2007, when he joined KSU's faculty, precipitating the novation of a Department award from Georgia State University (Award S-LMAQM-09-GR-542). On September 12, 2007, KSU contacted a Department

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[2] Nine (9) of the awards were from the United States Department of Education and one (1) award was from the International Olympic Committee.

administrator serving as the Projects Officer and Grants Officer for Departmental awards S-ECAPE-05-GR-199 and ECA/PE/C/WHA-EAP-07-26, on which the principal investigator and his spouse were identified as principal investigator and co-principal investigator, and BlazeSports America was an institutional partner. This Department administrator noted the Department's long and successful history with the principal investigator and his spouse, indicating the principal investigator and his spouse "have been totally forthright in all their disclosures about their relationship." *Please see Exhibit G.* He indicated he did not believe an impermissible conflict of interest occurred, noting BlazeSports America "is a non-profit organization which has a very active Board of Directors and undergoes annual audits." *Id.* He also recorded his conclusion that the awards were served by the "strong partnership" between Kennesaw State University and BlazeSports America, observing: "The Department's primary reason for recommending funding of the project is [the] strong partnership between the two organizations." *Id.* This was followed by an October 28, 2009, email to KSU from the Department Grants Officer, in which she explicitly approved BlazeSports receiving a subaward in S-LMAQM-09-GR-542. *Please see Exhibit H.*

Between 2002 and 2007 – and prior to award SLMAQM08GR0598 and SMLAQM09GR0542 – the principal investigator and his spouse served as principal investigator and co-principal investigator on six (6) Department awards. During that period, more than one Department Grant Officer and Projects Officer explicitly considered the relationship between the principal investigator and his spouse and co-principal investigator, and found no conflict of interest occurred. Further, as the Draft Audit notes, KSU investigated allegations of conflicts of interest no fewer than three (3) times during the life of the grants. *Draft Audit*, at 14 (n.44). Again, no evidence of a conflict of interest or other malfeasance was provided.

Additionally, prior to the Draft Audit, in the approximately six (6) years since the final project goals were met in both grants, the Department has not raised the issue of the relationship between the principal investigator and his spouse and co-principal investigator, or between Kennesaw State University and BlazeSports America. It is challenging to reconcile the OIG audit team's findings and recommendations with eight (8) prior Department awards involving the principal investigator and his spouse and co-principal investigator occurring over fifteen (15) years. Consequently, Kennesaw State University respectfully requests the Department maintain consistency with its prior, considered, established, and unwavering position on this matter.

(2) The Program and Grant Officers in SLMAQM08GR0598 and SMLAQM09GR0542 previously accepted Kennesaw State University's proposed budget and documentation of costs, and accepted that KSU met all program goals.

The OIG audit team suggests none of BlazeSports America's invoices contained adequate details to determine the nature of the work performed in SLMAQM08GR0598 and SMLAQM09GR0542 and, "in some instances, the invoices appeared to include items that were not allowable for the subawards." *Draft Audit*, at 13. The single example given for either is "the PI's stepson was paid a salary from the Department grant funds that were awarded to BlazeSports America." *Id.* The audit team also states that BlazeSports America "was unable to provide supporting documentation for its expenses." *Id.* Consequently, the audit team recommends disallowing all payments to BlazeSports America within both awards. This constitutes approximately seventy-four percent (74%) of the total awards for both grants.

Under the terms of its Department-approved fixed price subaward from KSU in award SLMAQM08GR598, BlazeSports America was not required to justify its costs. Per OMB Circular A-21, the cost principles in effect at the time of the award, Section A. 3. states, "These principles shall be used in determining the allowable costs of work performed by colleges and universities under sponsored agreements. The principles shall also be used in determining the costs of work performed by such institutions under subgrants, cost reimbursement subcontracts, and other awards made to them under sponsored agreements. They also shall be used as a guide in the pricing of fixed price contracts and subcontracts where costs are used in determining the appropriate price." Recipients and subrecipients working under fixed price agreements are not required to provide justification of actual costs incurred. BlazeSports was not required to provide supporting documentation for its expenses under SLMAQM08GR598.

Under grant SLMAQM09GR542, BlazeSports initially received a cost-reimbursable subaward; the total obligated under the cost-reimbursement mechanism was $248,043.53. After the target's region's presidential election in 2009, political unrest occurred, and the Department and KSU agreed the projected required restructuring due to a prohibition on university personnel entering the targeted region. As BlazeSports personnel were not subject to the restriction, the Department agreed to KSU issuing BlazeSports a fixed price subaward. As cited above, A-21 does not require recipients and sub-recipients to justify expenditures on fixed price awards. BlazeSports was not required to provide supporting documentation for the majority of its expenses (59%) under SLMAQM09GR542.

Consequently, Kennesaw State University again respectfully disagrees with the OIG audit team's conclusions. Over the three (3) year life of both awards, the Grant Officers and other Department representatives engaged in ongoing communications with the principal investigator, co-principal investigator, and other employees and/or agents of the University and BlazeSports America. The principal investigator submitted end-of-project reports to Department Grant and Program Officers detailing projects goals met, and KSU submitted accompanying financial and technical reports.

On December 30, 2011, the principal investigator submitted the two (2) final grant reports to Department Grant Officers in SLMAQM08GR0598 and SMLAQM09GR0542, describing efforts made on the awards and identifying met project goals. On December 30, 2011, one of the Grant Officers responded, informing the principal investigator: "Thank you for submitting these. We will review them and let you know if we have any questions." *Please see Exhibit I.* On January 9, 2012, KSU submitted final official reports on the awards. *Id.* On January 11, 2012, the Department acknowledged receipt of the final reports, confirming that the awards were fulfilled under budget and verified remaining balances. *Exhibit I.* At no point did either Grant Officer or any other Department representative assert KSU failed to meet program goals or suggest KSU was not following appropriate Department financial documentation procedure. No issue was raised between 2012 and 2017 until the Draft Audit.

Again, KSU respectfully disagrees with the OIG audit team's conclusions regarding the awards. As noted previously, it is unclear why the audit team concluded the principal investigator failed to meet a primary program goal of award SMLAQM09GR0542 by "fail[ing] to develop a secure website and create a blog to support a DRL disability sport development project." *Draft Audit*, at 21. However, as noted previously, this conclusion appears to be erroneous, with the principal investigator documenting FY11 website traffic in response to a request from a Department official. *Exhibit D.*

The bases of the audit team's other conclusions are similarly opaque. For example, the audit team thoroughly documents challenged or disallowed costs in awards SPK33013CA051 and SAF20013CA024. *Draft Audit,* at 27-30 (Appendix B). However, the Draft Audit does not detail a single questioned cost in SLMAQM08GR0598 and SMLAQM09GR0542 – including the questioned payment to the principal investigator's stepson.

As the audit team's conclusion that KSU failed to meet a primary goal of award SMLAQM09GR0542 appears to be erroneous, the audit team has failed to identify examples of inappropriate or questioned expenditures in the Draft Audit, and KSU filed end-of-program reports with the Department detailing meeting project goals and costs and no concerns or challenges were raised for five (5) years, KSU respectfully requests the Department disregard the audit team's conclusion and recommendation in the Draft Audit regarding awards SLMAQM08GR0598 and SMLAQM09GR0542.

