

NATIONAL SCIENCE FOUNDATION
4201 Wilson Boulevard
ARLINGTON, VIRGINIA 22230



**OFFICE OF
INSPECTOR GENERAL**

MEMORANDUM

Date: March 31, 2011

To: Mary F. Santonastasso, Director
Division of Institution and Award Support

Karen Tiplady, Director
Division of Grants and Agreements

From: Dr. Brett M. Baker /s/
Assistant Inspector General for Audit

Subject: Audit Report No. OIG-11-1-013
Louisiana Board of Regents

Attached is the final audit report, prepared by Foxx & Company, an independent public accounting firm, on the audit of NSF Award Numbers [REDACTED] awarded to the Louisiana Board of Regents (LBR). The audit covers costs claimed for the four awards from May 15, 2004 to September 30, 2009, totaling approximately \$18.6 million in NSF funded costs claimed and \$8.1 million in claimed cost share.

LBR was selected for an audit because of the high dollar value and number of NSF awards, the collaborative nature of many of the awards, the significant issues identified in the results of NSF OIG's audit of LBR in 1998 and NSF's monitoring site visit at LBR in 2004, and the material internal control deficiencies reported in past Office of Management and Budget (OMB) Circular A-133 audits.

Except for \$1,884,950 (10% of total claimed costs) in questioned labor and fringe benefits, subcontracts costs, material and supplies, and questioned cost sharing costs of \$152,182, the auditors determined that the costs claimed by LBR under NSF Award Numbers [REDACTED] appear fairly stated and are allowable, allocable and reasonable for the NSF awards. The auditor's review of the previously identified audit recommendations in the prior OIG's audit of LBR, NSF's monitoring site visit, and A-133 audits revealed that most were adequately addressed. The auditors also noted three compliance and internal control deficiencies in LBR's, and two of LBR's subawardees, (Louisiana State

University and Southern University) financial management practices that contributed to these questioned costs and if not corrected, could impact current and future NSF awards. Specifically:

- Labor and related fringe benefits charged to NSF awards were not equitably allocated or adequately supported. Salaries and related fringe benefits claimed under NSF EPSCoR Award Nos. [REDACTED] did not reflect the actual work performed on these awards. The individuals that were charging the majority of their time to the EPSCoR awards were also working on other federal and state projects. Labor and related fringe benefits charged to NSF were based on the award budgets rather than actual effort expended. Furthermore, salaries and related fringe benefits were not charged to the two other on-going NSF Awards [REDACTED] even though 3 of the 6 of the LBR employees were working on those two awards. In addition, LBR did not use the correct form of timekeeping documentation required by federal regulations for a state agency. This condition occurred because LBR's effort and reporting system was erroneously based on guidance applicable to educational organizations rather than guidance applicable to state governments. As a result, there is no assurance that the LBR effort reporting system reliably reported actual effort expended on the NSF awards. Therefore, the auditors have questioned \$1,305,283 of inequitably allocated or unsupported salaries and fringe benefits charged to NSF Award Nos. [REDACTED] (\$712,676) and [REDACTED] (\$592,607).
- Improvements are needed to LBR's subaward monitoring program for NSF funded subawards to better represent the different LBR subawardee organizations. The four NSF awards in the scope of this audit had 60 first tier subawards to 36 different subawardee institutions that claimed \$15 million of the \$18 million in total costs charged to the awards. LBR's subaward monitoring of NSF funded subawards concentrated on the largest dollars which were subawarded to LSU. Accordingly, there were a number of first tier NSF funded subawardees that never received an on-site monitoring visit by LBR's Audit Division. As a result, problems could exist in the internal controls at other subawardees and could go unnoticed by LBR. The auditor's tests revealed problems at Southern University which is one of LBR's subawardees. The auditors also, noted an instance where a LSU/LBR second tier subawardee exceeded the budget without approval, although LBR's monitoring review at LSU revealed no findings. Additional subawardee monitoring site visits would result in greater assurance that subaward costs claimed are allowable, reasonable and allocable to LBR's current and future NSF awards.
- Southern University (SU) could not support a material amount of costs claimed under the LBR first tier subcontract under NSF Award No. [REDACTED] SU could not provide adequate documentation supporting personnel costs, related fringe benefits, participant costs, and cost sharing claimed under the NSF award. Although SU had detailed procedures for maintaining records supporting costs incurred on sponsored programs, SU could not readily provide accounting documentation to support costs claimed. As a

result, \$547,741 of direct and indirect costs and \$152,182 of cost sharing has been questioned.

To address these compliance and internal control deficiencies, the auditors recommend that the Director of NSF's Division of Institution and Award Support (DIAS) address and resolve the following recommendations made to LBR: (1) require the LBR to determine the labor charges and related benefits charged to the NSF awards to reflect the actual costs in accordance with state agency provisions, recover all personnel costs not applicable to NSF Award Nos. [REDACTED] and [REDACTED] 1, and, review LBR's revised effort reporting system to ensure that it complies with the provisions of state agencies and will result in equitably distributed salaries and related benefits; (2) consider performing on site monitoring visits of other NSF funded subawardees in addition to LSU and, submit to the NSF the \$17,696 of costs recovered from the University of Illinois by LSU; and, (3) require Southern University to comply with its existing policies and procedures to ensure that all claimed costs including cost sharing are supported with adequate and sufficient supporting documentation; or, recover the \$547,741 of questioned direct and indirect costs claimed and return it to NSF. An additional recommendation was made to address the additional unallowable costs identified during the audit. The auditors recommend that LBR refund the \$11,953 mistakenly charged to the NSF award, and determine and document a use for the unused equipment that is consistent with the objectives of the EPSCoR award, or refund the \$2,277 to NSF.

During the course of the audit the auditor noted two issues that are not considered findings but need to be addressed by LBR and NSF. The auditors determined that there was an excessive slow burn rate under Award No. [REDACTED] through September 30, 2009, the end of the auditor's audit period; and, LBR received \$2,987 in advance more than the net award costs for Award No. [REDACTED]

LBR generally concurred with the recommendations and indicated it was taking corrective actions to develop a time keeping system that is compliant with 2 CFR 225, expand their subawardee monitoring program to include all NSF subawardees, and, provide a refund or credit to NSF for funds inappropriately charged to NSF awards. Also, LBR agreed with some of the questioned labor charges on the two NSF EPSCOR awards but did not agree with the questioned costs from its 1st tier subawardee, Southern University. LBR's response is included in its entirety in Attachment A.

Please coordinate with our office during the six month resolution period, as specified by OMB Circular A-50, to develop a mutually agreeable resolution of the audit findings. Also, the findings should not be closed until NSF determines that all recommendations have been adequately addressed and the proposed corrective actions have been satisfactorily implemented.

We are providing copies of this memorandum to the Division Director of Human Resource Development (HRD) and the Directorate for Education & Human Resources (EHR) within the Office of the Assistant Director. The responsibility for audit resolution rests with the Division of Institution and Award Support, Cost Analysis and Audit Resolution Branch (CAAR). Accordingly, we ask that no action be taken concerning the report's findings without first consulting CAAR at 703-292-8244.

OIG Oversight of Audit

To fulfill our responsibilities under Government Auditing Standards, the Office of Inspector General:

- Reviewed Foxx & Company's approach and planning of the audit;
- Evaluated the qualifications and independence of the auditors;
- Monitored the progress of the audit at key points;
- Coordinated periodic meetings with Foxx & Company and NSF officials, as necessary, to discuss audit progress, findings, and recommendations;
- Reviewed the audit report, prepared by Foxx & Company to ensure compliance with Government Auditing Standards; and
- Coordinated issuance of the audit report.

Foxx & Company is responsible for the attached auditor's report on LBR and the conclusions expressed in the report. We do not express any opinion on the Schedules of Award Costs, internal control, or conclusions on compliance with laws and regulations.

We thank your staff for the assistance that was extended to our auditors during this audit. If you have any questions regarding this report, please contact Jannifer Jenkins at 703-292-4996.

Attachment

cc: James H. Lightbourne, Division Director, EHR/HRD
Joan Ferrini-Mundy, Assistant Director, EHR/OAD

State of Louisiana Board of Regents

Baton Rouge, Louisiana 70802

NATIONAL SCIENCE FOUNDATION
AWARD NUMBERS [REDACTED]

FINANCIAL AUDIT OF FINANCIAL SCHEDULES
and
INDEPENDENT AUDITORS' REPORT
from
May 15, 2004 to September 30, 2009

Foxx & Company
Certified Public Accountants
324 West Ninth Street, Suite 700
Cincinnati, Ohio 45202

EXECUTIVE SUMMARY

The National Science Foundation (NSF) Office of Inspector General (OIG) engaged Foxx and Company to perform an audit on \$18,597,179 in costs claimed and \$8,163,470 in cost sharing claimed as reported on the September 30, 2009 Federal Financial Report (FFR) and cost sharing reports submitted to NSF by the Louisiana Board of Regents (LBR) for NSF Award Numbers [REDACTED]. The Louisiana Board of Regents (LBR) is a state agency located in Baton Rouge, Louisiana. The LBR is the governing body charged with the coordination and governance of state-wide education and research development of all State public colleges and universities in Louisiana including 19 public colleges, universities, and professional schools. As of March 2009, LBR had six awards from NSF totaling over \$23.7 million.

LBR was selected for an audit because of the high dollar value and number of NSF awards, the collaborative nature of many of the awards, the significant issues identified in the results of NSF OIG's audit of LBR in 1998 and NSF's monitoring site visit at LBR in 2004, and the material internal control deficiencies reported in past Office of Management and Budget (OMB) Circular A-133 audits.

The purpose of this audit was to determine whether the costs and cost share claimed by LBR and its subawardees for these NSF awards appear fairly stated in the Schedules of Award Costs and to identify weaknesses in LBR's internal control over financial reporting that could have a direct and material effect on LBR's ability to properly administer, account for, and monitor its NSF awards. In addition, we were to determine whether LBR adequately monitors its subawardees and ensures that previously identified audit recommendations have been satisfactorily addressed and implemented.

Except for \$1,884,950 (10% of total claimed costs) in questioned labor and fringe benefits, subcontracts costs, material and supplies, and questioned cost sharing costs of \$152,182, we determined that the costs claimed by LBR under NSF Award Numbers [REDACTED] appear fairly stated and are allowable, allocable and reasonable for the NSF awards. Specifically, we questioned labor and fringe benefit costs of \$1,305,283 claimed by LBR under the two EPSCoR Awards, (Award Nos. [REDACTED] for \$712,676 and [REDACTED] for \$592,607) because the individuals that were charging the majority of their time to the EPSCoR awards were working on other federal and state projects and because LBR did not maintain the proper documentation to support salaries and related benefits charged for staff working on multiple projects, as required. We also questioned \$14,230 claimed by LBR for salary costs charged (\$11,953) that were not related to the NSF awards and equipment purchased (\$2,277) under a NSF award but not used. In addition, we questioned subaward costs of \$547,741 and cost sharing of \$152,182 claimed by Southern University (SU) under Award No. [REDACTED] because these costs and the cost share were not supported by adequate documentation. Finally, we questioned \$17,696 for a refund that LSU received from the University of Illinois under Award No. [REDACTED] after we informed LSU, during the survey phase of the audit, that the University of Illinois exceeded their labor budget by more than 20 percent without receiving the required written authorization.

We also noted three compliance and internal control deficiencies in LBR's, and two of LBR's subawardees, (Louisiana State University and Southern University) financial management practices that contributed to these questioned costs and if not corrected, could impact current and future NSF awards. Specifically:

- Labor and related fringe benefits charged to NSF awards were not equitably allocated or adequately supported. Salaries and related fringe benefits claimed under NSF EPSCoR Award Nos. [REDACTED] did not reflect the actual work performed on these awards. The individuals that were charging the majority of their time to the EPSCoR awards were also working on other federal and state projects. Labor and related fringe benefits charged to NSF were based on the award budgets rather than actual effort expended. Furthermore, salaries and related fringe benefits were not charged to the two other on-going NSF Awards ([REDACTED]), even though 3 of the 6 of the LBR employees were working on those two awards. In addition, LBR did not use the correct form of timekeeping documentation required by federal regulations for a state agency. This condition occurred because LBR's effort and reporting system was erroneously based on guidance applicable to educational organizations rather than guidance applicable to state governments. As a result, there is no assurance that the LBR effort reporting system reliably reported actual effort expended on the NSF awards. Therefore, we have questioned \$1,305,283 of unequitably allocated or unsupported salaries and fringe benefits charged to NSF Award Nos. [REDACTED] 1 (\$712,676) and [REDACTED] 1 (\$592,607).
- Improvements are needed to LBR's subaward monitoring program for NSF funded subawards to better represent the different LBR subawardee organizations. The four NSF awards in the scope of this audit had 60 first tier subawards to 36 different subawardee institutions that claimed \$15 million of the \$18 million in total costs charged to the awards. LBR's subaward monitoring of NSF funded subawards concentrated on the largest dollars which were subawarded to LSU. Accordingly, there were a number of first tier NSF funded subawardees that never received an on-site monitoring visit by LBR's Audit Division. As a result, problems could exist in the internal controls at other subawardees and could go unnoticed by LBR. Our tests revealed problems at Southern University which is one of LBR's subawardees. We also, noted an instance where a LSU/LBR second tier subawardee exceeded the budget without approval, although LBR's monitoring review at LSU revealed no findings. Additional subawardee monitoring site visits would result in greater assurance that subaward costs claimed are allowable, reasonable and allocable to LBR's current and future NSF awards.
- Southern University (SU) could not support a material amount of costs claimed under the LBR first tier subcontract under NSF Award No. [REDACTED]. SU could not provide adequate documentation supporting personnel costs, related fringe benefits, participant costs, and cost sharing claimed under the NSF award. Although SU had detailed procedures for maintaining records supporting costs incurred on sponsored programs, SU could not readily provide accounting documentation to support costs claimed. As a

result, \$547,741 of direct and indirect costs and \$152,182 of cost sharing has been questioned.

