



NSF OIG CORNER

Frequent Audit Findings

By Ken Lish

As most of you know, we regularly conduct audits to determine whether costs claimed were allowable (*does the Uniform Guidance say it's okay?*), allocable (*did you charge it to the right project?*), and reasonable (*would a prudent person incur the cost?*). In this article, we'll discuss three frequent audit findings and how you can avoid the same mistakes.

Frequent Finding 1: No Formal Approval for Subawards

We often find that award recipients make subawards to other organizations without NSF's formal written approval. It is not enough to reference a new subaward in a project report or send an email to a program officer. NSF requires award recipients to obtain written authorization from the grants officer (which is not the same as a program officer) before making a subaward to another organization.

During the proposal phase, the approved NSF award budget must include all planned subawards. After NSF makes the award, award recipients must submit a formal request via NSF's electronic systems for any new subawards. Such requests need to include:

- a clear description of the work to be performed by each subrecipient;
- a separate budget and budget justification for each subaward; and
- a mentoring plan if funding is for a postdoctoral researcher and the original proposal did not include a mentoring plan.

If NSF approves the request, the grants officer will amend the award to include the new subaward(s). Only NSF grants officers can make commitments, obligations, or awards and authorize the expenditure of funds on behalf of NSF.

Frequent Finding 2: Incorrect Indirect Cost Rate

It's easy to make a mistake with indirect cost rates. For institutions of higher education, the *Uniform Guidance* requires recipients to use the indirect cost rates in effect when the award is made for the life of the award. Mistakes can happen when a new negotiated indirect cost rate agreement (NICRA) becomes effective after a proposal is submitted but before the effective date of the award. In this case, award recipients must change the indirect cost rate and use the new NICRA. Detailed institutional policies and procedures for indirect costs can help avoid this type of audit finding.

Frequent Finding 3: Expenses Not Properly Allocated or Documented

When we review costs during an audit, we check to see whether a charge was "properly allocated," i.e. whether it was charged to the right project in the right proportion. For example, according to the *Uniform Guidance*:

- You can't charge a good or service to an unrelated award to make up for a funding deficiency on another award or project.

- Costs must clearly benefit the actual project during the award period, not just future-related projects, or the research area in general. For instance, we will likely question lab supplies purchased a week before the award ends because these supplies are more likely to benefit future projects.
- If a good or service benefits two or more projects, you must allocate the cost to each project proportionally, and you must document a prudent reason for the allocation. E.g. if new unbudgeted lab equipment is used 40% of the time for an NSF project and 60% of the time for other projects, you should only charge 40% of the cost of the equipment to the corresponding NSF award. It is also important to keep records explaining how you determined the ratio.

By ensuring your institution has policies and procedures that address these common findings, you can help avoid cost disallowances.

Where can I find more information?

Check out our audits of NSF award recipients and the associated resolution decisions:

- **Audit Reports:** www.nsf.gov/oig/reports
- **Resolution Decisions:** www.nsf.gov/bfa/responses.jsp

How can I report fraud, waste, abuse, or whistleblower reprisal?

- **Web:** www.nsf.gov/oig/report-fraud/form.jsp
- **Anonymous Hotline:** 1.800.428.2189
- **Email:** oig@nsf.gov
- **Mail:** 2415 Eisenhower Avenue, Alexandria, VA 22314
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