(3) BlazeSports America was not required to provide documentation for 70% of its expenses for projects performed between 2008 and 2011.

A final reason the audit team offers for recommending disallowing funds paid to BlazeSports America is the organization's declination or inability to provide documentation of expenses incurred between 2008 and 2011 in response to the audit team's late 2016/early 2017 request. *Draft Audit*, at 13-14. As detailed above, over 70% of BlazeSports expenditures were incurred under fixed cost subawards that did not require a justification of costs incurred per Circular A-21. Furthermore, the subawards had concluded in September 2011, more than five (5) years before KSU was informed by the OIG about the audit.

However, the proposed remedy – disallowing all costs paid to BlazeSports America and requiring KSU to repay them – is both unduly punitive and unjust. As noted above, prior to the Draft Audit, the Department did not contest the principal investigator met the terms of the awards. In fact, as noted in Exhibit I, KSU fulfilled the terms of the awards significantly below the budgeted amount of both awards. *Exhibit I.*

(b) Kennesaw State University admits in part and contests in part questioned costs relating to salaries in awards SPK33013CA051 and SAF20013CA024.

The OIG audit team questioned costs relating to salary expenses in awards SPK33013CA051 and SAF20013CA024. These were attributable to extra compensation drawn by the principal investigator ($69,902), unallowable costs due to salary percentages ($72,112), and unsupported costs ($199,229). Kennesaw State University accepts in part and contests in part these determinations.

(1) *Kennesaw State University agrees the principal investigator impermissibly drew extra compensation in awards SPK33013CA051 and SAF20013CA024.*

Kennesaw State University agrees with the OIG audit team that the principal investigator in awards SPK33013CA051 and SAF20013CA024 impermissibly drew extra compensation while reporting work on awards SPK33013CA051 and SAF20013CA024 occupied one hundred percent (100%) of his workload. *Draft Audit,* at 9-10.

As noted previously, this practice was permitted prior to the consolidation between KSU and SPSU, and was permitted by SPSU/SPARC during a period in which KSU/KSURSF had no legal responsibility or authority over the principal investigator. As also noted previously, this practice was discovered upon KSU/KSURSF assuming responsibility for the awards and was stopped. As noted, this resulted in the principal investigator pursuing a multi-year grievance against the University (and specifically against KSU's Vice President for Research, Dr. Charles Amlaner), asserting that this practice was permitted by federal and Georgia law, as well as Department policy, and he should be allowed to continue.

Despite being budgeted to spend one hundred percent (100%) of his time working on each award during Year One, the principal investigator self-reported spending between thirty-five and fifty percent (35-50%) of his time on each award depending upon the academic semester. *Please see Exhibit L.* However, SPSU/SPARC invoices demonstrate he spent between twenty-two and thirty-eight percent (22.36-37.71%) of his time working on SAF20013CA024 and between zero and forty-eight percent (0-47.57%) on SPK33013CA051. Of time invoiced, $6,939.53 was reported as a cost share borne by SPSU.

Again, KSU/KSURSF believes the practice may have been permitted owing to the inexperience and limited resources of SPSU/SPARC, and the principal investigator's inexperience with funded awards.

(2) *Kennesaw State University did not inappropriately charge awards SPK33013CA051 and SAF20013CA024 for work unperformed by the principal investigator.*

Kennesaw State University does challenge the OIG audit team's recommendation of disallowance for $72,112 of salary expense charged for the principal investigator in awards SPK33013CA051 and SAF20013CA024. The audit team based its conclusion on time and effort reports filed by KSU/KSURSF, noting the principal investigator was required to spend fifty percent (50%) of his time working on each award. *Draft Report*, at 11. This was in excess of the fifty percent (50%) of his time originally budgeted for his work.

As a result of the practices permitted in subsection (1), Kennesaw State University was compelled to alter the principal investigator's workload to meet program deliverables in awards SAF20013CA024 and SPK33013CA051 during FY15 and FY16. *Exhibit L.* Additionally, on November 8, 2016, the Grants Officer in award SPK33013CA051 agreed to an amended budget, revising the award budget to match award spending to that point, and proposed spending through the end of the award. *Please see Exhibit O.*

As a result of KSU redirecting the principal investigator's time and effort, KSU met program goals in both awards – despite the principal investigator being allowed to underperform in required time and effort prior to Summer 2015. More importantly, it resulted in so doing for approximately $47,271.76 less than the salary cost incurred if the principal investigator adhered to the original time and effort requirements of both awards. *Exhibit L.* Moreover, a comparison of actual invoiced time and effort on both awards demonstrates KSU should have invoiced $16,506.33 more than did in award SAF20013CA024 and $15,978.37 more than it did in SPK33013CA051. *Exhibit L.* Consequently, as a result of KSU's redirection, the Department achieved a substantial cost savings while meeting award program goals.

(3) *Kennesaw State University has recovered the time and effort filings of SPSU/SPARC relating to awards SAF20013CA024 and SPK33013CA051, and therefore can substantiate the $199,229 identified as unsupported costs.*

In the Draft Audit, the OIG audit team recommended disallowing $199,229 in unsupported salary costs incurred in awards SAF20013CA024 and SPK33013CA051 during the time period the awards were administered by SPSU/SPARC. *Draft Audit,* at 12. At the time of the OIG audit team's visit, KSU/KSURSF could not substantiate these costs. Since that time, KSU/KSURSF has located records permitting KSU/KSURSF to substantiate those costs. *Please see Exhibit M.* As these costs were disallowed as a result of lack of substantiation, KSU/KSURSF requests this finding and recommendation is removed from the Draft Audit.

(c) Kennesaw State University encloses documentation responding to unsupported and unallowable costs in awards SAF20013CA024 and SPK33013CA051.

In Appendix B of the Draft Audit, the OIG audit team identifies other unsupported and unallowable costs in awards SAF20013CA024 and SPK33013CA051. *Draft Audit,* at 28-30 (Appendix B). Most of these costs were incurred at the time the awards were administered by SPSU/SPARC, and KSU/KSURSF did not possess documentation of the costs at the time of the onsite audit. Consequently, the audit team recommended disallowance of a number of these costs.

Kennesaw State University has now acquired documentation of many of the costs. *Please see Exhibit N.* Consequently, KSU/KSURSF requests the recommendation regarding disallowance of these costs is removed from the Draft Audit.

(d) Kennesaw State University encloses documentation responding to unsupported and unallowable costs in awards SIN65014GR and SECAGD15CA1074.

In Appendix B of the Draft Audit, the OIG audit team identifies other unsupported and unallowable costs in awards SIN65014GR and SECAGD15CA1074. Kennesaw State University has enclosed documentation specifically responding to the proposed disallowance. *Please see Exhibit P.*

(e) Identified deficiencies did not occur as a lack of "technical competencies" in the KSU grants management office.