To address these compliance and internal control deficiencies, we recommend that the Director of NSF's Division of Institution and Award Support (DIAS) address and resolve the following recommendations made to LBR: (1) require the LBR to determine the labor charges and related benefits charged to the NSF awards to reflect the actual costs in accordance with state agency provisions, recover all personnel costs not applicable to NSF Award Nos. [REDACTED] and [REDACTED] and, review LBR's revised effort reporting system to ensure that it complies with the provisions of state agencies and will result in equitably distributed salaries and related benefits; (2) consider performing on site monitoring visits of other NSF funded subawardees in addition to LSU and, submit to the NSF the \$17,696 of costs recovered from the University of Illinois by LSU; and, (3) require Southern University to comply with its existing policies and procedures to ensure that all claimed costs including cost sharing are supported with adequate and sufficient supporting documentation; or recover the \$547,741 of questioned direct and indirect costs claimed and return it to NSF.

An additional recommendation was made to address the additional unallowable costs identified during the audit. We recommended that LBR refund the \$11,953 mistakenly charged to the NSF award, and determine and document a use for the unused equipment that is consistent with the objectives of the EPSCoR award, or refund the \$2,277 to NSF.

LBR generally concurred with the recommendations and indicated it was taking corrective actions to develop a time keeping system that is compliant with 2 CFR 225, expand their subawardee monitoring program to include all NSF subawardees, and provide a refund or credit to NSF for funds inappropriately charged to NSF awards. Also, LBR agreed with some of the questioned labor charges on the two NSF EPSCOR awards but did not agree with the questioned costs from its 1st tier subawardee, Southern University. LBR's response is included in its entirety in Attachment A. LBR's response to each finding is summarized in the text of the report following the auditors' recommendations. Our comments on LBR's responses follow each of their responses. LBR's response is also presented in its entirety in Attachment A of this report.

Our review of the previously identified audit recommendations revealed that most were adequately addressed. See Attachment B to this report for details.

The findings in this report should not be closed until NSF has determined that all the recommendations have been adequately addressed and the proposed corrective actions have been satisfactorily implemented.

For a complete discussion of audit findings, refer to the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance with *Government Auditing Standards*.

Louisiana Board of Regents

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INTRODUCTION

BACKGROUND

The National Science Foundation, Office of Inspector General (NSF-OIG) contracted with Foxx & Company to perform an audit of four NSF awards to the Louisiana Board of Regents (LBR). In addition to conducting internal control and substantive testing at LBR, Foxx & Company also conducted internal control and substantive testing at the Louisiana State University (LSU), and Southern University, both first tier sub recipients. Foxx & Company also conducted substantive testing for costs claimed by the University of Illinois, LSU's second tier sub recipient under NSF Award No. [REDACTED]

The LBR is a state Agency established in 1975. The LBR is the governing body charged with the coordination and governance of state-wide education and research development of all State public colleges and universities in Louisiana including 19 public colleges, universities, and professional schools. As of March 2009, LBR had six awards from NSF totaling over \$23.7 million. Because LBR is a state agency, it is required to follow the administrative and cost principles specified in the Common Rule (formerly OMB Circular A-102), codified by NSF at 45 CFR Part 602, and 2 CFR 225 (formerly OMB Circular A-87), respectively. The majority of the NSF funds included in the scope of our audit were sub-awarded by LBR to educational institutions which are required to follow the administrative and cost principles of 2 CFR Part 215 (formerly OMB Circular A-110) and 2 CFR Part 220 (formerly OMB Circular A-21), respectively.

Cost categories, approved budget, and claimed costs for the four NSF awards under audit were as follows:

Grant Nos. [REDACTED]

Cost Categories	Total Budget	Budgeted Costs				
		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Salaries and Wages	\$2,003,618	\$1,152,173	\$0	\$851,445	0	
Fringe Benefits	\$375,238	197,948	0	\$177,290	0	
Equipment	\$31,130	31,130	0	0	0	
Travel	\$102,000	58,000	12,000	32,000	0	
Materials and Supplies	\$77,464	43,000	0	34,464	0	
Consultant Services	\$247,000	125,000	0	122,000	0	
Sub awards	\$18,363,330	7,310,113	5,135,000	3,324,261	2,593,956	
Other Direct Costs	\$1,741,176	282,636	0	1,458,540	0	
Total	\$22,940,956	\$9,200,000	5,147,000	\$6,000,000	\$2,593,956	
Cost Sharing	\$6,500,000	\$4,500,000	\$2,000,000	\$0	\$0	

Cost Categories	Total Claimed	Claimed Costs through 9/30/2009				
		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Salaries and Wages	\$1,722,978	\$983,319	\$0	\$739,659	\$0	
Fringe Benefits	458,904	262,540	0	196,364	0	
Equipment	373,245	373,245	0	0	0	
Travel	254,078	206,206	0	47,872	0	
Materials and Supplies	48,977	37,917	0	11,060	0	
Consultant Services	190,425	91,994	0	98,431	0	
Sub awards	15,486,684	6,947,169	\$4,347,534	3,276,193	915,788	
Other Direct Costs	64,875	28,883	0	35,992	0	
Subtotal	\$18,600,166	\$8,931,273	\$4,347,534	\$4,405,571	\$915,788	
Costs incurred in Excess of claimed costs to NSF	\$(2,987)	\$(2,987)	\$0	\$0	\$0	
Total Costs	\$18,597,179	\$8,928,286	\$4,347,534	\$4,405,571	\$915,788	
Cost Sharing	\$8,163,470	\$4,719,031	\$3,444,439	\$0	\$0	

Grant Award [REDACTED] was for Louisiana's Strategic Infrastructure Improvements. The LBR was awarded \$9.2 million for a project entitled *The Experimental Program to Stimulate Competitive Research (EPSCoR)*. The purpose of the award was to support research and educational activities to enhance Louisiana's R&D competitiveness; build partnerships among Louisiana universities, national laboratories, and the private sector; and to recruit students especially from underrepresented groups into science and engineering fields. The grant budget period was from May 15, 2004 through March 31, 2008. The award included \$1.35 million in salaries, wages and fringe benefits for LBR; and \$7.3 million in sub awards of which over \$7 million went to LSU. This award also required \$4.5 million in cost sharing. The cumulative disbursements for Award No. [REDACTED] reported to NSF through September 30, 2009 were \$8,928,286. Cost share claimed through September 30, 2009 was \$4,719,031.

Cooperative Agreement [REDACTED] was a continuing cooperative agreement for The Louis Stokes Louisiana Alliance for Minority Participation (LS-LAMP). The purpose of the award was to develop a statewide, comprehensive systemic mentoring program aimed at rapidly increasing the number and quality of minority students earning baccalaureate degrees in science, technology, engineering, and mathematics (STEM) disciplines and actively promoting their transition to STEM graduate schools for the pursuit of terminal degrees (PHD). The LBR was awarded over \$5.1 million for the project. The cooperative agreement budget period was from November 1, 2005 through October 31, 2010. The award included over \$5.1 million in sub-awards of which over \$3.3 million was awarded to LSU and \$1.8 million to Southern University. The cost sharing requirement under this cooperative agreement was \$2 million dollars. The cumulative disbursements for Award No. [REDACTED] reported to NSF through September 30, 2009 was \$4,347,534. Cost share claimed through September 30, 2009 was \$3,444,439.

Grant Agreement [REDACTED] was a continuing grant agreement for Louisiana's Research Infrastructure Improvement Strategy. The grant was awarded under NSF's Experimental Program to Stimulate Competitive Research (EPSCoR). The purpose of the award was to advance interdisciplinary research across the State's institutions of higher education by establishing a statewide research and information technology infrastructure that integrates selected areas of scientific strength with development of cyber infrastructure tools. The LBR was awarded \$6 million for the project. The grant budget period was from October 1, 2007 through September 30, 2010. The award included over \$1 million in salary, wages and fringe benefits and over \$1.6 million in other direct costs for LBR. The award also included about \$3.3 million in sub-awards of which about \$2.7 million went to LSU. No cost sharing was required under this award. The cumulative disbursements for Award No. [REDACTED] reported to NSF through September 30, 2009 was \$4,405,571.

Cooperative Agreement [REDACTED] was a continuing cooperative agreement for High Performance Computing for Science and Engineering Research and Education Operations (HPCOPS): The LONI Grid – Leveraging HPC Resources of the Louisiana Optical Network Initiative for Science and Engineering Research and Education. The purpose of the award was to enhance and expand the TeraGrid by contributing major new computational resources from the Louisiana Optical Network Initiative; to provide new cyber infrastructure, services, research, and developmental projects that will benefit the national community; and to bring additional user communities from underrepresented scientific application domains and geographic regions of the US by working with communities from the LONI with TeraGrid. The LBR was awarded almost \$2.6 million for the project. The cooperative agreement budget period was from October 1, 2007 through March 31, 2010. The entire award was for sub-awards to LSU. No cost sharing was

required under this award. The cumulative disbursements for Award No [REDACTED] reported to NSF through September 30, 2009 was \$915,788.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

AUDIT OBJECTIVE

The audit objectives include determining whether: (1) the LBR's system of internal control is adequate to account for and safeguard NSF funds, (2) the LBR's costs claimed are allowable and in conformity with the terms and conditions of the NSF awards and Federal requirements, and (3) the LBR, LSU, and Southern University complied with applicable laws, regulations, and award terms and conditions.

Specific objectives of the audit were to:

1. Determine whether the LBR, LSU and Southern have an adequate system of internal controls over administrating its NSF funds to account for and ensure compliance with applicable federal and NSF award provisions.
2. Identify and report instances of noncompliance with laws, regulations, and the provisions of the award agreements and weaknesses in the LBR's, LSU's, and Southern University's internal controls over compliance and financial reporting that could have a direct and material effect on the Schedule of Award Costs. In addition, LBR's ability to properly administer, account for, and manage its NSF awards would be evaluated.
3. Determine and report on whether LBR and LSU adequately monitor their sub-awards.
4. Follow-up on recommendations identified in OIG's 1998 audit, NSF's 2004 financial administrative site visit, and the LBR 2007 OMB Circular A-133 audit to determine if the issues raised were satisfactorily addressed and recommendations implemented. (The Single Audit for the Year ended June 30, 2008 was issued in March 2009. We have followed up on the findings in that report.)
5. Determine and report on whether the Schedules of Award Costs of the LBR present fairly, in all material respects, the costs claimed on the Federal Cash Transaction Reports/Federal Financial Reports and cost sharing in conformity with NSF-OIG Financial Audit Guide and the terms and conditions of the NSF award.

SCOPE AND METHODOLOGY

We performed inquiries and walkthroughs of the expenditure, revenue, payroll, and reporting/drawdown cycles. The purpose of our inquiries and walkthroughs was to obtain an understanding of the internal controls over these cycles and to assess the control strengths and weaknesses which were in place, and to devise and execute tests of the controls. Our tests were designed not only to address the controls in place but also to address the audit objectives. In conducting the survey and internal control assessments, we interviewed key personnel of each organization related to the operations for specific audit areas as deemed necessary. We reviewed and documented the organizations procedures and policies, and tested significant controls.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* (2007 Revision) issued by the Comptroller General of the United States, and the guidance provided in the *National Science Foundation OIG Audit Guide* (August 2007), as applicable. Foxx & Company also complied with the most current AICPA financial audit standards, including the Statements on Auditing Standards (SAS) 62, 99, and 102 through 117.

These standards and the NSF OIG Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether amounts claimed to NSF as presented in the Schedules of Award Costs, (Schedules A-1 through A-4) are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules of Award Costs. An audit also includes assessing the accounting principles used and the significant estimates made by the LBR, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

**AUDIT REPORT ON FINANCIAL SCHEDULES
AND
SUPPLEMENTAL INFORMATION**



National Science Foundation
 Office of Inspector General
 4201 Wilson Boulevard
 Arlington, Virginia 22230

INDEPENDENT AUDITORS’ REPORT ON FINANCIAL SCHEDULES

We have audited the costs claimed by State of Louisiana, Board of Regents to the National Science Foundation (NSF) on the Federal Financial Reports (FFRs) for the NSF awards listed below. In addition, we audited the amount of cost share claimed on the NSF awards, as applicable. The FFRs, as presented in the Schedules of Award Costs (Schedules A-1 through A-4), are the responsibility of LBR’s management. Our responsibility is to express an opinion on the Schedules of Award Costs (Schedules A-1 through A-4) based on our audit.

