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July 14, 2016

Mr. Steve Martin
 Associate Vice President for Research
 Administration
 Indiana University
 509 E. 3rd St.
 Bloomington, IN 47401

Re: Resolution of NSF OIG Audit Report No. 15-1-019

Dear Mr. Martin:

The National Science Foundation (NSF) has completed its review and resolution of the Office of the Inspector General’s (OIG) audit report on costs claimed under NSF awards by Indiana University (IU) during the period April 1, 2010 through March 31, 2013.

The audit report identified five findings and a total of \$830,008 in questioned costs under 53 NSF awards. As a result of the NSF audit resolution effort, including the review and analysis of the applicable federal and NSF requirements, and documentation provided by the University, the Agency has determined that \$780,636 of the \$830,008 costs questioned by the auditors will be allowed, and that questioned costs in the amount of \$49,372 will be disallowed. The table below provides a summary of the costs questioned, allowed and disallowed under each of the five findings.

Finding	Description	Questioned	Allowed	Sustained
1	Exceeded NSF Limits on Senior Salary	\$744,458	\$744,458	\$0
2	Unreasonable or Unallocable Transactions	\$47,116	\$0	\$47,116
3	Unreasonable Equipment Charges	\$22,034	\$21,834	\$200
4	Unreasonable Travel Expenses	\$15,983	\$14,344	\$1,639
5	Unallocable Immigration Fees	\$417	\$0	\$417
	Total	\$830,008	\$780,636	\$49,372

The NSF management decision for finding number one is based upon the determination that the NSF faculty salary compensation policy is budgeting guidance for the preparation and submission of proposals. As stated in the NSF “Frequently Asked Questions (FAQs) on Proposal Preparation and Award Administration” dated January 2013, awardees “can internally approve an increase or decrease in person months devoted to the project after an award is made, even if doing so results in salary support for senior personnel exceeding the two month salary rule. No prior approval from NSF is necessary. The caveat is if the change would cause the objective or scope of the project to change, then the awardee would have to submit an approval request via Fastlane.” Language clarifying the Agency’s policy was introduced in the 2015 version of the Proposal and Award Policies and Procedures (PAPPG; NSF 15-1).



Based on the above, NSF has determined that the basis for the audit finding misinterprets the NSF faculty salary compensation policy. As a result, NSF does not sustain the finding or the \$744,458 in questioned costs associated with finding number one.

The management decision to sustain finding number two and disallow \$47,116 in unreasonable and unallocable costs questioned is based on the University's concurrence with the audit finding and questioned costs.

While there is no specific NSF or Uniform Guidance requirement, the Agency recommends that the University consider enhancing its internal controls to address the allocation of equipment purchases at or near the end date (<90 days) of federal awards. In addition, the development of a policy and procedure that addresses when PIs should consider obtaining an extension of the award end date (no-cost extension) may also be helpful in preventing similar findings and cost disallowances in the future. Indiana University has provided NSF documentation that verifies the repayment of the disallowed costs, and NSF considers the finding and questioned costs resolved.

Regarding finding number three, NSF sustained and disallowed \$200 based on the University's concurrence. Upon review of the supporting documentation provided, NSF determined the amount of \$21,834 to be allowable costs. As the University documentation provided also demonstrated the return of the \$200 to NSF, the disallowed costs are considered resolved. NSF accepts the University's plan to provide additional training to staff on equipment purchases near award end dates and development of an exception report to improve monitoring of late equipment purchases as reasonable steps to strengthen existing university controls. As a result, finding three and the associated disallowed costs are considered resolved.

For finding number four, in accordance with the NSF Proposal and Award Policies and Procedures Guide (PAPPG), without prior approval, awardees may charge costs under NSF awards that were not included in the approved budget, as long as the costs are allocable, reasonable and allowable, and do not constitute a change in objective or scope. The NSF review determined that the travel costs in question were charged in accordance with NSF policies, the award terms and conditions, and the federal Cost Principles. In addition, the review found that the charges were consistent with the University's travel policies. Accordingly, NSF has resolved to allow \$14,344 of the travel costs, and to disallow the remaining \$1,639 representing duplicate charges. NSF has verified that the University has returned the disallowed amount of \$1,639, and will not require changes to the existing travel policies and procedures. Therefore, finding four and the disallowed costs are considered resolved.

Finally, NSF sustained the \$417 for unallocable immigration fees, as agreed to by the University. Given the single instance of non-compliance identified under this finding, NSF finds the University's plan to provide additional training to staff as a means of strengthening controls over immigration fee charges acceptable to address the condition noted. The return of the disallowed amount of \$417 has been verified by NSF, and finding five is considered resolved.

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

http://www.nsf.gov/pubs/policydocs/pappguide/nsf16001/aag_7.jsp



Based on the above information, NSF considers all of the audit report findings and disallowed costs resolved and closed, and no other action is required by the University under this audit resolution. The University's cooperation, patience, and timely responses have been greatly appreciated. Should you have any questions concerning this letter or the resolution process, please contact me at 703-292-4827.

Sincerely,

Rochelle D. Ray

Rochelle Ray, Team Lead
Cost Analysis & Audit Resolution Branch
Division of Institution & Award Support