Kennesaw State University respectfully disagrees with the Draft Audit's finding that "the KSU grants management office did not have the technical competencies needed to perform the required administration of the [reviewed] awards." *Draft Audit,* at 1. The Draft Audit contends that, as a result of these deficiencies, "Department funding may have been expended for purposes other than those agreed to in award terms and conditions." *Id.* at 20. The Draft Audit further contends "the lack of oversight and technical competencies at KSU affected the fulfillment of program goals outlined in the awards[,]" and contributed to "inaccurate and untimely financial reporting[.]" *Id.* at 19.

Again, KSU respectfully disagrees. KSU will demonstrate the University has a significant record of receiving and successfully administering external funding. The University will also demonstrate a majority of identified errors in administering Department-funded awards are attributable to challenges the University inherited from two (2) awards initiated and overseen by SPARC and novated to Kennesaw State University. The University will also demonstrate the audit team's conclusion that KSU's lack of experience resulted in the principal investigators failing to complete all program goals within agreed-upon deadlines is inaccurate.

(1) Kennesaw State University's Research and Service Record

Kennesaw State University is Georgia's third-largest public university and is one of the fifty (50) largest public universities in the United States. The University offers approximately eighty-three (83) graduate programs, including eleven (11) doctoral degrees. The Carnegie Classification of Institutions of Higher Education classifies the University as an "R3" university – a doctoral university with moderate research activity.

External research and service projects at KSU are administered through the University's Division of Research and the University's cooperative research foundation, the Kennesaw State University Research and Service Foundation ("KSURSF"). During the time period relevant to the Draft Audit, between KSURSF and the Division of Research, the University employed approximately eighteen (18) professionals, including three (3) pre-award specialists, four (4) grant managers, six (6) accountants, two (2) compliance managers, and three (3) research administrators. Collectively, these individuals possess more than a century of experience supervising externally-funded awards.

The Draft Audit bases its conclusions of systemic lack of competence on non-compliance by essentially two (2) principal investigators on a total of four (4) funded Departmental Awards in approximately an eight (8) year period. In the Draft Audit, four (4) Departmental awards constitute more than ninety-nine percent (99%) of questioned costs in the Draft Audit. The four (4) awards were administered by two (2) principal investigators, who represent less than one percent (1%) of KSU's three hundred and thirty-three (333) faculty designated as principal investigators on external awards between 2005 and 2016. One of these principal investigators developed, proposed, and originally managed his awards through SPSU and SPARC, with the awards only coming to KSU as a result of institutional consolidation.[3] As a result, KSU and KSURSF did not have the opportunity to apply KSU's pre-award, management, and post-award processes nor train a novice principal investigator. Additionally, as will be explained further in Section (b), the other principal investigator's questioned costs stem entirely from the OIG audit team's categorical disallowance of approximately seventy percent (70%) of award funding through an incorrect determination of a conflict of interest.[4] The findings related to Department awards to

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[3] Departmental Awards SPK33013CA051 (2013) and SAF200013CA024 (2013) were originally awarded to SPARC and SPSU. The conflicts of interest noted in Departmental awards SPK33013CA051 (2013) and SAF200013CA024 (2013) occurred prior to the awards being novated to Kennesaw State University. As has been detailed, Kennesaw State University actually discovered the conflicts of interest, reporting them to the Department concurrently with the novation.

[4] Departmental awards SLMAQM08GR0598 (2008) and SLMAQM09GR0542 (2009). Prior to joining the faculty at KSU, the principal investigator in both awards received five (5) Departmental awards while on faculty at Georgia State University. The principal investigator's spouse – the

these two (2) principal investigators encompass ninety-nine percent (99.9%) of questioned costs in the Draft Audit.

In the decade prior to 2017 (the last year considered in the Draft Audit), approximately three hundred and thirty-three (333) of Kennesaw State University's faculty members received external funding awards, with a total funding of approximately one hundred and three million dollars ($103,000,000.00). During the time period considered in the Draft Audit (FY08 – FY16), the University's research efforts have been annually and extensively internally and externally audited. During that eight (8) year period, those audits have, in total, documented two (2) audit exceptions. Both of these stemmed from Departmental awards and are included in the OIG's Draft Audit.

Consequently, the audit team's findings regarding the lack of technical competence and oversight at KSU and KSURSF based on the Department's subjective experience with two (2) principal investigators are simply inconsistent with the University's multi-year record.

(2) *For purposes of the Draft Audit, Kennesaw State University and Southern Polytechnic State University should be considered "independent" institutions.*

As the Draft Audit acknowledges, between FY08 and FY16, the Department of State had awards at two (2) independent universities – Kennesaw State University and Southern Polytechnic State University. *Draft Audit*, at 1. While the Draft Audit is correct in noting the University System of Georgia approved the consolidation on January 6, 2015, the two (2) Universities remained almost entirely independent until July 1, 2015 – the beginning of a new fiscal year in the University System. Even following the official "consolidation" date of July 1, 2015, actually consolidating the sub-units of the two (2) universities took far longer. For example – and relevantly – the novation in Award SPK330-13-CA051, removing Southern Polytechnic Applied Research Corporation as the award recipient and designating Kennesaw State University Research and Service Foundation did not occur until December 16, 2015 – more than six (6) months after the "official" consolidation date. *Please see Exhibit A.*

This distinction is of central importance to the Draft Audit. While Kennesaw State University is the successor in interest to SPSU, a central challenge in the Draft Audit depends upon KSU and KSURSF having vicarious liability for acts and omissions of SPSU and SPARC. These acts and

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same spouse whose involvement with the two (2) above-identified awards OIG contends is an impermissible conflict of interest – was the identified co-principal investigator on all five (5) prior Department awards. This occurred without an objection from the Department. To the contrary, at the time of the February 2007 novation of a Department award to Kennesaw State University (and in response to an inquiry from KSU), the Department Grants Officer explicitly noted this had previously been considered in other Department awards, and the Department concluded there was no conflict of interest. *Please see Section (a); Exhibit C.*

omissions occurred during periods in which KSU and KSURSF had little or no control over SPSU and SPARC. To this date, KSURSF and SPARC remain independent 501(c)(3) cooperative organizations, each with its own board and officers.[5]

The operational distinctions and contrasting organizational cultures within KSU and SPSU contributed causally to the most significant findings in the Draft Audit. With the exception of two (2) questioned costs relating to the alleged conflict of interest in SLMAQM08GR0598 and SLMAQM09GR0542, approximately 99.7% of the total costs questioned in the Draft Audit arose from SPARC-originating and administered grants.[6] These include costs KSU acknowledges should not have been paid by SPARC or SPSU, but occurring prior to KSU having the legal authority to administer the awards.

Perhaps most demonstrative of the need to view KSU/KSURSF and SPSU/SPARC independently for purposes of this audit is SPSU/SPARC engaging in practices in awards SPK33013CA051 and SAF20013CA024 that the OIG audit team classifies as impermissible in the Draft Audit. The Department learned of these practices in 2015 and 2016 as a result of KSU/KSURSF employees "whistle blowing" to the Department, then KSU/KSURSF taking immediate steps to curtail the practice.