Award Number	Award Period	Audit Period
	05/15/04 - 03/31/08	05/15/04 - 03/31/08
	11/01/05 - 10/31/10	11/01/05 - 09/30/09
	10/01/07 - 09/30/10	10/01/07 - 09/30/09
	10/01/07 - 03/31/10	10/01/07 - 09/30/09

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (2007 revision), and the guidance provided in the *National Science Foundation OIG Audit Guide* (August 2007), as applicable. Those standards and the *National Science Foundation OIG Audit Guide*, require that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed to NSF as presented in the Schedules of Award Costs (Schedules A-1 to A-4) are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules of Award Costs (Schedules A-1 through A-4). An audit also includes assessing the accounting principles used and the significant estimates made by LBR’s management, as well as evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The Schedule of Questioned Costs (Schedule B) explains the \$1,884,950 (10%) of total claimed costs that we questioned as to their allowability under the NSF award agreements. These questioned costs include inadequately supported, unallowable, or unapproved labor, fringe benefit, equipment, and subaward costs. The Schedule of Subaward Costs (Schedule C-1) explains the \$152,182 of questioned unsupported cost sharing claimed by a subawardee. Questioned costs are (1) costs for which there is documentation that the recorded costs were

expended in violation of the laws, regulations or specific award conditions, (2) costs that require additional support by the awardee, or (3) costs that require interpretation of allowability by NSF's Division of Institution and Award Support. The final determination as to whether such costs are allowable will be made by NSF. The ultimate outcome of this determination cannot presently be determined. Accordingly, no adjustment has been made to costs claimed for any potential disallowance by NSF.

In our opinion, except for the \$1,884,950 of questioned NSF-funded cost and the \$152,182 of questioned cost share, the Schedules of Award Costs (Schedules A-1 through A-4) referred to above present fairly, in all material respects, the costs claimed on the FFRs and cost sharing claimed for the period of May 15, 2004 through September 30, 2009, in conformity with the provisions of the *National Science Foundation, Office of Inspector General Audit Guide, National Science Foundation Grant Policy Manual*, terms and conditions of the NSF awards and on the basis of accounting described in the Notes to the Financial Schedules, which is a comprehensive basis of accounting other than generally accepted accounting principles. These schedules are not intended to be a complete presentation of financial position of LBR in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, and guidance provided in the *National Science Foundation OIG Audit Guide*, we have also issued a report dated January 19, 2011, on our consideration of LBR's internal control over financial reporting and our tests of LBR's compliance with certain provisions of laws, regulations, grant agreements, and NSF award terms and conditions and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the Schedules of Award Costs (Schedules A-1 to A-4). The accompanying schedules B-1, C-1, D-1, and E-1 are presented for purposes of additional analysis, as required by the *National Science Foundation OIG Audit Guide*. Such information has been subjected to the auditing procedures applied in the audit of the Schedules of Award Costs and, in our opinion, except for the \$1,884,950 of questioned NSF funded costs and the \$152,182 of questioned cost sharing, is fairly stated, in all material respects, in relation to the Schedules of Award Costs.

This report is intended solely for the information and use of Louisiana Board of Regents' Management, the National Science Foundation, the Louisiana Board of Regents' cognizant federal audit agency, the Office of Management and Budget, and the Congress of the United States and is not intended to be, and should not be used, by anyone other than these specified parties.

Foxx & Company
Cincinnati, Ohio
January 19, 2011



**INTERNAL CONTROLS AND
COMPLIANCE**



National Science Foundation
 Office of Inspector General
 4201 Wilson Boulevard
 Arlington, Virginia 22230

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the costs claimed as presented in the Schedules of Award Costs (Schedules A-1 through A-4), which summarize financial reports submitted by Louisiana’s Board of Regents (LBR) to the National Science Foundation (NSF) and claimed cost share, as applicable for the awards and periods listed below and have issued our report thereon dated January 19, 2011.

Award Number	Award Period	Audit Period
	05/15/04 - 03/31/08	05/15/04 - 03/31/08
	11/01/05 - 10/31/10	11/01/05 - 09/30/09
	10/01/07 - 09/30/10	10/01/07 - 09/30/09
	10/01/07 - 03/31/10	10/01/07 - 09/30/09

We conducted our audit of the Schedules of Award Costs as presented in Schedules A-1 through A-4 in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (2007 revision), and the guidance provided in the *National Science Foundation Audit Guide* (August 2007), as applicable.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the Schedules of Award Costs (Schedules A-1 through A-4) for the period May 15, 2004 to September 30, 2009, we considered LBR’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of LBR’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of LBR’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal

control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below in the Findings and Recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of LBR's financial schedules will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in Finding Nos. 1 and 3 to be material weaknesses. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Finding Nos. 2 and 4 to be significant deficiencies.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether LBR's financial schedules are free of material misstatement, we performed tests of LBR's compliance with certain provisions of applicable laws, regulations, and NSF award terms and conditions, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed four instances of noncompliance that are required to be reported under *Government Auditing Standards* and the *National Science Foundation OIG Audit Guide* and are described in Finding Nos. 1 through 4 in the Findings and Recommendations below.

LBR's response to the findings identified in our audit is described below after each recommendation and is included in its entirety in Attachment A. We did not audit LBR's response and accordingly, we express no opinion on it.

FINDINGS AND RECOMMENDATIONS

Finding 1. Improvements to the Internal Controls Over Labor Reporting Effort Are Needed

Labor and related fringe benefits charged to NSF awards were not equitably allocated or adequately supported. Our review of the LBR effort reporting system disclosed that salaries and related fringe benefits claimed under the two NSF EPSCOR Award Nos. [REDACTED] and [REDACTED] did not reflect the actual work performed on these awards. Four individuals that were charging the majority of their time to the EPSCoR awards were also working on other federal and state projects. Labor and related fringe benefits charged to NSF were based on the award budgets rather than actual effort expended. Furthermore, the two other NSF Awards ([REDACTED] [REDACTED]) had no salaries and related fringe benefits charged to either award. In addition, LBR did not use the correct form of timekeeping documentation required by federal regulations for a state agency. This condition occurred because LBR's effort and reporting system was based on provisions of guidance applicable to educational organizations rather than guidance applicable to state governments. LBR mistakenly believed it could use effort reporting applicable to universities.

As a result, because of the inaccurate allocation of salaries and related fringe benefit costs and the improper documentation to support labor charges for staff working on more than one project, there is no assurance that the LBR effort reporting system reliably reported actual effort expended on the NSF awards. Therefore, we questioned \$1,305,283 of the salaries and fringe benefits charged to NSF Award Nos. [REDACTED] (\$712,676) and [REDACTED] (\$592,607) for staff working on more than one project. We affirmed, through interviews and written testimony that all effort charged was not actually expended on these NSF projects. However, we could not determine how much of that effort was actually expended on the two NSF projects charged throughout the award period.

According to LBR's "Policy on Time and Effort reporting for Federally-Sponsored Projects" the Plan Confirmation method for payroll distribution as described under 2 CFR 220 (formerly OMB Circular A-21) Item J.8c(1) is used to account for time charged to the NSF awards. However, since LBR is an instrumentality of the State of Louisiana the provisions of 2 CFR 220 do not apply but 2 CFR Part 225 (formerly OMB Circular A-87) applied. This regulation requires time and effort reporting for employees working on more than one project.

Under the Plan Confirmation method for universities, the distribution of salaries and wages of professorial and professional staff applicable to sponsored agreements is based on budgeted, planned or assigned work activity, updated to reflect any significant changes in work distribution. This work can be performed for one or more sponsored projects. If any significant change occurs, the change will be timely documented over the signature of a responsible official and entered into the payroll system. At least annually, however a statement should be signed by the employee, principal investigator, or responsible official with knowledge that the work was performed as charged.

Under the cost principles for state agencies, 2 CFR Part 225, where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries should be supported by periodic or at least semiannual certifications that the employees worked solely on that program. The certifications should be signed by the employee or supervisory official having

first hand knowledge of the work performed by the employee. Therefore, the rules for awardees in universities and states are very similar for employees who work solely on a single Federal award or cost objective. However, for states, where employees work on multiple activities or cost objectives, a distribution of their salaries or wages should be supported by personnel activity reports or the equivalent documentation that must meet the following standards:

- a. reflect an after-the-fact distribution of the actual activity of each employee;
- b. account for the total activity for which each employee is compensated;
- c. be prepared at least monthly and must coincide with one or more pay periods; and
- d. be signed by the employee.

Budgeted estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards unless other guidelines in 2 CFR 225 are followed, which are not in place at LBR. In addition, the cost principles for both educational institutions and state agencies require that the salaries, wages, and fringe costs charged to the sponsored project accurately reflect the amount of effort that was actually expended on the project.

We found that five of the six employees at LBR were charging time to the NSF awards and were completing effort reports in accordance with the educational institutional requirements, 2 CFR 220. The five employees were preparing semi-annual certifications that listed the percentages charged to each program. The sixth employee, the computer programmer, was charging time to the NSF awards but was not preparing any form of time certification or effort reporting. However, only two of the six employees were working solely on one NSF project. In addition, our review of the LBR effort reporting system disclosed that salaries and related fringe benefits claimed under NSF Award Nos. [REDACTED] and [REDACTED] did not reflect the actual work performed on these awards, even though the salaries were certified by the employees. Much of the charges made to these awards were for work performed on other NSF, federal and non-federal projects. Furthermore, the two other NSF Awards [REDACTED] had no salaries and related fringe benefits charged to either award, even though the LBR employees admitted to spending some time on those two awards, as well as other projects. We found no exceptions for salaries and related fringe benefits for the two employees working 100 percent of their time on an NSF award and accepted the salaries and related fringe benefits charged to the two EPSCoR awards. However, we questioned the remaining \$1,305,283 of salaries and related benefit costs claimed under two NSF awards for the four staff who were working on multiple projects, because those costs were either not accurately allocated to the NSF awards or the costs were not adequately supported in accordance with 2 CFR 225.

Specifically, because time was charged only to NSF EPSCoR Award Nos. [REDACTED] and [REDACTED] the remaining two NSF grants, other federal grants, and state projects did not receive an equitable allocation of direct labor costs. LBR did not have available documentation supporting and identifying the benefits that were provided by the employees who were working on multiple projects but charging their time to the two NSF EPSCoR awards. Accordingly, we interviewed the six LBR employees charging time to the two NSF awards and had each employee complete a questionnaire outlining their duties.

During our interviews and tests, we noted that even though the employees were actually working on other projects, all time was being charged to the two NSF EPSCoR Award Nos. [REDACTED] and [REDACTED] which are the initial and continuing grant awards for the Louisiana Strategic

Infrastructure Improvement Program, respectively. The following table shows the percentage of time charged to NSF Award Nos. [REDACTED] through September 30, 2009 based on written statements from the staff and verified by interviews in comparison to the percentages of time actually charged to the NSF awards.

Individual	Period	Per Written Statement		Amount charged to awards	
		NSF*	Other	NSF* Award	Other
No. 1	5/04-3/08	35%	65%	50%	50%
No.1	4/08-9/09	30%	70%	100%	0%
No. 2	5/04-3/08	31.25%	68.75%	100%	0%
No. 2	10/07-9/09	30%	70%	100%	0%
No. 3	5/04-9/09	50%	50%	50%	50%
No. 4	5/04-9/09	100%	0	100%	0%
No. 5	4/08-9/09	100%	0	100%	0%
No. 6	5/04-09/09	80%	20%	100%	0%

* NSF Award: Either [REDACTED]

Note: all employees certified to the amount charged to the awards except employee No. 3.

The above schedule shows that charges on the certifications for three of the six employees were not accurate, even though the charges were certified by the employees. (The fourth employee (No. 3) did not prepare any form of certification but charged 50 % of his time to the EPSCoR awards.) For example for Employee No. 1, the [REDACTED] who was responsible for ensuring that costs for NSF, Department of Energy (DOE), National Aeronautics and Space Administration (NASA) and LBR (state) supported projects were charged to the appropriate awards, charged 50 percent of his time to the [REDACTED] but the written statement estimated that only 35% of the individual's time was applicable to the EPSCoR award. For Award No. [REDACTED], 100 percent of the person's time was charged to the EPSCoR grant, but the written statement estimated that only 30 percent of the individual's time was applicable to NSF Award Nos. [REDACTED] for the period April 2008 through September 30, 2009. Because of the significant differences between the information provided during the audit by the individual and the amounts claimed, and the lack of sufficient evidence in the form of an acceptable time and effort reporting, we could not determine what amounts should have been charged to each of the NSF awards. As a result, we have questioned all salary and related benefit costs claimed for lack of adequate support.

Employee No. 2 was a [REDACTED] involved in all LBR contracts and awards but charging 100% of the time to the EPSCoR awards. The contracts included the other federal projects (EPSCOR projects from NASA and the Department of Energy and non EPSCoR NSF awards) and state projects. According to the written statement the individual estimated that only about 30% of the time was spent on NSF Award Nos. [REDACTED] while 100% of the individual's time was charged to two awards. Because of the significant differences between what was charged to the NSF awards, what was provided to us as written estimates, coupled with the lack of a proper time keeping system we have questioned all salaries and related fringes for this position.

Employee No. 3, the [REDACTED] responsible for operating and maintaining the [REDACTED] ([REDACTED]), was charging 50% of his time direct to NSF Grant No. [REDACTED]. However, he was not completing certifications or any other form effort reporting. The [REDACTED] used for all LBR grants, non-NSF federal grants and state projects for: (1) submitting research grant proposals to the LBR, (2) completing annual or financial progress reports, and (3) submitting expenditure reports. Therefore, the [REDACTED] system benefits all LBR projects and not just the NSF EPSCoR grant. Accordingly, if 50% of this individual's time was for working on the [REDACTED] system, all of the 50% should not be charged to the NSF EPSCoR award because the [REDACTED] system benefits all federal and state projects. Also, because the programmer did not complete any form of effort reporting, there was not adequate support for the actual time charged to the NSF awards, the entire amount claimed for this position was questioned.