For example, the Draft Audit identifies conflicts of interest occurring in these awards as a result of the principal investigator employing his son and daughter as "research assistants" on his awards. *Draft Audit,* at 12-13. This conflict of interest was reported to the US Department of State Grants Officer administering SPK33013CA051 and SAF20013CA024, in early October 2015,

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[5] SPARC's portfolio, resources, and experience were significantly lesser than KSURSF's, and the two (2) research foundations had distinct cultures and organizational practices. In addressing the two (2) institutions internal controls, the OIG audit team contends: "OIG found a complete lack of internal controls within the SPSU grants management process; therefore OIG was not able to test internal controls at [SPSU]. *Draft Audit,* at 24 (Appendix A). As noted by a KSU internal investigation of the practices of one (1) of the principal investigator identified in the Draft Audit, "[KSURSF and SPARC] had different expectations and different standards of operation for grant supported projects." For example, SPARC had four (4) employees dedicated to functions covered by thirteen (13) employees in KSURSF, with each SPARC employee serving multiple functions in the grants process, with a commensurate lack of internal controls. Of the five (5) employees involved in external research and sponsored projects at SPSU, two (2) moved to clerical positions in other KSU units and three (3) transitioned to KSU's Division of Research. Of the three (3), within six (6) months, a further two (2) would leave the Division of Research and KSURSF. Within approximately a year of novation of the SPARC grants to KSURSF, the final former SPARC employee – its Director of Research and Contract Administrator – would be suspended by KSU for suspected malfeasance in grant administration and insubordination, and ultimately terminated. *Please see Draft Audit, P.7 (n.28).*

[6] Please see Draft Audit, p. 8, *Table 2: Summary of Questioned Costs Identified by OIG.*

along with a request for guidance as to how KSU should resolve the conflict of interest. *Exhibit B.*[7] KSU employees similarly reported the principal investigator's inappropriately drawing "extra compensation" on his grants during the first year of the Awards, taking steps to end the practice following consolidation. *Draft Audit*, at 9-10.[8]

For the foregoing reasons, for purposes of the Draft Audit, the Department should evaluate KSU and KSURSF's record independently from the record of SPSU and SPARC. This generally requires the Department to consider the findings and recommendations as follows:

KSU and KSURSF

Award Number	Bureau	Investigator	Start Date	End Date	Amount Awarded	Amount Expended
SIN65014GR049	SCA	Hariharan, G.	9/12/14	11/30/15	$48,960	$48,959
SIN65014GR053	SCA	Dembla, P.	9/24/14	9/30/15	$74,994	$67,479
SECAGD15CA1074	ECA	Askildson, L.	8/10/15	8/31/18	$479,709	$223,654
SLMAQM08GR0598	DRL	Johnson, B.	8/4/08	9/30/11	$400,000	$377,424
SLMAQM09GR0542	DRL	Johnson, B.	3/14/09	9/30/11	$740,327	$696,055

[7] On October 29, 2015, the Grants Officer responded she would "review the time spent and amount paid then determine if the expense is allowable or not." *Exhibit B.* By December 1, 2015, KSU had not received a response from the Grants Officer, and Ms. Nwakaego Nkumeh, the University's Associate General Counsel, sent her a follow-up email, detailing the University's further investigation. This investigation additionally discovered the principal investigator employed his daughter as a research associate on another of his Department awards while the awards were administered by SPARC. Ms. Nkumeh notified the Grants Officer of this additional discovery, and concluded by asking: "We need your advice on next steps to formally report and resolve this matter with the Department of State." *Id.* As of April 26, 2016, Ms. Nkumeh noted the University had not received requested guidance – nor has it to this date.

[8] As noted previously, the principal investigator selected by the Department was highly inexperienced, resulting in a number of challenges for KSU's subsequent administration of the grants. Beginning in Fall 2015, KSU/KSURSF provided him with dedicated grant/research support personnel to assist him in understanding the obligations and limitations on the awards; however, this was insufficient to address his challenges in meeting program goals and complying with the University's and Department's procedural and fiscal requirements and expectations. Following this, in March 2016, KSU offered to substitute a highly-experienced principal investigator who is exceptionally familiar with the region, and execute a "no cost" extension for the grants. The Department declined this offer.

SPSU and SPARC[9]

Award Number	Bureau	Investigator	Start Date	End Date	Amount Awarded	Amount Expended
SPK33013CA051	SCA	Abaza, H.	3/15/13	3/15/17	$999,987	$777,751
SAF20013CA024	SCA	Abaza, H.	10/1/13	3/31/17	$1,000,000	$743,375

(3) The selection of a novice principal investigator and SPSU/SPARC as a recipient institution in SPK33013CA051 and SAF20013CA024 contributed significantly to challenges encountered in administering those awards.

The University acknowledges the Department encountered systemic challenges with awards SPK33013CA051 and SAF20013CA024, which originated and were originally administered by SPSU/SPARC. The University, too, experienced ongoing challenges in administering these awards upon novation to KSURSF. Respectfully, some of this may be attributable to the selection of a principal investigator with no prior successful experience in international awards of this type and a university and its research foundation unprepared for the challenges of administering the awards.

Again, KSU respectfully reminds the Department that awards SPK33013CA051 and SAF20013CA024, representing approximately ninety-nine percent (99%) of questioned costs and approximately fifty percent (50%) of "late or inaccurate financial reports" identified in the Draft Audit, were submitted and originally administered by SPSU/SPARC, not KSU/KSURSF.[10]

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[9] For purposes of this analysis, KSU and KSURSF will indicate and accept responsibility for any errors attributable to KSU and/or KSURSF related to these awards. The appropriate date of determining whether responsibility rests with KSU/KSURSF or SPSU/SPARC should be the date of any award novation signed by the Department and KSU.

[10] Given the variables in the two (2) awards, it is unlikely KSU/KSURSF would have submitted the proposals. In Fall 2015 and Spring 2016, KSU/KSURSF experienced a number of challenges largely stemming from the inexperience of the principal investigator and attempting to place the projects back "on track" following a challenging start. This significantly disrupted the operation of KSU/KSURSF, which, as noted, possessed an exponentially larger and more experienced research operation than SPSU/SPARC. In February 2016, the KSU Division of Research and KSURSF recommended the University request the Department of State to replace the principal investigator with a more experienced investigator and file for a no-cost extension in each award, permitting KSU to meet program goals, or – alternatively – allow the grants to terminate without filing a no-cost extension and return remaining award funds to the Department. This recommendation was opposed by the Grants Officer, who was aware of the challenges with the novice principal investigator, but who desired a no-cost continuation of the awards. At the

The Department acknowledges Pakistan and Afghanistan are inherently challenging environments in which to deliver awards. However, the Request for Proposals ("RFP") in award SPK33013CA051 specifically targeted "organizations that have not previously received international program funding from the U.S. Government." *Please see Exhibit J.* Contrary to an explicit award requirement in the Department's Request for Proposals in SPK33013CA051, SPSU did not possess "demonstrated expertise in Public Policy and/or Public Administration." *Exhibit J.* At the time of the award submissions in SPK33013CA051 and SAF20013CA024, the total funding requested was comparable to between fifty percent and one hundred percent (50% - 100%) of SPSU/SPARC's externally-funded research portfolio. This was further challenged by the Department's selection of a principal investigator who did not appear to have a successful history of administering external awards. Despite this, the Department awarded him two (2) separate awards with a total value of $1,999,987, with contemporaneous delivery of independent program goals in two (2) distinct and independently challenging environments – Pakistan and Afghanistan. Further, at the time of the principal investigator's award submission, the total funding in the requested awards was comparable to between fifty percent and one hundred percent (50% - 100%) of SPSU/SPARC's externally-funded research portfolio.