Employee No. 6 was the [REDACTED] responsible for EPSCoR communications and other activities. Although this person estimated that she worked 80% on LBR EPSCoR, 100 % of the time was charged to Award Nos. [REDACTED]. Also, based on our review of the duties described for this position, this individual may have been working on non NSF funded EPSCoR projects. Because the individual did not prepare time and effort reporting supporting the time charged to the NSF awards, the likelihood that a significant portion of effort could have been expended on other than the NSF funded EPSCoR awards, and the estimated difference between what was charged (100%) and what was estimated (80%), the costs for this individual are questioned.

Employee Nos. 4 and 5 provided appropriate documentation to support their charges to the NSF EPSCoR awards. Accordingly, we accepted those charges.

Disparities between the time charged and the actual time worked on the NSF awards existed for several reasons: (1) employees working on more than one project were not completing effort reports that accurately showed their actual time, (2) the employees were charging time as budgeted not as incurred, and (3) the other two NSF awards did not have salaries and fringe benefit cost categories budgeted in the awards.

LBR officials told us that the incorrect use of the educational requirements occurred because a previous LBR commissioner had determined that because LBR dealt with state universities it should use the provisions of 2 CFR 220 (formerly A-21). This position was reinforced by a NSF Grants Division review in 2004 that, in error, recommended that LBR start using effort reporting in accordance with 2 CFR 220. We verified with NSF that because LBR is a state agency, it is required to comply with the provisions of 2 CFR 225.

LBR did take actions to improve the effort reporting process to comply with 2 CFR 225 requirements during our audit; however, improvements are still needed. After we notified LBR in January 2010 that the effort reporting system they were using did not comply with requirements for a state agency, LBR developed new time keeping procedures to comply. The new procedures require any employee working on more than one project to prepare weekly time sheets. Employees working entirely on one project were required to complete semi-annual certifications. According to LBR officials the weekly time sheets were prepared on a pilot basis beginning with the week ended April 23, 2010. Starting July 1, 2010, the budget percentages used to charge time to the various grants were changed based on the time charges from the

weekly time sheets. However, we did not review time charges under the new system because it was outside the scope of our audit (after September 30, 2009). If the revised effort reporting procedures are not accurate, complete, and properly implemented, inaccurate charges to the NSF awards will continue on current and future NSF awards.

In summary, because there were no records documenting actual time, it was necessary to interview employees charging time to the NSF awards to obtain a description of their duties and to have them provide a written estimate of time spent on all projects. However, the information obtained from the interviews and written statements was based on recollections of up to five years. For four of the six employees charging time to the NSF EPSCoR awards, the written estimates did not match what was charged to the EPSCoR awards during the five year audit period. As a result, NSF does not have assurance that the LBR effort reporting system reliably reported actual effort expended on NSF awards. Except for the two employees (Employees 4 and 5) working 100% on the NSF awards, none of the other employees completed adequate effort reports in accordance with 2 CFR 225 during the audit period. Therefore, the lack of an effort reporting system in compliance with 2 CFR 225 and the multiple programs worked on by some of the employees that were not allocating an equitable portion of their salaries has resulted in \$1,305,283 being questioned.

Recommendation No. 1:

We recommend that NSF's Director of the Division of Institution and Award Support address and resolve the following recommendations made to LBR:

- a) Require LBR to determine the salaries, wages, and related benefits charged to the NSF awards to reflect the actual costs incurred for each of the NSF awards prior to the establishment of the new time and effort reporting system in accordance with federal requirements,
- b) Recover all personnel costs not applicable to the two NSF awards ([REDACTED] and [REDACTED]), and
- c) Review LBR's revised Effort Reporting System to ensure that it complies with the provisions for state agencies (2 CFR Part 225) and that it will result in equitably distributed salaries and related benefits. LBR may require supervisory review and approval of the timesheets and semiannual certifications for all staff that work on NSF awards to ensure that salary charges are accurately allocated, although the federal regulations only require the employee's approval.

Awardee Comments

LBR stated that: "The key issue of this finding, i.e., that labor and related fringe benefits charged to NSF awards were not equitably allocated or adequately supported, was mainly due to the situation described below in the response to Recommendation 1.c. namely, that the LBR was advised by NSF in 2004 to use an effort and reporting system under the provisions of 2 CFR 220 (formerly OMB Circular A-21)." LBR continues to explain that

the Experimental program to Stimulate Competitive Research (EPSCoR) is an atypical NSF program which requires a high level of coordination among programs to achieve its goal. The LBR EPSCoR office served as a coordinating function to help achieve this goal, ensuring that both federal and state programs were operating in concert to increase the effectiveness for the State's science, technology, and education endeavors.

In response to Recommendation 1.a., the questioned labor and associated fringe benefits at LBR, the response recalculates the percentages that the employees whose salaries were questioned in the draft audit report were working on either [REDACTED]. In addition, LBR continues to explain that an indirect cost rate was not claimed for these NSF awards plus there were other individuals that worked toward the success of the EPSCoR program that were not budgeted or charged to the two awards. For Recommendation 1.b. LBR uses recalculated percentages to arrive at the amounts applicable to the NSF awards and the differences of \$110,730 charged to Award No. [REDACTED] and \$115,555 for Award No. [REDACTED]. In response to Recommendation No. 1.c. LBR stated that it had used the Plan Conformation method of Payroll Distribution at the direction of NSF in 2004. However, as a result of the audit it has instituted a time keeping system starting in July 2010 that is compliant with 2 CFR 225.

Auditor's Response

LBR's use of provisions of 2 CFR 220, which was mistakenly recommended by NSF, did not cause LBR's inequitably allocated or inadequately supported labor costs. Proper application of the incorrect provision would still result in accurate labor costs charged to NSF awards. Other comments made by LBR are responsive to the recommendations, however, we cannot verify the questioned salaries and related fringe benefits contained in LBR's response to the draft report for the following reasons:

- a. As stated in Finding No. 1 because of the differences in the time percentages between what was originally charged to the two EPSCoR awards [REDACTED] using the Planned Confirmation method, the written statements of the individuals that were still employed at LBR during the audit fieldwork, the percentages from interviews with employees and the revised percentages in the response to the draft report, we cannot determine what actual effort was expended on the EPSCoR awards.
- b. Several of the employees that had charged time to the awards that no longer work for LBR were not available for us to interview or obtain written statements of their efforts. Therefore, we do not have any documentation to make a decision on the amount of effort charged to the EPSCoR awards.
- c. We assume that the differences shown in response to Recommendation No. 1.b. in the amounts of \$110,730 and \$115,555 shown as differences are amounts that LBR agrees should not have been charged to the EPSCoR awards.

The implementation of a time keeping system in accordance with 2 CFR 225 is a very positive step; and if implemented properly will result in recommendation No. 1 c being resolved. However, we did not review the new time keeping system during the audit field work because the system was implemented outside the scope of our audit. Accordingly, we cannot comment on its adequacy.

Based on LBR's response to Recommendations 1a and 1b we recommend that the NSF's Director of the Division of Institution and Award Support perform a technical review of the efforts performed by LBR on Award Nos. [REDACTED] to determine the amount of salaries and related benefits eligible for reimbursement in accordance with federal regulations; and recover the appropriate amount of questioned costs. In regard to Recommendation No. 1c, we recommend that NSF review the time and effort reporting system to ensure that it is working as intended and in accordance with 2 CFR 225.

This report finding should not be closed until NSF determines that corrective actions have been satisfactorily implemented by LBR.

Finding No. 2 - Monitoring of Subawards Needs Improvements

Improvements are needed to LBR's NSF funded subaward monitoring program to better represent its different NSF funded subawardee organizations. The four NSF awards in the scope of this audit had 60 first tier subawards to 36 different subawardee institutions that charged \$15 million of the \$18 million in total costs charged to the awards. LBR's subaward monitoring of NSF funded subawards concentrated on the largest dollars which were subawarded to LSU. Therefore, there were a number of first tier NSF funded subawardees that never received an on-site monitoring visit by LBR's Audit Division. As a result, problems could exist in the internal controls at other subawardees and could go unnoticed by LBR. Our tests revealed problems at Southern University which is one of LBR's subawardees. We also, noted an instance where a LSU/LBR second tier subawardee exceeded the budget without approval, although LBR's monitoring review at LSU revealed no findings. Additional subawardee monitoring site visits would result in greater assurance that subaward costs claimed are allowable, reasonable and allocable to its current and future NSF awards.

The monitoring of subawards is required by 45 CFR 602.40 (Common rule codified by NSF) and OMB Circular A-133. According to 45 CFR 602.40 grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. OMB Circular A-133, Section .400(d)(3) requires states to monitor the activities of subawardees as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Our review of LBR's subawardee monitoring revealed that the LBR Audit Division was responsible for monitoring subawardees for compliance with federal fiscal requirements. The LBR Audit Division performed site visits using written procedures which included a detailed audit program and work papers supporting the work performed during the visit. For the subawardees that did not receive a site visit the Audit Division requested the annual Single Audit reports from the subawardees. The LBR's Audit Division reviewed the Single Audit reports and audited financial statements, and followed up with the subawardees to ensure that any material weaknesses, instance of non-compliance for findings related to LBR's subawards had been properly and timely resolved. In addition, LBR's Sponsored Program Section reviews technical and expenditure reports submitted by subawardees through the Louisiana Online Grant Automation Network (LOGAN) system, an internet based system. These reports are reviewed by

the staff to ensure that invoices support expenditures and that expenditures are in accordance with subaward budgets.

We reviewed the monitoring documentation and audit review programs used by the internal auditor and found that the written monitoring programs would, in general, meet the federal requirement for monitoring fiscal requirements of the subawardees, if conducted properly. We also reviewed the four audit reports that the LBR Audit Division issued on the LSU subawards reviewed under NSF Award Nos. [REDACTED]

[REDACTED] However, the reports did not identify the dollars amounts of expenditures reviewed. The reports were for costs incurred for various periods anywhere from 3 months to one year. The conclusion in each of the four reports was that “LSU maintained an adequate financial management system and supporting documentation for funds received from the Board of Regents to provide reasonable assurance of compliance with all applicable laws and regulations, as well as the terms of the sub-grant document.” However, we noted that the LBR Audit Division had only reviewed NSF funded subawards at the Louisiana State University (LSU). Because the Audit Division was using a risk based approach to select subawardees based on subaward dollar amounts, in the case of the NSF awards, LSU overwhelmingly received the largest portion of subaward dollars. Therefore, the other LBR subawards received either limited or no fiscal subaward monitoring to ensure compliance with Federal laws and regulations, other than A-133 reviews. We believe that LBR’s subawardee monitoring could be improved by performing steps beyond a review of the OMB Circular A-133 audit report results, such as performing desk reviews, site visits, and sampling of support documentation using a risk-based method for non-LSU subawardees.

We performed additional procedures at three subawardees to satisfy ourselves that the subaward costs charged by LBR to the NSF grants are accurate, allowable and allocable. These three subawardees included LSU, Southern University (SU), and University of Illinois (U of I). Total amount of subaward costs claimed by LBR for these three subawardees as of September 30, 2009 is about \$14.5 million or 90 percent of total subaward costs claimed. The following is a description of the exceptions we noted during our review for the University of Illinois and Southern University.

University of Illinois

We found that the University of Illinois (U of I) billed labor costs in excess of the budget without prior approval under a NSF funded LBR second tier subaward under Award No. [REDACTED]. Our review noted that the University of Illinois invoiced LSU \$173,287 for subcontract services rendered from October 1, 2007 through January 31, 2009. However, the portion of the invoice for salary and fringe benefits exceeded 20 percent of the total budgeted salary line items. According to the subaward prior written approval from LSU’s Principle Investigator or another authorized official was required when a budget line item was exceeded by 20 percent. We found no indication that the prior written approval was obtained. We subsequently notified LSU of the above issue, and LSU’s responded in a September 14, 2010 email and agreed that the U of I exceeded the budget categories for salaries and fringe benefits. Consequently, LSU notified the U of I of this situation and the U of I issued a refund check for \$17,696 to LSU. Based on the above, we have questioned the \$17,696 amount as unauthorized costs in excess of 20 percent of the subcontract budget. Apparently, the LBR Audit Division was unaware of this issue because its report dated May 14, 2010, did not disclose this issue, even though the NSF funded subaward

was within the scope of its on-site review. However, because of the numerous subawards at LSU and the limited LBR Audit Division staff, the U of I budget issue may have gone unnoticed.

Southern University

We determined that Southern University could not support costs claimed under the LBR first tier subcontract under NSF Award No. [REDACTED]. As noted in Finding No. 3, documentation supporting the costs claimed by Southern University was inadequate for a significant amount of the costs claimed. As a result, \$547,741 of direct and indirect costs and \$152,182 of cost sharing has been questioned.

The LBR Audit Division's concentration on NSF funded subawards at LSU has not provided LBR with assurance that other subawards were complying with federal and state subawards requirements. Therefore, LBR's current practice of only reviewing LSU subawards funded by NSF increases the risk that some of the subawardee costs claimed by other LBR subawardees may be unallowable, unreasonable or not allocable to the NSF awards.

Recommendation No. 2

We recommend that NSF's Director of the Division of Institution and Award Support address and resolve the following recommendations made to LBR:

- a) Consider expanding fiscal subawardee monitoring policies and procedures to include subawardees other than LSU using a risk-based approach and require that all reports identify the amounts of expenditures reviewed, and
- b) Submit to NSF the \$17,696 of costs recovered from the University of Illinois by LSU.

Awardee Comments

LBR agreed with the Recommendation 2 a. and listed the procedures that the LBR Audit Sections utilizes when determining which subawardees to audit. Also, LBR stated that starting with the 6/30/2011 Fiscal Year (FY), the Audit Director will expand his selection for testing to include all NSF subawardees that have not been audited in the last 5 years. Starting in FY 2012 the Audit Director will select for audit the next two auditees which receive the most funding on a percentage basis that have not received an audit. Starting in FY 2011 all narratives and audit reports will also list by CFDA number the funds passed through to the entity for the FY under audit, as well as the percentage of funding. In addition, the Audit Director will perform a risk analysis of all subawardees.