(4) *Principal investigators did not fail to complete all primary program goals within agreed-upon deadlines in four (4) of seven (7) Department awards.*

KSU does not concur with the audit team's proposed finding that University principal investigators did not complete all program goals within the agreed upon deadlines in four (4) of seven (7) Department awards. *Draft Audit*, at 21. Unfortunately, other than erroneously indicating the principal investigator failed to develop a website (award SLMAQM09GR0542)[11] and failing to physically attend an international education conference in Karachi, Pakistan, during a time period in which the Department issued a travel warning and recommended Americans not undertake "non-essential" travel (award SPK33013CA051), the audit team does not identify the other two (2) awards in which it contends KSU did not meet all program goals. Consequently, the audit team only provides evidence that principal investigators failed to meet program goals in a single award, not four (4) of seven (7) as asserted.

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request of the Grants Officer, the Department appealed directly to KSU's President. Ultimately, the President acceded to the Department's request, and KSU/KSURSF agreed to a no-cost extension.

[11] Please see Note 15.

In all seven (7) Department projects identified in the Draft Audit, KSU conferred regularly with the Department program officers and made them aware of challenges in program implementation and discussed any project modifications with the Department. As the Department is aware, activities must often be modified from what is included in the proposal as a result of extenuating circumstances beyond the control of an awardee. KSU was in continual contact with the Department program officers, discussing any needed project modifications. Moreover, with the exception of physically attending a conference in award SPK33013CA051, the audit team provides no evidence – or even examples – to support its assertion. Even in award SPK33013CA051, KSU was in continuing contact with Department officials regarding the conference. In addition to the final reports which were submitted to and accepted by the program officers, KSU submitted quarterly programmatic reports throughout the life of the grants and was in regular contact with the DRL program officers. KSU worked with the program staff to ensure that all questions about program achievements were adequately answered in the reports.

For example, in awards SLMAQM08GR0598 and SLMAQM09GR0542, project goals were modified as a result of the political unrest following the presidential election in the Department-targeted region in June 2009. On August 8, 2010, KSU received two amendments, extending both grants until the end of September 2011. On September 15, 2011, KSU and Department representatives conferred to discuss program goals. The conference call included two DRL program officers, the principal investigator, and the KSU grants officer. The DRL Project Officer concurred that events in the targeted region precluded KSU meeting a project goal to physically conduct a conference in that region. The parties subsequently agreed upon modified project goals, which would serve the intent of the original project goals while recognizing this limitation.

This solely leaves award SPK33013CA051, in which KSU personnel did not physically attend a conference in Karachi. Throughout the award window, KSU faculty were heavily involved in all aspects of developing the conference. For example, a KSU faculty member with considerable experience in organizing international conferences took the lead in organizing the conference, providing those services remotely.

The possibility of KSU faculty not being able to attend the workshop due to security concerns was raised in October 2016, during the Department Grants Officer and Program Advisors' visit to KSU. All present agreed that KSU faculty might be unable to physically attend the conference in February 2017 if the security situation continued to deteriorate in Pakistan.

Prior to February 2017 dates, there were a number of acts of violence in Pakistan (including Karachi). In light of this and the Department's travel warning against Americans making non-essential travel to Pakistan, the University's Division of Global Affairs (which is internationally recognized for its expertise) concluded it was unsafe for the University to send faculty and/or students to the conference. Despite this, KSU continued to play an active role in planning the conference.

Further contrary to the audit team's suggestion KSU failed to meet project goals, KSU actually exceeded project deliverables in award SPK33013CA051, as well as award SAF20013CA024A. While remaining within budget, the University's experience in awards management permitted it to increase the number of classrooms outfitted at its partner institutions by fifty percent (50%), and provided more than three hundred percent (300%) of the requested number of computers for Kabul Polytechnic University.[12] Additionally, KSU's experience in administering grants allowed it to triple the number of Indus Valley School of Architecture and Design students physically taking courses on Kennesaw State's campuses.[13]

(5) *The OIG audit team's conclusion that ninety-eight percent (98%) of all mandatory financial reports were late or contain financial errors is misleading.*

The Draft Audit contends that ninety-eight percent (98%) of all reports from the seven (7) Department awards issued to faculty at KSU or SPSU were late or contained financial errors. *Draft Audit,* at 19. The sole elaboration or evidence provided is to assert the indirect rate was miscalculated on two (2) grants originating with SPSU/SPARC, and cost sharing amounts on five (5) of seven (7) awards "were either routinely not reported . . . or reported incorrectly." *Draft Audit,* at 19-20. The audit team also contends misreporting of financial data existed across multiple forms; however, this was solely supported by an allegation that, on September 30, 2016), the KSU General Ledger, Form SF-425, and Form SF-270 contained different amounts of total expenditures for award SPK33013CA051. *Id.*[14]

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[12] Outfitting three (3) classrooms instead of two (2), and providing one hundred and twenty (120) computers instead of forty (40).

[13] KSU hosted twelve (12) students instead of four (4).

[14] The audit team also contends that it "found multiple instances in which there were mathematical errors on the forms[.]" *Draft Audit,* at 19. However, the audit team provides no evidence to support this assertion, and in the absence of elaboration or evidence, the University is unable to respond.

KSU believes this finding and recommendation is inaccurate and misleading. While KSU does not dispute a number of reports being late or containing a financial inaccuracy, the OIG audit team has significantly over-identified the number of reports.

Several of the errors, such as the single late filing noted in award SIN65014GR053, occurred as a result of Department representatives asking for follow-up information or formatting changes to a timely-filed report. For example, in award SIN65014GR053, the single questioned financial report was due on December 31, 2015. It was submitted on December 15, 2015. More than two (2) months later, on February 24, 2016, a Department representative requested KSURSF format the reported financial data differently, categorially aligning it to the Department representative's preferences. The Draft Audit classifies this as a financial "Report Submitted Late or With Inaccuracies."

Similarly, on award SECADGD15CA1074, the audit team identifies five (5) financial reports submitted late or with inaccuracies. KSU believes this is too expansive and is misleading. First, KSU notes no Departmental representatives identify or have identified a single financial error across reports on the $223,654 in expenditures accrued thus far in the award.[15] Second, while KSU acknowledges two (2) reports were correctly identified as late filed, three (3) additional financial reports classified as late filed occurred as a result of a Grant Officer requesting financial reports be filed during quarters in which there were no – nor were there supposed to be – financial expenditures on the project. This request occurred well past the quarters in which financial reports noting expenditures would have been submitted. A third report was due on April 30, 2015, which fell on a Saturday. The report was submitted on May 2, 2015, the first business day following April 30, 2015. This, too, is classified as a "late report."