For Recommendation No. 2 b., Louisiana State University stated that it concurred with the questioned cost at the University of Illinois. The University of Illinois issued a check to LSU on September 16, 2010 in the amount of \$17,695.92. LSU included a credit on a September 2010 invoice to LBR.

Auditor's Response

LBR's comments are responsive to the recommendations. The actions contemplated by the LBR internal auditor should address Recommendation No. 2a. The credit for the questioned cost on

the University of Illinois subcontract, once verified by NSF, should address Recommendation 2b. However, this report finding should not be closed until NSF determines that corrective actions have been satisfactorily implemented by LBR.

Finding No. 3 – Lack of Documentation of Incurred Costs at Southern University

Southern University could not support a material amount of costs claimed under the LBR first tier subcontract under NSF Award No. [REDACTED]. We found that Southern University could not provide adequate documentation supporting personnel costs, related fringe benefits, participant support costs, and cost sharing claimed under the NSF award. Although Southern University had detailed procedures for maintaining records supporting costs incurred on sponsored programs, Southern University could not readily provide accounting documentation to support costs claimed. As a result, \$547,741 of direct and indirect costs and \$152,182 of cost sharing has been questioned.

According to 2 CFR 220 (formerly OMB Circular A-21) personnel costs charged to federal programs must be supported by payrolls documented in accordance with the generally accepted practices of colleges and universities. The apportionment of employees' salaries and wages which are chargeable to more than one sponsored agreement or other cost objective will be accomplished by methods which will produce an equitable distribution of charges for employees activities. The system will provide for independent internal evaluations to ensure the system's effectiveness and compliance. Examples of acceptable methods for payroll distribution include: plan confirmation, after-the-fact activity and multiple confirmation records. In addition, according to 2 CFR 215.21 (formerly OMB Circular A-110), recipients' financial management systems shall provide for: (1) accurate, current and complete disclosure of the financial results of each federally-sponsored project, (2) records that identify adequately the source and application of funds including records containing information pertaining to Federal awards, authorizations, obligations, unobligated balances, asset, outlays income and interest, and, (3) effective control over and accountability for all funds. Finally, NSF Grant Administration Regulations require NSF awardees to maintain records, supporting documents, statistical records and other records pertinent to a grant for at least three years from submission of the final project report.

Southern University could not provide supporting documentation such as time certifications for personnel costs and related fringe benefits, cancelled checks, invoices, purchase orders or other documentation for participant support costs, consultant costs, and cost sharing. According to Southern University officials the supporting documentation was located at various locations throughout the university and was not readily accessible. However, we requested this information several weeks before our field work, while we were on site at Southern University, and after conclusion of the field work we allowed Southern several weeks to send us the supporting information. However, information provided did not satisfy the documentation requirements of 2 CFR 220 or the NSF Grant regulations. Following is an explanation of the questioned cost by cost category:

Salaries

The \$258,047 of salaries questioned represents salaries and wages not supported by effort reports or other supporting documentation. According to 2 CFR 220 Section J (8) (b) personnel charges must be supported by documentation that supports the charges to the program. Examples of acceptable methods for charging personnel costs to federal awards are plan-confirmations, after-the fact activity reports or multiple confirmation records. Although

requested, Southern University officials could not provide documentation to support a material portion of cost claimed under the NSF funded subaward with LBR. As a result, we questioned the \$258,047 claimed under the subcontract, as follows:

Category	General Ledger #	Description	Amount Claimed	Amount Questioned	Reason for Questioning Cost
Personnel Cost	27248	Personnel cost (Salaries and wages)	\$25,093	\$13,275	Lack of supporting Documentation or adequate time and effort records.
Personnel Cost	27249	Personnel cost (Salaries and wages)	\$476,300	\$244,772	Lack of supporting Documentation or adequate time and effort records.
Total			\$501,393	\$258,047	

Fringe Benefits

The \$101,383 questioned represents fringe benefits not supported by adequate documentation as follows:

Category	General Ledger #	Description	Amount Claimed	Amount Questioned	Reason for Questioning Cost
Fringe Benefits	27248	Fringe Benefits per proposed rate	\$3,528	\$3,528	Amount not verifiable to approved rate per invoice. No explanation provided
Fringe Benefits	27249	Fringe Benefits per proposed rate	\$97,855	\$97,855	Amount not verifiable to approved rate per invoice. No explanation provided
Total			\$101,383	\$101,383	

Participant Support Costs

The \$127,412 questioned represents claimed participant support costs for which Southern University could not provide adequate support. For \$127,412 of the \$266,032 claimed Southern University could not provide any type of support. According to 2 CFR 225, C, to be allowable for a federal grant a cost must be allocable to the federal award and be necessary and reasonable for the administration and performance of the award.

According to 2 CFR 220 costs incurred and claimed under federal awards must be adequately supported. Because Southern University officials could not provide us such documentation the costs were questioned. Following is a summary of the claimed and questioned cost:

Category	General Ledger #	Description	Amount Claimed	Amount Questioned	Reason for questioning cost
Participant Support Costs	27248	Stipends and conferences	\$87,412	\$87,412	Lack of documentation
Participant Support Costs	27271	Stipends	\$40,000	\$40,000	Lack of documentation
Total			\$127,412	\$127,412	

Indirect Costs

The questioned indirect costs of [REDACTED] consists of [REDACTED] and [REDACTED] [REDACTED] represent the claimed indirect costs applicable to the questioned labor costs claimed for on General Ledger No. 27249 and 27248. Because the salaries were questioned in Note 1 above, the corresponding indirect cost is also questioned.

Category	General Ledger #	Description	Amount Questioned	Reason for Questioning Cost
Indirect Cost	27249 (Object 9010)	Indirect cost per proposed rate	████████	Indirect cost rate applied to applicable direct salaries questioned.
Indirect cost	27248	Indirect cost per proposed rate	████████	Indirect cost rate applied to applicable direct salaries questioned
Total			████████	

Cost Sharing

The \$152,182 questioned represents cost sharing claimed not supported by adequate documentation. Southern University officials provided us with certifications that added up to over \$1 million for cost sharing for the NSF award. However, the officials could not provide us with a reconciliation of the \$1 million with the \$152,182 claimed. Furthermore, they could not provide any supporting documentation for the certifications provided to indicate the costs were actually incurred and that the costs were allocable to the NSF award. The cost sharing consisted of 25% release time for teachers and Southern University’s Institutional Cost sharing for the NSF award. Southern University provided us with a list of teachers for several years that represented the 25 % release time which showed \$15,000 per year being charged to the cost sharing. However, Southern University could not provide us support for how the 25% was determined or what these teachers had to do with the NSF award. Furthermore, Southern University provided us with Certifications for four years of the award that stated that various amounts of “documented and estimated” cost sharing ranging from \$224,391 to \$256,039 was applicable to the NSF award as Institutional Cost Sharing. Southern University could not provide us any documentation supporting these amounts. Because Southern University could not provide documentation to support the cost sharing and could not reconcile the claimed cost sharing we have questioned the costs in accordance with 2 CFR 220 costs incurred and claimed under federal awards must be adequately supported and 2 CFR 215 which states that Cost Sharing must be accounted for in the same manner as direct costs charged to an award.

Southern University had written standard operating procedures for accounting for sponsored programs entitled “Southern University System, Office of the Comptroller, Standard Operating Procedures, Unit of Sponsored Programs Accounting”. These procedures were quite detailed and included procedures that if correctly followed would have provided for adequate documentation to support the costs incurred under the NSF funded subaward. However, as discussed above Southern University officials could not provide us adequate documentation to support a significant amount of the costs claimed under the NSF funded subagreement. As a result, we have questioned \$547,741 of direct and indirect costs and Cost Sharing costs of \$152,182 as follows:

Cost Category	Amount Questioned
Personnel costs	\$258,047
Fringe Benefits	\$101,383
Participant Support Costs	\$127,412
Indirect Costs	████████
Total Direct and Indirect Costs	████████
Cost Sharing	\$152,182
Total Cost and Cost Sharing Questioned	\$699,923

The inability of Southern University to access documentation supporting a large portion of its NSF funded sub agreement with LBR represents a serious internal control weakness. All federally funded grantees should have ready access to accounting documentation support for costs claimed under federal awards. Had the extensive standard operating procedures been performed by Southern University personnel the documentation requested should have been available. Without such documentation there was no assurance that the amounts claimed under the NSF funded subaward with LBR were reasonable, allowable, or actually incurred.

Southern University's inability to obtain and maintain adequate supporting documentation affects its ability to support and report claimed costs under the NSF award and increases the risk that some of the costs claimed by Southern University may be unallowable, unreasonable, or not allocable to the NSF award. We questioned \$547,741 of direct cost and indirect costs, and \$152,182 of cost share claimed.

Recommendation No. 3:

We recommend that NSF's Director of the Division of Institution and Award Support address and resolve the following recommendation made to LBR:

- a) Require Southern University to comply with its existing policies and procedures to ensure that all claimed costs including cost sharing, personnel costs, participant support, and consultant cost claimed are supported with adequate and sufficient documentation,
- b) Recover the \$547,741 of questioned direct and indirect costs and return it to NSF, and
- c) Obtain adequate documentation supporting the \$152,182 of costs share claimed or disallow it.

Awardee Comments

LBR and Southern University disagreed with the questioned costs. LBR stated that it had reviewed the financial information that Southern University maintains for this award. According to LBR it reviewed the financial information that Southern maintained and stated that it supports the invoices that Southern University had submitted to the LBR for reimbursement from the NSF funded subaward. The response states that LBR and Southern University will provide documentation at the time of audit resolution. According to LBR's response Southern University had Personnel Action forms, time sheets and copies of the pay history record for the employees whose salaries and related fringes were questioned. In addition, the LBR response cited a passage from Southern University's annual report submitted to the NSF FastLane system for the period 11/2005 to 11/2006. According to Southern and LBR this statement was support for the participant support and how the students participated and benefitted the NSF funded subaward.

Auditor's Response

Southern University did not provide our audit team documentation that adequately supported the salaries and related fringe benefits charged to the NSF funded subaward. Although requested in person during the field work and after we returned to our home base we were never provided with documentation such as time and effort reporting or similar information to support the amounts claimed. Documentation was not available to trace the salaries and benefits to the invoices submitted to LBR. Documentation for salaries only showed distributions to a department not to the NSF funded subaward. In regard to the participant support costs we were provided a list of names, supposedly students, with amounts that were paid to them. No where in the information provided or in the accounting system was there support for what activities these individuals performed that benefited the NSF funded subaward. It was much the same for the Cost Sharing. The information provided did not adequately support the \$152,152 in cost share claimed. In regard to the questioned indirect costs, the [REDACTED] questioned resulted from applying the claimed indirect cost rated to the questioned salaries. Accordingly, since we did not receive any new information concerning the questioned cost at Southern with LBR's response, the costs questioned in the draft report will remain questioned in the final report. We continue to recommend that the NSF's Director of the Division of Institution and Award Support address and resolve the above recommendations. This report finding should not be closed until NSF determines that corrective actions have been satisfactorily implemented by LBR.

Finding No. 4 – Unallowable Charges Claimed

LBR charged \$14,230 to the NSF Award No. [REDACTED] for expenses not applicable to NSF award and expenses paid with grant funds for unused equipment. We found that LBR had charged \$11,953 to the NSF award that should have been paid with State funds. Also, \$2,277 was paid for computer equipment that was not used during the grant period. As a result, the \$14,230 has been questioned.

According to 2 CFR 225, C, to be allowable for a federal grant a cost must be allocable to the federal award and be necessary and reasonable for the administration and performance of the award.

We found that LBR claimed salary costs for expenses that should have been paid from State funds. In reconciling LSU's claimed costs, LSU indicated that invoiced costs of \$11,953 were inadvertently paid by the LBR under the Grant No. [REDACTED]. LSU submitted two invoices (numbers [REDACTED]) to the LBR for the State portion of the EPSCoR's Project Director's salary. The contract between LSU and LBR provided that the EPSCoR's Project Director's salary and fringes were to be funded as follows: 50 percent NSF, 25 percent state, and 25 percent LSU. LSU indicated on the invoices that the invoice should have been paid with the state's 25 percent portion of funds. However, the invoices were inadvertently paid and claimed under Award No. [REDACTED]. Accordingly, we have questioned the erroneous claimed costs of \$11,953.

In addition, we noted that some equipment purchased under Award No. [REDACTED] was still in original boxes even though the NSF award had been completed since March 31, 2008. We found 11 excess speakers at \$129 per speaker totaling \$1,419. In total, sixty duet microphone speakers were purchased to be used with the video conferencing equipment that was approved by NSF via amendment 6 on December 27, 2007. We also noted 12 excess Quick Cam Pro Web Cameras at

still in original boxes that cost \$71.49 per unit totaling to approximately \$858. The microphone speakers plus the web cameras were needed as an integral part of the system. However, 11 of the speakers were not given out to university researchers. At the time of the purchase, the LBR did not know exactly how many speakers were needed. Consequently, only 49 of the speakers were handed out to the universities that had video conferencing software and equipment. The LBR told us that the 11 excess speakers will eventually be given out as new researcher start using the video conferencing. However, no documentation was provided supporting this statement. Any excess materials, supplies, or equipment on hand more than 2 years after the grant period expired are in our view unnecessary for administrating the grant. As a result we questioned \$2,277 (\$1,419 + \$858) expended on this unused equipment.