As a result of the OIG audit team not providing evidence or explanation regarding the alleged late or inaccurate financial reports in awards SLMAQM08GR0598 and SMLAQM09GR0542, Kennesaw State University is unable to determine how the team concluded thirteen (13) of thirteen (13) required financial reports were late or inaccurate in SLMAQM08GR0598 and eleven (11) of eleven (11) reports were late or inaccurate in SMLAQM09GR0542. Upon review of required financial supports submitted by the University, it appears the University timely submitted eleven

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[15] Award SECADGD15CA1074, which has a total award amount of $479,709, continues through August 31, 2018. *Draft Audit,* at 2.

(11) of twelve (12) required reports in SLMAQM08GR0598 and eleven (11) of eleven (11) required reports in SMLAQM09GR0542.[16] *Please see Exhibit K.*

KSU does not contest the systemic late reports in awards SPK33013CA051 and SAF20013CA024. As noted throughout this response, KSU/KSURSF experienced systemic and unique challenges in attempting to administer these awards, virtually all of which were legacy issues from SPSU/SPARC and challenges experienced by a novice principal investigator attempting to contemporaneously administer two (2) large awards in nations the Department recognizes are challenging award environments.[17]

Summary of Late or Inaccurate Financial Reports

Award Number	Number of Financial Reports Submitted	Number of Financial Reports Submitted Late	Number of Financial Reports With Inaccuracies	Percent of Reports Submitted Late or With Inaccuracies
SIN65014GR049	1	0	0	0%
SIN65014GR053	1	0	0	0%
SECAGD15CA1074	5	2	0	40%/0%
SLMAQM08GR0598	12	1	0	8%/0%
SLMAQM09GR0542	11	0	0	0%/0%
SPK33013CA051	19	13	3	68%/16%
SAF20013CA024	12	12	12	100%/100%

[16] It appears the audit team based its conclusion of thirteen (13) required reports in SLMAQM08GR0598 by including the third quarter of 2008. Given the award notification was not sent until August 4, 2008, and the quarter ended on September 30, 2008, it is unlikely any expenses were incurred or a financial report would be expected by the award's grants officer. KSU has no communication from the grants officer requesting or referring to a missing financial report from this quarter.

[17] KSU notes it lacks data permitting it to evaluate the accuracy of financial reports filed by SPSU/SPARC in SPK33013CA051 and SAF20013CA024 prior to novation. Further, while not contesting the categorization of post-novation reports in SAF20013CA024 as "inaccurate," KSU notes the Grants Officer's representative in Kabul is extremely exacting, resulting in the Draft Audit categorizing financial reports as "inaccurate" for – quite literally – discrepancies of $.01 USD. In addition, two (2) of the reported inaccuracies and resulting late categorization were the result of this same individual's categorization preferences that did not affect substantive financial reporting.

Attachments to the auditee's response are available upon request, consistent with applicable law.

APPENDIX G: OIG'S REPLY TO KENNESAW STATE UNIVERSITY'S RESPONSE

In response to a draft of this report (see Appendix F), Kennesaw State University (KSU) acknowledged a number of the Office of Inspector General's (OIG) findings and recommendations and disagreed with others. OIG has included a summary of KSU's most significant comments regarding the audit findings and OIG's replies thereto. OIG has not addressed areas of agreement, nor has it attempted to reply to every claim set forth in KSU's response. Moreover, OIG notes that the Department will ultimately decide how to proceed with respect to the issues that OIG has raised, including the questioned costs and various matters as to which KSU contends the Department agreed to a particular course of conduct.

KSU Comment: KSU stated that the Department of State (Department) was "aware of the relationship" between the principal investigator (PI) in awards SLMAQM08GR0598 and SLMAQM09GR0542 and the Chief Executive Officer (CEO) of BlazeSports, and "previously determined an impermissible conflict of interest did not occur." KSU specified that a Department official from the Bureau of Education and Cultural Affairs (ECA) had sent an email stating that no conflict of interest existed between the PI and his spouse in relation to an ECA grant. KSU also generally described the experience and reputation of the PI and of BlazeSports.

OIG Reply: OIG reviewed the grant files in their entirety for both SLMAQM08GR0598 and SLMAQM09GR0542 and found no evidence that relevant Department personnel involved in these grants were aware that the PI and the CEO of BlazeSports America were married. In fact, OIG noted that in pre-award grant documentation, the CEO of BlazeSports, wife of the PI, often used a different last name than the PI.

During the audit, KSU officials provided the audit team with an email dated September 7, 2007, that KSU believed demonstrated that the "Department" was aware of the relationship and had determined that there was no conflict of interest. However, as set forth in the report, the email addressed a different grant provided by a different Department bureau and managed by a different Grants Officer before the grants in question here were awarded. Any such communications do not speak to the propriety of the relationship with respect to these awards. Because OIG received no evidence that either the PI or KSU notified the Grants Officer on these grants of the conflict of interest, OIG concluded that all payments made to BlazeSports were unallowable due to the conflict of interest. The PI and BlazeSports' experience and reportedly strong reputation in the field does not affect this determination.

Although KSU suggests that there was no conflict of interest, OMB Circular A-110 in fact states "such a conflict would arise when the employee…has a financial interest in the firm selected for the award." The PI for awards SLMAQM08GR0598 and SLMAQM09GR0542 clearly had a financial interest in BlazeSports, the firm selected for the award, because his spouse was the organization's Executive Director. In addition, the circular states, "The officers, employees and agents of the recipient shall neither solicit nor accept gratuities, favors or anything of monetary value from contractors or parties to subagreements." As described in the report, OIG also found that the PI accepted payments totaling $19,533 from BlazeSports during the period of performance for awards SLMAQM08GR0598 and SLMAQM09GR0542.

KSU Comment: KSU stated that "the Program Officer and Grant Officers in SLMAQM08GR0598 and SLMAQM09GR0542 previously … accepted that KSU met all program goals." KSU further stated that the draft audit report was unclear regarding why performance goals were not met and had only identified one example.

OIG Reply: OIG found that KSU and BlazeSports did not meet four out of six main goals related to awards SLMAQM08GR0598 and SLMAQM09GR0542 and included one detailed example in the draft audit report on which KSU commented. To further illustrate this shortcoming, Table G.1 presents the performance goals and outcomes for the two awards OIG reviewed to determine whether stated goals and outcomes were achieved.