Recommendation No 4:

We recommend the that Director of the Division of Institution and Award Support address and resolve the following recommendation made to LBR:

- a) Refund the \$11,953 mistakenly charged to the NSF award, and
- b) Determine and document a use for the unused equipment that is consistent with the objectives of the EPSCoR award, or refund the \$2,277 to NSF.

Awardee Comments

LBR stated that it mistakenly charged the \$11,953 to NSF because of a typographical error. Accordingly, LBR agreed with Recommendation No. 4a and will refund the \$11,953 to NSF.

In regard to the Recommendation No. 4b, LBR stated that it will distribute the remaining microphone/speakers to participants of the current NSF EPSCoR award, [REDACTED] pending audit resolution.

Auditor's Response

LBR's comments are responsive to the recommendations. Since LBR agrees with Recommendation 4a, it will be addressed once LBR credits NSF for the \$11,953. In regard to Recommendation 4b, it will remain and can't be resolved until the NSF program agrees that microphones/speakers are properly utilized. However, this report finding should not be closed until NSF determines that corrective actions have been satisfactorily implemented by LBR.

OTHER OBSERVATIONS

The following two issues were noted during the audit that need to be addressed by LBR and NSF.

Expenditures for Award No. [REDACTED]

During the course of the audit we noted that LBR had only expended \$915,788 of the \$2,593,956 awarded under Award No. [REDACTED] through September 30, 2009, the end of our audit period. Because the award period was through March 31, 2010, LBR was asked on several

occasions the reason why over \$1.6 million of the award had not been expended with so little time left in the award budget period. In addition, we are aware that according to NSF's records, NSF increased the award by \$26,303 to a total of \$2,620,259 in 2010 and extended the end award period date to July 31, 2011. The amount expended on the award, according to NSF's Federal Financial Report from LBR, as of December 31, 2010 was \$1,688,768.56. Since the entire award was subawarded to the Louisiana State University, LBR needs to determine if the programmatic objectives are being met in a timely manner; determine why there are differences in the amounts of claimed costs as of December 31, 2010 between its and NSF's records; and if the unexpended portion of the award will be needed or if it can be returned to NSF. NSF should follow up during audit resolution to determine if these issues are properly addressed.

Awardee Response:

According to LBR's response the Louisiana State University had difficulty hiring the very specialized personnel for this project. In addition, because of the state budget crisis retaining and promoting the individuals needed for this project was difficult. LBR stated that through December 31, 2010, \$1,723,478 of the \$2,620,259 awarded or 66 percent has been expended.

Final Federal Financial Report for Award No. [REDACTED]

LBR only claimed a total of \$8,928,286 through its final Federal Financial Report as the Federal Share of Net Disbursements as of the quarter ended March 31, 2008. However, according to LBR's accounting records, LBR actually incurred and received \$8,931,273 from the NSF Fast Lane system which was \$2,987 less than the claimed amount. However, NSF closed out the award on March 24, 2008 by de-obligating \$271,714 from the original award for a net award amount of \$8,928,286. As a result, LBR received \$2,987 in advance more than the net award costs. The difference of \$2,987 needs to be resolved. Since the audit period had ended the auditor was not able to verify the response received from LBR. Documentation supporting LBR's explanation should be provided to NSF during its audit resolution period.

Awardee Response:

LBR stated that because of refunds received before and after the award period, LBR only claimed \$8,928,286 for Award No. [REDACTED] on its final Federal Financial Report.

This report is intended solely for the information and use of LBR's management, and LSU and Southern University officials selected by LBR, the National Science Foundation, LBR's cognizant federal agency and is not intended to be, and should not be used by anyone other than these specified parties.



Foxx & Company
Cincinnati, Ohio
January 19, 2011

**FINANCIAL SCHEDULES AND
SUPPLEMENTAL INFORMATION**

Louisiana Board of Regents
National Science Foundation Award Number XXXXXXXXXX
Schedule of Award Costs
May 15, 2004 to March 31, 2008
Final

<u>Cost Category</u>	<u>Approved Budget</u>	<u>Claimed Costs (A)</u>	<u>Reclassification Of Costs (B)</u>	<u>Claimed Costs After Reclassification</u>	<u>Questioned Costs</u>	<u>Schedule Reference</u>
Direct costs:						
Salaries and wages	\$1,152,173	\$ 83,319	\$ (314,260)	\$ 669,059	\$ 566,098	B-1, Note 1
Fringe benefits	197,948	262,540	(94,723)	167,817	146,578	B-1, Note 1
Equipment	31,130	373,245	-	373,245	-	
Travel	58,000	206,206	-	206,206	-	
Other direct costs:						
Material and supplies	43,000	37,917	-	37,917	2,277	B-1, Note 2
Consultant services	125,000	91,994	-	91,994	-	
Subawards	7,310,113					
LSU		6,377,700	408,983	6,786,683	11,953	B-1, Note 3
Others		569,469	-	569,469		
Other direct costs	<u>282,636</u>	<u>28,883</u>	<u>-</u>	<u>28,883</u>	<u>-</u>	
Total direct costs	<u>\$9,200,000</u>	<u>\$8,931,273</u>	<u>\$ -</u>	<u>\$ 8,931,273</u>	<u>\$ 726,906</u>	
Costs incurred in excess of claimed costs						
	<u>-</u>	<u>(2,987)</u>	<u>-</u>	<u>(2,987)</u>	<u>-</u>	
Total	<u>\$9,200,000</u>	<u>\$8,928,286</u>	<u>\$ -</u>	<u>\$ 8,928,286</u>	<u>\$ 726,906</u>	
Cost Sharing	<u>\$4,500,000</u>	<u>\$4,719,031</u>	<u>\$ -</u>	<u>\$ 4,719,031</u>	<u>\$ -</u>	

- (A) The total claimed costs agree with the total expenditures reported by the LBR on the Federal Financial Report - Federal Share of Net Disbursements as of the quarter ended March 31, 2008. LBR only claimed a total of \$8,928,286 through its final FFR. However, according to LBR's accounting records, LBR actually incurred and received \$8,931,273 from the NSF Fast Lane system which is \$2,987 less than the claimed amount. Accordingly, we have adjusted the claim amount by the \$2,987.
- (B) We have reclassified costs claimed in object classes 4910, 4920, and 4930 to subawards because the costs represent labor and fringe benefits for an employee on detail from the Louisiana State University (LSU) under a subaward to the LBR. The costs were included in LSU's claim.

See Accompanying Notes to Financial Schedules

Louisiana Board of Regents
National Science Foundation Award Number [REDACTED]
Schedule of Award Costs
November 1, 2005 to September 30, 2009
Interim

<u>Cost Category</u>	<u>Approved Budget</u>	<u>Claimed Costs (A)</u>	<u>Questioned Costs</u>	<u>Schedule Reference</u>
Direct costs:				
Salaries and wages	\$ -	-	-	
Fringe benefits	-	-	-	
Equipment	-	-	-	
Travel	12,000	-	-	
Participant support	-	-	-	
Other direct costs:				
Material and supplies	-	-	-	
Publication cost	-	-	-	
Consultant services	-	-	-	
Subawards	5,135,000			
LSU		2,816,882	-	
Southern University		1,336,330	547,741	Schedule C-1
Others		194,322	-	
Other direct costs	-	-	-	
Total direct costs	<u>\$ 5,147,000</u>	<u>\$ 4,347,534</u>	<u>\$ 547,741</u>	
Total	<u>\$ 5,147,000</u>	<u>\$ 4,347,534</u>	<u>\$ 547,741</u>	
Cost Sharing	<u>\$ 2,000,000</u>	<u>\$ 3,444,439</u>	<u>\$ 152,182</u>	Schedule C-1

(A) The total claimed costs agree with the total expenditures reported by the LBR on the Federal Financial Reports for the quarter ended September 30, 2009. Claimed costs reported above were taken directly from LBR's books of accounts.

See Accompanying Notes to Financial Schedules

Louisiana Board of Regents
National Science Foundation Award Number [REDACTED]
Schedule of Award Costs
October 1, 2007 to September 30, 2009
Interim

<u>Cost Category</u>	<u>Approved Budget</u>	<u>Claimed Costs (A)</u>	<u>Reclassification Of Costs (B)</u>	<u>Claimed Costs After Reclassification</u>	<u>Questioned Costs</u>	<u>Schedule Reference</u>
Direct costs:						
Salaries and wages	\$851,445	\$ 739,659	\$ (157,387)	\$ 582,272	\$ 472,947	B-1,Note 1
Fringe benefits	177,290	196,364	(52,720)	143,644	119,660	B-1,Note 1
Equipment				-	-	
Travel	32,000	47,872	-	47,872	-	
Participant support				-	-	
Other direct costs:						
Material and supplies	34,464	11,060	-	11,060	-	
Publications costs				-	-	
Consultant services	122,000	98,431	-	98,431	-	
Subawards	3,324,261					
LSU		2,435,552	210,107	2,645,659	-	
Others		840,641	-	840,641	-	
Other direct costs	<u>1,458,540</u>	<u>35,992</u>	<u>-</u>	<u>35,992</u>	<u>-</u>	
Total direct costs	\$ 6,000,000	\$4,405,571	\$ -	\$ 4,405,571	\$ 592,607	
Indirect costs						
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total	<u>\$ 6,000,000</u>	<u>\$4,405,571</u>	<u>\$ -</u>	<u>\$ 4,405,571</u>	<u>\$ 592,607</u>	

- (A) The total claimed costs agree with the total expenditures reported by the LBR on the Federal Financial Reports for the quarter ended September 30, 2009. Claimed costs reported above were taken directly from LBR's books of accounts.
- (B) We have reclassified costs claimed in object classes 4910, 4920, and 4930 to subawards because the costs represent labor and fringe benefits for an employee on detail from the Louisiana State University (LSU) under subaward to LBR. The costs have been included in LSU's claim.

See Accompanying Notes to Financial Schedules

SCHEDULE A-4

Louisiana Board of Regents
National Science Foundation Award Number [REDACTED]
Schedule of Award Costs
October 1, 2007 to September 30, 2009
Interim

<u>Cost Category</u>	<u>Approved Budget</u>	<u>Claimed Costs (A)</u>	<u>Questioned Costs</u>	<u>Schedule Reference</u>
Direct costs:				
Salaries and wages	\$ -	\$ -	\$ -	
Fringe benefits	-	-	-	
Equipment	-	-	-	
Travel	-	-	-	
Participant support	-	-	-	
Other direct costs:	-	-	-	
Material and supplies	-	-	-	
Publication cost	-	-	-	
Consultant services	-	-	-	
Subawards LSU	\$2,593,956	\$915,788	\$17,696	B-1, Note 4
Other direct costs	<u>-</u>	<u>-</u>	<u>-</u>	
Total direct costs	<u>\$2,593,956</u>	<u>\$915,788</u>	<u>\$17,696</u>	
Indirect cost	\$ <u>-</u>	\$ <u>-</u>	<u>-</u>	
Total	<u>\$2,593,956</u>	<u>\$915,788</u>	<u>\$17,696</u>	

(A) The total claimed costs agree with the total expenditures reported by the LBR on the Federal Financial Reports for the quarter ended September 30, 2009. Claimed costs reported above were taken directly from LBR's books of accounts.

See Accompanying Notes to Financial Schedules.

**LOUISIANA BOARD OF REGENTS
BATON ROUGE, LOUISIANA
AUDIT OF
NATIONAL SCIENCE FOUNDATION**

AWARD NOS. [REDACTED]

Notes to the Schedules of Award Costs

Note 1: We have questioned \$1,305,283 of labor and related benefits claimed because of an inaccurate allocation of salaries and related fringe benefit costs and the improper documentation to support labor charges for staff working on more than one project, as discussed in Finding No. 1 of the internal control and compliance report. The claimed and questioned costs by grant are detailed as follows:

Award No.	Claimed Costs			Note
	Salary	Fringes	Total	
[REDACTED]	\$669,059	167,817	\$836,876	
Less:				
Employee's 4 Salary and benefits	(102,961)	(21,239)	(124,200)	1b
Questioned [REDACTED]	\$566,098	\$146,578	\$712,676	1a
[REDACTED]	582,272	143,644	725,916	
Less:				
Employee 4 salary and benefits	(90,710)	(18,715)	(109,425)	1b
Employee 5 salary and benefits	(18,615)	(5,269)	(23,884)	1b
Questioned [REDACTED]	\$472,947	\$119,660	\$592,607	1a
Total	\$1,039,045	\$266,238	\$1,305,283	

- a. The \$712,676 questioned on Award No. [REDACTED] and the \$592,607 questioned on Award No. [REDACTED] represent salaries and related fringe benefits claimed for individuals charging to the EPSCoR awards that worked on multiple projects besides EPSCoR for which LBR could not provide adequate support. According to 2 CFR 225 state and local governments are required to have a time and effort reporting system for individuals who work on multiple projects which adequately allocates the costs incurred to the projects being worked on. As discussed in Finding No. 1 included in the Internal Control and Compliance report, only two individuals charging time to the awards were working 100 percent on the EPSCoR awards. These two individuals completed semi-annual certifications verifying that they were working a 100 percent of their time on the NSF EPSCoR awards. As a result, we accepted the claimed costs for these two individuals, see 1b below. Following are the details of the questioned personnel and related fringe costs:

Award No.			
Salaries and Fringes			Note
Employee No. 1	\$125,307	\$173,672	
Employee No. 2	\$173,414	104,465	
Employee No. 3	\$ 69,874	70,887	
Employee No. 6	\$175,344	157,044	
Employees no longer at LBR			
Employee No. 7	\$130,878	74,671	Not at LBR*
Employee No. 8	\$18,723		Not at LBR*
Employee No. 9	\$9,201		Not at LBR*
Employee No. 10	\$0	\$13,323	Not at LBR*
Employee No. 11	\$ 2,634	1,851	Not at LBR*
Misc. Employees	\$696		Not at LBR*
Unexplained Amt.	\$6,605	(3,306)	
Total Questioned	\$712,676	\$592,607	\$1,305,283

*These employees were not at LBR when we performed the substantive part of the audit, so we could not interview or request a listing of what projects they worked on. The amounts charged by these individuals are questioned because they did not prepare time and effort reporting in accordance with 2 CFR 225.