Table G.1: Summary of Performance Goals and Outcomes for SLMAQM08GR0598 and SLMAQM09GR0542

Award Number	Performance Goal	Outcome
SLMAQM08GR0598	Workshop/Train the Trainer-Target 100 emerging disability sport professionals with 30 percent women and 30 percent persons with disabilities.	GOAL POSSIBLY MET - A series of seven workshops were reported as held between June 5 and 11, 2010; however, OIG could not independently verify that these workshops occurred. The same workshops were claimed as an outcome for performance goal #1 shown for another grant - SLMAQM09GR0542.
SLMAQM08GR0598	Organize and implement a National Sport and Disability Cultural Festival – The Festival will include high profile Paralympic style sporting events, cultural arts exhibits, and extensive media and public awareness campaign.	GOAL NOT MET - Neither KSU nor BlazeSports organized or implemented a National Sport and Cultural Festival.
SLMAQM08GR0598	Knowledge Transfer and Organizational Linkage – Resource materials and educational videos.	GOAL POSSIBLY MET - BlazeSports reported that resource materials and educational videos were created and posted on BlazeTV's YouTube channel; however, OIG could not independently verify that the materials and videos were completed.

Award Number	Performance Goal	Outcome
SLMAQM09GR0542	National Disability Sport Workshops – Five 3-day sport workshops for coaches, students and athletes, held over a period of 2 years.	GOAL NOT MET - A series of seven workshops were held between June 5 and 11, 2010; however, the same workshops were claimed as an outcome for performance goal #1 for another grant - SLMAQM08GR0598.
SLMAQM09GR0542	"Twinning"* of U.S. community-based sports clubs	GOAL NOT MET - Neither KSU nor BlazeSports ever organized or implemented "twinning."
SLMAQM09GR0542	Knowledge Transfer and Organization Linkage – Dedicated project website.	GOAL NOT MET -The dedicated project website was not developed. Quarterly reporting provided website statistics for BlazeSports' general website; however, there is no evidence that a dedicated project website was created.

* Twinning is the matching of U.S. based sports clubs to international based sports clubs to promote sharing of expertise.

Source: OIG generated based on analysis of award documentation specific to performance goals and outcomes.

OIG conducted a thorough analysis of all reports and found a number of issues, some of which are summarized in the preceding chart. For example, the content in the quarterly and final reports for the two awards were nearly identical with only the award numbers changed on the reports. Moreover, KSU and BlazeSports claimed the same achievements for the two separate grants. Specifically, BlazeSports conducted one series of workshops for training coaches and claimed the achievement in its quarterly and final report for both awards when they should have held two series of workshops to meet the awards' performance goals. Furthermore, the reporting was largely identical from quarter to quarter, and OIG found that BlazeSports expended almost all of the obligated grant funding for the awards without completing two-thirds of the performance requirements.

KSU Comment: KSU asserts that BlazeSports was not required to provide documentation for 70 percent of its expenses for projects performed between 2008 and 2011. KSU specified that BlazeSports expenditures were incurred under fixed cost subawards that did not require justification of costs.

OIG Reply: OIG acknowledges that during the period between 2008 and 2011 BlazeSports was not required to provide documentation for its expenses to KSU. However, regardless of the type of subaward, KSU was obligated to follow OMB Circular cost principles. Specifically, costs must be reasonable, allocable, and accounted for via generally accepted accounting principles, and they must conform to any limitations set forth in the OMB Circulars.[1] Furthermore, Federal regulations state that grantees should have "records that identify adequately the source and application of funds for Federally-funded activities"[2] and these records must "be supported by source documentation."[3] That is, although BlazeSports may not have had an obligation to provide contemporaneous records supporting its expenses, it is now required to produce records to confirm the propriety of the expenditures. As set forth in the report, OIG concludes that all payments made to BlazeSports were unallowable because of the conflict of interest identified during the audit, the lack of supporting source documentation, and the failure of BlazeSports to fulfill key performance goals outlined in the awards.

KSU Comment: KSU stated that it "did not inappropriately charge awards SPK33013CA051 and SAF20013CA024 for work unperformed by the principal investigator." KSU further stated that it altered the PI's workload to meet program deliverables in the awards and that this resulted in a cost savings for the Department because additional salary expenditures were not charged to the grants.

OIG Reply: OIG did not conclude that work was not performed by the PI or other KSU employees for awards SPK33013CA051 and SAF20013CA024. Rather, OIG concluded that KSU improperly charged salary in the amount of $72,112 for the PI and several other KSU employees who worked on the awards above the percentage that was allowed in the award budgets. For example, the budgeted salary percentage for the PI in the second year of award SAF20013CA024 was 30 percent. However, the time and effort certifications indicated that the PI worked on the awards 50 percent of his time. As a result, KSU did not adhere to the terms and conditions of the cooperative agreements and improperly calculated and invoiced the Department for salaries related to these two awards.

KSU Comment: KSU stated that it "has recovered the time and effort filings of [Southern Polytechnic State University/Southern Polytechnic Applied Research Corporation] relating to awards SAF20013CA024 and SPK33013CA051 and, therefore, can substantiate the $199,229 identified as unsupported costs."

OIG Reply: During the 5 months of audit fieldwork, OIG requested documentation from KSU on multiple occasions to support expenses claimed on the Department awards related to time and effort reports. However, KSU officials stated that no records existed from Southern Polytechnic State University (SPSU) or Southern Polytechnic Applied Research Corporation (SPARC) regarding the time and effort totaling $199,229. As an enclosure to its response to a draft of this report, KSU provided additional information relating to the time and effort expenses. Because this information was provided after the audit concluded, OIG will forward all of the information to the appropriate Department officials for them to determine whether the expenses are allowed and supported in accordance with the award terms.

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[1] Circular A-110 § C.21(b), "Standards for financial management systems."

[2] Ibid.

[3] Ibid.

KSU Comment: KSU stated that it "encloses documentation responding to unsupported and unallowable costs in awards SAF20013CA024 and SPK33013CA051."

OIG Reply: OIG requested documentation from KSU on multiple occasions throughout the audit to support various expenses claimed on the Department awards. However, KSU officials stated that either no records existed or they did not have any additional documentation to provide. Because KSU provided this information after the audit concluded, OIG will forward the information to the appropriate Department officials for them to determine whether the expenses are allowed and supported. However, OIG notes that much of the information provided by KSU at the conclusion of the audit was previously provided and determined by OIG to be insufficient. For example, during the audit KSU provided OIG quotes to support the purchase of computer equipment totaling $30,234 for award SAF20013CA024. OIG advised KSU that these quotes are not sufficient evidence to support that the transaction occurred. Nevertheless, in its response to a draft of this report, KSU again provided the quotes as an enclosure, which it considered additional documentation to support the expenses.

KSU Comment: KSU stated that it "encloses documentation responding to unsupported and unallowable costs in awards SIN65014GR053 and SECAGD15CA1074."

OIG Reply: The information provided by KSU as an enclosure with its response to a draft of this report was previously provided to OIG and considered during the audit. However, the information was deemed insufficient to support the expenses claimed. Nevertheless, OIG will forward all of the information provided to the appropriate Department officials for them to determine whether the expenses are allowed and supported in accordance with the award terms.

KSU Comment: KSU stated that "[i]dentified deficiencies did not occur as a lack of 'technical competencies' in the KSU grants management office" and included commentary regarding KSU's Research and Service Record. KSU contended that, instead, the deficiencies occurred because of deficient processes at SPSU, to which the award was originally made.

OIG Reply: OIG concluded that KSU did not have the technical competencies needed to perform the required financial administration of the awards based upon the financial deficiencies identified during the audit. The KSU internal auditors also came to the same conclusion during a recent audit of KSU Research and Service Foundation (KSURSF). Specifically, the organization was listed as "high risk," and the auditors recommended that KSURSF report to the Chief Business Officer in the Controller's office due to a lack of financial oversight and credentialed accountants.

In addition, although OIG acknowledges the challenges faced by KSU related to the two awards inherited from SPSU, OIG found significant financial oversight deficiencies unrelated to awards specifically issued to SPSU. For example, KSU was unable to complete the required financial reports accurately and timely for a period of 7 years on multiple awards. Moreover, these financial oversight deficiencies occurred years before KSU inherited the two awards from SPSU and SPARC and continued even after a novation was performed for these awards in December 2015.

KSU Comment: KSU stated that "for purposes of the Draft Audit, audit, [KSU] and [SPARC] should be considered "independent" institutions." KSU further stated that "a central challenge in the Draft Audit depends upon KSU and KSURSF having vicarious liability for acts and omissions of SPSU and SPARC."

OIG Reply: At the outset, OIG notes that it makes no comment whatsoever on "liability" generally, much less the specific legal concept of "vicarious liability." Such analysis would be well outside the scope of this audit. As to the claim that KSU and SPARC should be considered "independent" institutions, OIG again takes no position with respect to this question as a purely legal matter but notes that KSU did not challenge OIG's description of the chronology by which SPSU merged with KSU; the relationship between KSU, KSURSF, and other entities; or the fact that certain Federal awards originally granted to SPSU were transferred to KSU.

On this point, the report clearly describes the evolution of the relationship between KSU and other entities, including SPSU, and OIG distinguishes between KSU and SPSU throughout the audit as appropriate to clarify where awards SPK33013CA051 and SAF20013CA024 originated. OIG also acknowledges the challenges faced by KSU related to the two awards inherited from SPSU. However, OIG identified a number of deficiencies both before and after the consolidation. Had there been an appropriate level of financial oversight within KSURSF, the consolidation may have been handled in a manner that would have ensured that proper accounting practices were followed during the consolidation of the two schools, especially for active grants and cooperative agreements.

KSU Comment: KSU stated that the "selection of a novice [PI] and SPSU/SPARC as a recipient institution in SPK33013CA051 and SAF20013CA024 contributed significantly to challenges encountered in administering those awards."

OIG Reply: The scope of the audit did not include the review of pre-award activities, such as the selection of KSU or SPSU as the recipient for the grants or cooperative agreements audited. In any event, regardless of whether any particular entity should have been selected, those entities entered into binding agreements regarding the use of Federal monies. However, OIG also notes that, even after a novation was performed for these awards, in which the recipient was changed from SPSU to KSU, problems not only persisted but intensified. For example, the Department put KSU on a corrective action plan in March 2016 for award SPK33013CA051 because the award's administration was no longer conforming to the standard of international quality required by the award's terms and conditions. One of the concerns identified by the Department was that KSU was not submitting the required quarterly reports on time. As part of the corrective action plan, the Department required KSU to submit monthly financial reports, which KSU either did not complete or did not complete timely and accurately. This issue did not exist when SPSU was administering the award.

KSU Comment: KSU stated that "[PIs] did not fail to complete all primary program goals within agreed upon deadlines in four (4) of seven (7) Department awards" and contended that OIG only provided evidence that PIs failed to meet program goals in one award.

OIG Reply: OIG concluded that KSU did not meet all program goals within agreed upon deadlines for four of the seven awards audited (specifically, KSU met some, but not all goals, within the original timeframes). Although the report provides a general discussion of these items, more detail is included below:

1. SLMAQM08GR0598 – KSU did not meet the primary performance goal of implementing and conducting the National Sports and Disability Festival (see Table G.1).

2. SLMAQM09GR0542 – KSU met none of the three performance goals required by the grant agreement (see Table G.1). Although KSU contends that there was a modification of the project goals, in fact, the modification merely extended the time period of the grant and did not modify the substantive requirements.

3. SPK33013CA051 – KSU did not meet the primary performance goal with respect to the international conference in Pakistan and did not meet other goals within agreed upon deadlines. In its response, KSU contends that its personnel did not attend because of the Department's travel warning relating to Pakistan and ongoing violence in the area of the conference. Moreover, the travel warning to which KSU refers had not been substantially upgraded or changed during the life of the grant. That same travel warning was in place at the time that KSU accepted the grant. If KSU had made an independent determination that the travel warning meant that its personnel categorically should not travel to the site of the award, it should not have accepted the award given that its terms specifically required KSU personnel to attend the conference.

4. SAF20013CA024 –Specific performance goals were for this award were not met within agreed-upon deadlines and contained insufficient documentation.

KSU Comment: KSU stated that the "OIG audit team's conclusion that ninety-eight percent (98%) of all mandatory financial reports were late or contain financial errors is misleading."

OIG Reply: OIG reviewed all financial reports related to the audited awards and found substantial errors in every report except one, which equated to a 98 percent error rate. As detailed in the audit report findings, the financial statements were routinely late, contained mathematical errors, and were either missing information or contained incorrect information. Table G.2 provides a detailed explanation of some of the deficiencies identified during OIG's review of the Federal financial reports.

Table G.2: Summary of Financial Report Deficiencies

Award Number	General Deficiencies Identified
SIN65014GR053	Financial report due on December 30, 2015, was not submitted in the correct format until May 3, 2016.
SECAGD15CA1074	All reports were submitted late. The first two reports did not include expenditures, although expenditures had been incurred. The third report did not include accurate cost share expenditures. The fourth report was rejected by the Department for errors. The fifth report was accepted but still contained errors.
SLMAQM08GR0598	All reports were missing indirect expense information and recipient cost share information. The final report had an inaccurate amount of cash disbursements.
SLMAQM09GR0542	All reports were missing indirect expense information and recipient cost share information. The final report had an inaccurate amount for cash receipts.
SPK33013CA051	Reported incorrect cost share and indirect expense information; information on Federal financial report did not agree to general ledger information or payment request forms.
SAF20013CA024	Reported incorrect cost share and indirect expense information; information on Federal financial report did not agree to general ledger information or payment request forms.

Source: OIG generated based on analysis of award documentation specific to financial reporting.

ABBREVIATIONS

A/LM/AQM	Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management
ASEAN	Association of Southeast Asian Nations
CFR	Code of Federal Regulations
DRL	Bureau of Democracy, Human Rights, and Labor
ECA	Bureau of Educational and Cultural Affairs
GO	Grants Officer
GOR	Grants Officer Representative
KSU	Kennesaw State University
OMB	Office of Management and Budget
PI	Principal Investigator
SCA	Bureau of South and Central Asian Affairs
SPARC	Southern Polytechnic Applied Research Corporation
SPSU	Southern Polytechnic State University

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