LBR claimed \$6,605 more than was on the payroll reports for the [REDACTED] and claimed \$3,306 less than was on the payroll reports for [REDACTED]. We only accepted the salaries and related fringe benefits for the two program associates discussed in (b) below. The remaining claimed costs of \$1,305,283 have been questioned.

- b. We interviewed two EPSCoR program associates and based on evidence provided the two worked only on the NSF EPSCoR grants. According to our interviews and their written statements they did not work on any other federal grant and have not prepared or assisted in preparing any grant proposals. Accordingly, all time charged by these two individuals to the two NSF EPSCoR grants is considered allowable. The labor and fringes claimed under the two grants for both employees of \$257,509 has been accepted, is summarized as follows:

Description	Grant	Salary	Fringes	Total
Employee 4	[REDACTED]	\$102,961	\$21,239	\$124,200
Employee 4	[REDACTED]	90,710	18,715	109,425
Employee 5	[REDACTED]	0	0	0
Employee 5	[REDACTED]	18,615	5,269	23,884
Total		\$212,286	\$45,223	\$257,509

These amounts have been deducted from the amount claimed by LBR for salaries and related fringe benefits and are accepted.

Note 2: Based on our transaction testing, we have questioned claimed materials and supplies costs of \$2,277. The questioned costs are detailed as follows:

Description	Questioned	Note
Excess Microphone Speakers	\$1,419	a.
Excess Quick Cam Pro Web Cameras	858	b.
Total	\$2,277	

- a. The questioned costs of \$1,419 represent 11 excess speakers at \$129 per speaker. Under the basic guideline of 2 CFR Part 225, to be allowable under Federal awards, costs must be necessary and reasonable for the proper and efficient performance and administration of Federal awards. The grant period for grant [REDACTED] expired on March 31, 2008. Any excess materials, supplies, or equipment on hand more than two years after the grant period expired are in our view unnecessary for administrating the grant. In total, sixty duet microphone speakers were purchased for \$7,740 (\$129 per unit) to be used with the video conferencing equipment that was approved by NSF via amendment 6 on December 27, 2007. The microphone speakers plus the web cameras (discussed below in (b)) were needed as an integral part of the system. However, 11 of the speakers were not given out to university researchers. At the time of the purchase, the LBR did not know exactly how many speakers were needed. Consequently, only 49 of the speakers were handed out to the universities that had video conferencing software and equipment. The LBR told us that the 11 excess speakers will eventually be given out as new researcher start using the video conferencing. However, no documentation was provided supporting this statement.
- b. The questioned costs of \$858 represent 12 excess Quick Cam Pro Web Camera at \$71.49 per unit. Sixty cameras were purchased for \$4,289.40 to be used with the video conferencing equipment as discussed in (a) above. However, 12 of the cameras were not handed out for the reasons discussed in (a) above. Accordingly, we questioned \$857.88 rounded to \$858 (12 x \$71.49) for the 12 cameras for the reasons discussed above in (a).

Note 3: In reconciling LSU's claimed costs, LSU indicated that invoiced salary costs of \$11,953 were inadvertently paid by the LBR under the Grant No. [REDACTED] LSU submitted two invoices (numbers [REDACTED]) to the LBR for the State portion of the EPSCoR's Project Director's salary. The contract between LSU and LBR provided that the EPSCoR's Project Director's salary and fringes were to be funded as follows: 50 percent NSF, 25 percent state, and 25 percent LSU. LSU indicated on the invoices that the invoice should have been paid with state's 25 percent portion of funds. However, the invoices were inadvertently paid and claimed under Award No. [REDACTED] Accordingly, we have questioned the erroneous claimed costs of \$11,953.

Note 4: The University of Illinois (U of I) invoiced LSU \$173,287 for subcontract services rendered from October 1, 2007 through January 31, 2009. However, the portion of the invoice for salary and fringe benefits exceeded 20 percent of the total budgeted salary

line items. According to the subaward, prior written approval from LSU's Principle Investigator and authorized official was required when a budget line item was exceeded by 20 percent. We found no indication that the prior written approval was obtained. We subsequently notified LSU of the above issue, and LSU's responded in a September 14, 2010 email and agreed that the U of I exceeded the budget categories for salaries and fringe benefits. Consequently, LSU notified the U of I of this situation and the U of I issued a refund check for \$17,696 to LSU. Based on the above, we have questioned the \$17,696 amount as unauthorized costs in excess of 20 percent of the subcontract budget.

Louisiana Board of Regents
Baton Rouge, Louisiana
National Science Foundation Award No. [REDACTED]
Southern University Subaward with LBR
Schedule of SubAward Costs
November 1, 2005 to September 30, 2009
Interim

Cost Category	Approved Budget	Claimed Costs (A)	Questioned Costs	Schedule Reference to D-1
Direct costs:				
Salaries and wages	\$673,697	\$501,393	\$258,047	D-1,Note 1
Fringe Benefits	190,552	101,383	101,383	D-1,Note 2
Equipment	-	-	-	
Travel	58,529	40,446	-	
Participant support	331,930	266,032	127,412	D-1,Note 3
Other direct costs:				
Material and supplies	30,291	23,433	-	
Publication costs	39,992	29,401	-	
Consultant services	378,763	261,750	-	
Subawards	-	-	-	
Other direct costs	-	85	-	
Total direct costs	<u>\$1,703,754</u>	<u>\$1,223,923</u>	<u>\$486,842</u>	
Indirect costs	\$ [REDACTED]	[REDACTED]	<u>\$ 60,899</u>	D-1,Note 4
Total	[REDACTED]	[REDACTED]	<u>\$547,741</u>	
Cost Sharing	<u>\$ 152,182</u>	<u>\$ 152,182</u>	<u>\$152,182</u>	D-1,Note 5

**Louisiana Board of Regents
Baton Rouge, Louisiana
National Science Foundation Award No. [REDACTED]
Southern University Subaward with LBR
Notes to Schedule C-1**

Note 1: The \$258,047 questioned represents salaries and wages not supported by effort reports or other supporting documentation. According to 2 CFR 220 Section J (8) (b) personnel charges must be supported by documentation that supports the charges to the program. Examples of acceptable methods for charging personnel costs to federal awards are plan-confirmations, after-the fact activity reports or multiple confirmation records. Although requested, Southern University officials could not provide documentation to support a material portion of costs claimed under the NSF funded subaward with LBR. As a result, we questioned the \$258,047 claimed under the subcontract.

Category	General Ledger No.	Description	Amount Claimed	Amount Questioned	Reason for questioning cost
Personnel Cost	27248	Personnel cost (Salaries and wages)	\$25,093	\$13,275	Lack of supporting Documentation or effort reporting records.
Personnel Cost	27249	Personnel cost (Salaries and wages)	\$476,300	\$244,772	Lack of supporting Documentation or adequate effort reporting records.
Total			\$501,393	\$258,047	

Note 2: The \$101,383 of fringe benefits claimed was questioned because of a lack of supporting documentation.

Category	General Ledger No.	Description	Amount Claimed	Amount Questioned	Reason for questioning cost
Fringe Benefits	27248	Fringe Benefits per proposed rate	\$3,528	\$3,528	Amount not verifiable to approved rate per invoice. No explanation provided
Fringe Benefits	27249	Fringe Benefits per proposed rate	\$97,855	\$97,855	Amount not verifiable to approved rate per invoice. No explanation provided
Total			\$101,383	\$101,383	

Note 3: The \$127,412 questioned represents claimed participant support for which Southern University could not provide adequate support. Southern University only provided us a spreadsheet with names of students and amounts paid. Documentation such as time and

effort reports were not provided to show how the individuals benefited the NSF funded subaward. According to 2 CFR 215.21(b) (7). costs incurred and claimed under federal awards must be supported by accounting records supported by source documentation. Because Southern University officials could not provide us such documentation the costs were questioned. Following is a summary of the claimed and questioned cost:

Category	General Ledger #	Description	Amount Claimed	Amount Questioned	Reason for questioning cost
Participant Support Costs	27248	Stipends and conferences	\$87,412	\$87,412	Lack of documentation
Participant Support Costs	27271	Stipends	\$40,000	\$40,000	Lack of documentation
Total			\$127,412	\$127,412	

Note 4: The questioned indirect costs of [REDACTED] consisting of [REDACTED] and [REDACTED] represent the claimed indirect costs applicable to the questioned labor costs claimed on General Ledger Nos. 27248 and 27249. Because the salaries were questioned in Note 1 above, the corresponding indirect cost is also questioned.

Category	General Ledger #	Description	Amount Questioned	Reason for questioning cost
Indirect Cost	27249	Indirect cost per proposed rate	[REDACTED]	Indirect cost rate applied to applicable direct salaries questioned.
Indirect Cost	27248	Indirect cost per proposed rate	[REDACTED]	Indirect cost rate applied to applicable direct salaries questioned.
Total			[REDACTED]	

Note 5: The \$152,182 questioned represents cost sharing claimed not supported by adequate documentation. Southern University officials provided us with certifications that added up to over \$1 million for cost sharing for the NSF award. However, the officials could not provide us with a reconciliation of the \$1 million with the \$152,182 claimed. Furthermore, they could not provide any supporting documentation for the certifications provided to indicated the costs were actually incurred and that the costs were allocable to the NSF award. The cost sharing consisted of 25 percent release time for teachers and Southern University’s Institutional Cost sharing for the NSF award. Southern University provided us with a list of teachers for several years that represented the 25 % release time which showed \$15,000 per year being charged to the cost sharing. However, Southern University could not provide us support for how the 25 % was determined or what these teachers had to do with the NSF award. Furthermore, Southern University provided us with Certifications for four years of the award that stated that various amounts of “documented and estimated” cost sharing ranging from \$224,391 to \$256,039 was applicable to the NSF award as Institutional Cost Sharing. Southern University could not provide us any documentation supporting these amounts. Because Southern University could not provide documentation to support the cost sharing and could not reconcile the claimed cost sharing we have questioned the costs in accordance with 2 CFR 215 which states that Cost Sharing must be accounted for in the same manner as direct costs charged to an award.

Schedule E-1

NATIONAL SCIENCE FOUNDATION AWARD NOS. [REDACTED]

SUMMARY SCHEDULES OF AWARDS AUDITED AND AUDIT RESULTS
MAY 15, 2004 to SEPTEMBER 30, 2009

Summary of Awards Audited

Grant and Cooperative Agreement	Audit Period	Award Period
[REDACTED]	05/15/04 - 03/31/08	05/15/04 - 03/31/08
[REDACTED]	11/01/05 - 09/30/09	11/01/05 - 10/30/10
[REDACTED]	10/01/07 - 09/30/09	10/01/07 - 09/30/10
[REDACTED]	10/01/07 - 09/30/09	10/01/07 - 03/31/10

Type of Award	Award Description
[REDACTED] Research Grant	Louisiana's Research Infrastructure Improvement Strategy – EPSCOR Experimental Program to Stimulate Competitive Research
[REDACTED] Cooperative Agreement	Louis Stokes Louisiana Alliance for Minority Participation
[REDACTED] Research Grant	Louisiana's Research Infrastructure Improvement Strategy _ EPSCOR (Continuation Award for [REDACTED])
[REDACTED] Cooperative Agreement	High Performance Computing for Science and Engineering Research and Education

Summary of Questioned and Unsupported Costs by Award

NSF Award Number	Award Budget	Claimed Costs	Questioned Costs	Unsupported Costs	Cost Sharing Costs Questioned
[REDACTED]	\$9,200,000	\$8,928,286	\$726,906	\$726,906	-
Cost share	\$4,500,000	\$4,719,031	-		-
[REDACTED]	\$5,147,000	\$4,347,534	\$547,741	\$547,741	
Cost share	\$2,000,000	\$3,444,439			\$152,182
[REDACTED]	\$6,000,000	\$4,405,571	\$592,607	\$592,607	
[REDACTED]	\$2,593,956	\$915,788	\$17,696		
Totals			\$1,884,950	\$1,867,254	\$152,182

Summary of Questioned Cost by Explanation

Condition	Questioned Cost Amount	Internal Control Weaknesses	Non-Compliance
Incorrect support for salary and fringes	\$1,305,283	X	X
Lack of documentation for salary at a subawardee	\$258,047	X	X
Lack of documentation for fringe benefits tested at a subawardee	\$101,383	X	X
Lack of documentation for Participant Support at a subawardee	\$127,412	X	X
Applicable indirect costs to questioned salary claimed by subawardee	\$60,899	X	X
An ineligible state expenditure charged to the NSF award by the awardee	\$11,953	X	X
Unused and unnecessary equipment charged to the NSF award by LBR	\$2,277	X	X
Subaward costs recovered from a subawardee for exceeding a budget without approval	\$17,696	X	X
Total Questioned Costs	\$1,884,950		
cost sharing charged to a subawardee not supported by adequate documentation	\$152,182	X	X

Summary of Internal Control Weaknesses and Non-Compliance Issues

Condition	Internal Control or Non-Compliance	Material Weakness	Significant Deficiency	Amount of NSF Claimed/ Incurred Costs Affected
Improvements to the Internal Controls Over Labor Reporting Effort Are Needed	Internal Control and Non-Compliance	X		\$1,305,283
Monitoring of Subawards Needs Improvement	Internal Control and Non-Compliance		X	\$15,960,542
Lack of Documentation of Incurred Costs at Southern University	Internal Control and Non-Compliance	X		\$1,336,330
Unallowable Charges Claimed	Internal Control and Non-Compliance		X	\$17,696

LOUISIANA BOARD OF REGENTS
NOTES TO THE FINANCIAL SCHEDULES
From May 15, 2004 to September 30, 2009

Note 1: Summary of Significant Accounting Policies

Accounting Basis

The accompanying financial schedules have been prepared in conformity with National Science Foundation (NSF) instructions, which are based on a comprehensive basis of accounting other than generally accepted accounting principles. Schedules A-1 through A-4 have been prepared by LBR from the Federal Financial Reports (FFRs) submitted to NSF and LBR's accounting records. The basis of accounting utilized in preparation of these reports differs from generally accepted accounting principles. The following information summarizes these differences:

A. Equity

Under the terms of the awards, all funds not expended according to the award agreements and budgeted at the end of the award period are to be returned to NSF. Therefore, the awardee does not maintain any equity in the award and any excess cash received from NSF over final expenditures is due back to NSF.

B. Inventory

Minor materials and supplies are charged to expense during the period of purchase. As a result, no inventory is recognized for these items in the financial schedules.

C. Equipment

Equipment is charged to expense in the period during which it is purchased instead of being recognized as an asset and depreciated over its useful life. As a result, the expenses reflected in the Schedules of Award Costs include the cost of equipment purchased during the period rather than a provision for depreciation.

Except for awards with nonstandard terms and conditions, title to equipment under NSF awards vests in the recipient, for use in the project or program for which it was acquired, as long as it is needed. The recipient may not encumber the property without approval of the federal awarding agency, but may use the equipment for its other federally sponsored activities, when it is no longer needed for the original project.

D. Income Taxes

LBR is a government agency and does not pay income taxes.

Note 2: Indirect Cost Rates - The LBR has federally approved indirect cost rates but the LBR did not budget or request indirect costs under the NSF grants in the scope of the audit.

Note 3: The departure from generally accepted accounting principles allows NSF to properly monitor and track actual expenditures incurred by LBR. The departure does not constitute a material weakness in internal controls.

**ATTACHMENT A – AWARDEE'S
COMMENTS TO REPORT**

ATTACHMENT A

[REDACTED]

Sent: Wednesday, March 23, 2011 5:56 PM

[REDACTED]

'bmccainj@nsf.gov'

Subject: Response to Audit Report - Louisiana Board of Regents

Dear [REDACTED]

Attache [REDACTED] port for NSF
awards [REDACTED]

We request that this report not be issued until we have the opportunity to have a face-to-face meeting with Foxx and Company to discuss and provide documentation to support our response. It this is not a option under your process, we look forward to resolving the differences during audit resolution.

The response is in PDF format. If you need additional information, please let me know.

Thanks, [REDACTED]

[REDACTED]

Louisiana Board of Regents
Response to Draft Report of
Financial Audit of Financial Schedules and Independent Auditors' Report from
May 15, 2004 to September 30, 2009

Finding 1: Improvements to the internal controls over labor reporting effort are needed.

Preface: The key issue of this finding, i.e., that labor and related fringe benefits charged to NSF awards were not equitably allocated or adequately supported, was mainly due to the situation described below in the response to Recommendation 1.c., namely, that the LBR was advised by NSF in 2004 to use an effort and reporting system under the provisions of 2 CFR 220 (formerly OMB Circular A-21).

Furthermore, it is the LBR's contention that the Experimental Program to Stimulate Competitive Research (EPSCoR)—which was funded under [REDACTED] in addition to several earlier awards—is an atypical NSF program in that it requires a high level of coordination among programs to achieve its goal: namely, to “identify, develop and fully utilize a state's academic science and technology resources in a way that will support a more fulfilling way of life for its citizens” as noted in the EPSCoR Research Infrastructure Improvement Grant Program Solicitation NSF02-027. The Louisiana EPSCoR office has thus served a coordinating function to help achieve this goal, ensuring that both federal and State programs are operating in concert to increase the effectiveness of the State's science, technology, and education endeavors.

Louisiana has been the recipient of eight consecutive EPSCoR research infrastructure improvement awards since 1989, and an important aspect of the EPSCoR program is the fact that many of the individual activities and programs that constitute the overall EPSCoR project carry over from one award to the next. Examples include the development and maintenance of the Louisiana Online Grant Automation Network (LOGAN) system and the Speaking of Science (SoS) program. Indeed, there has been considerable overlap in performance periods for the past four EPSCoR awards, as shown in the table below:

Award No.	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
[REDACTED]													
[REDACTED]													
[REDACTED]													
[REDACTED]													

From this, the difficulty in determining and accounting for effort expended on activities that continue seamlessly across concurrent awards is apparent. Yet, the continuation of these activities in this seamless manner is critical to the success of the EPSCoR endeavor.

Recommendation 1.a: Require LBR to determine the salaries, wages, and related benefits charged to the NSF awards to reflect the actual costs incurred for each of the NSF awards prior to the establishment of the new time and effort reporting system in accordance with federal requirements.

Response:

Employee No. 1

Total compensation for this individual for the audit period was \$402,657 (numbers have been rounded). The questioned costs during this period total \$298,979 [\$125,307 (31%) from EPS-0346411 and \$173,672 (43%) from ██████████]. The remainder (\$103,677) was paid from State funds.

The employee's written statement estimated that 35% of his time was spent on ██████████ and 30% on ██████████ during this time period; however, this estimate was based on the entire five-year period (actually, the audit period spanned 64 ½ months). Because ██████████ was in effect for the first 46 months of the 64-month period, and ██████████ only for the last 24 months (with an overlap of only six months), these estimates do not accurately reflect the effort expended during the time each of the NSF awards were in effect. Additionally, the experience that has been gained in the past several months by using the time/effort reporting system compliant with 2 CFR 225 has shown that effort for NSF EPSCoR was underestimated, while the effort for other federally-supported activities (e.g., LS-LAMP, Department of Energy) was overestimated. A review of the time/effort reports for this individual for July – September 2010 [a time period in which only one NSF EPSCoR award ██████████ was in effect] indicates that he spends approximately 75% of his time on NSF EPSCoR (see [Appendix A](#)). Therefore, the LBR contends that:

- 1) During the period that ██████████ was solely in effect (5/14/04 – 10/1/07), charges for Employee No. 1 were split evenly between federal (\$104,597 from NSF ██████████ and State (\$104,598) funds; therefore, based on 75% effort, the LBR contends that none of the NSF funds for this period should be questioned;
- 2) During the 6-month period that ██████████ overlapped, (10/1/07 – 3/31/08), Employee No.1 was paid \$46,132 (\$20,710 from ██████████ 1 and \$25,422 from ██████████); therefore, using the 75% estimate, \$35,175 ██████████) of this amount should not be questioned; and
- 3) During the period that ██████████ was solely in effect (4/1/08 – 9/30/09), Employee No. 1 was paid \$148,250 from that award. Based on the 75% effort estimate, the LBR contends that \$111,187 of this amount should not be questioned.

Employee No. 2 (Contract and Grant Administrator)

Total compensation for this individual during the audit period was \$277,879, all of which is questioned. \$173,414 was from ██████████ and \$104,465 from ██████████. Using the data obtained from the use of the new time/effort reporting system for this individual, it has been determined that 55% is a more accurate estimation of time spent on the NSF EPSCoR award (see [Appendix B](#)). Therefore, based on this estimate, the LBR contends that \$152,834 of this amount (\$95,378 from ██████████ and \$57,456 from ██████████) should not be questioned.

Employee No. 3 [REDACTED]

This individual is responsible for operating and maintaining the LOGAN system mentioned above, and is charged 50% to the EPSCoR awards. Total compensation for this time period is \$140,761, all of which is questioned. \$69,874 was from [REDACTED] and \$70,887 is from [REDACTED]. The audit report states that "all of the 50% should not be charged to the NSF EPSCoR award because the LOGAN system benefits all federal and state projects."

The intention of the LBR to utilize State and NSF funds equally to develop and maintain LOGAN was clearly spelled out in the original proposal to NSF for [REDACTED] from which the following excerpt is taken (emphasis added with underline):

Evaluation and Electronic Research Administration (ERA) LA EPSCoR and the BoR will maintain a comprehensive online database system to track outcome information on all State and federally funded projects under their purview. The system can be used to assess the success of these awards in accomplishing programmatic goals; to determine the impact of these programs on the State's research infrastructure; to respond quickly and responsibly to requests for information by local, State, and federal entities; and to serve as an administrative tool. The goal of Louisiana's ERA program is complete automation of grant-related activities – akin to NSF – that includes program announcements, electronic submission of proposals, external reviews, system award notifications, report submissions, and project evaluations.

Given that NSF had no objection to this arrangement, the LBR contends that the entire amount charged for Employee #3 should not be questioned.

Employee No. 6 [REDACTED]

Total compensation for this individual during the audit period was \$332,388, all of which is questioned. \$175,344 was from [REDACTED] and \$157,044 from [REDACTED]. This individual estimated that 80% of her time was spent working on NSF EPSCoR activities; however, she retired in July, 2010, so data from the quarterly time period used for Employees No. 1 and No. 2 above is not available. Data from July, 2010 indicate that Employee No. 6 devoted 84% of her effort to NSF EPSCoR (see Appendix C). Therefore, the LBR contends that \$ 279,206 of this amount (\$147,289 from [REDACTED] and \$131,917 from [REDACTED] should not be questioned.

Employee No. 7 [REDACTED]

This individual previously held the position that was filled by Employee No. 5 and had the same duties. Since the charges for Employee No. 5 were not questioned, the LBR contends that the charges for this individual (\$130,878 from [REDACTED] and \$74,671 from [REDACTED] should not be questioned.

Employee No. 8 [REDACTED]

This individual previously held the position that was filled by Employee No. 3 and had the same duties. The LBR contends that the charges for this individual (\$18,723 from [REDACTED] should not be questioned, for the same reasons given for Employee No. 3.

Employee Nos. 9, 10, and 11 (Student Workers)

These individuals were hired as student workers/interns to enter information into the LOGAN system and to perform clerical functions related to NSF EPSCoR. The LBR contends that charges for these individuals (\$12,531 from [REDACTED] and \$15,174 from [REDACTED] should not be questioned.

Other LBR Employees who devote effort to federally-funded programs

There are several LBR employees who devote time and effort directly attributable to the NSF awards, but who do not request compensation from NSF. They are:



The LBR realizes that the time and effort devoted to the NSF awards by these individuals was not budgeted in the respective proposals, but they nonetheless contribute in significant ways to the success of the NSF-sponsored endeavors that the LBR undertakes.

LBR support of federally-funded programs

The LBR, as the coordinating body for higher education in the State, has lent considerable support to bolster the infrastructure-building programs sponsored by NSF and other federal agencies. In order to utilize the NSF funds to their fullest extent in achieving programmatic goals, LBR has waived indirect cost recovery (in fiscal year 2009-10 the federally negotiated rate was [redacted] MTDC) for these awards. Thus, funds that would have been used for rent, utilities, and other supportive expenses have gone directly to support the programmatic work outlined in the proposals. The LBR has also supplied generous cash cost sharing and cost commitments for these awards. For example, since the inception of the NSF EPSCoR program in 1989, the LBR has contributed over \$32 million in cash from the Board of Regents Support fund in direct support of the programmatic goals.

Recommendation 1.b: Recover all personnel costs not applicable to the two NSF awards [redacted]

The [redacted] table summarizes the personnel costs that the LBR contends are applicable to the two awards:

ID in Report	Amount questioned	Amount applicable to NSF awards	Difference
Employee No. 1	\$ 125,307	\$ 120,668	\$ 4,639
Employee No. 2	173,414	95,378	78,036
Employee No. 3	69,874	69,874	0
Employee No. 6	175,344	147,289	28,055
Employee No. 7	130,878	130,878	0
Employee No. 8	18,723	18,723	0
Employee Nos. 9, 10, 11	<u>12,531</u>	<u>12,531</u>	<u>0</u>
Total	\$ 706,071	\$ 595,341	\$ 110,730

ID in Report	Amount questioned	Amount applicable to NSF awards	Difference
Employee No. 1	\$ 173,672	\$ 130,253	\$ 43,419
Employee No. 2	104,465	57,456	47,009
Employee No. 3	70,887	70,887	0
Employee No. 6	157,044	131,917	25,127
Employee No. 7	74,671	74,671	0
Employee Nos. 10, 11	<u>15,174</u>	<u>15,174</u>	<u>0</u>
Total	\$ 595,913	\$ 480,358	\$ 115,555

Recommendation 1.c: Review LBR's revised Effort Reporting System to ensure that it complies with the provisions for state agencies (2 CFR Part 225) and that it will result in equitably distributed salaries and related benefits. LBR may require supervisory review and approval of the timesheets and semiannual certifications for all staff that work on NSF awards to ensure that salary charges are accurately allocated, although the federal regulations only require the employee's approval.

Response:

As noted in the report, the Louisiana Board of Regents (LBR) had, until this audit, used the Plan Confirmation method for payroll distribution as described under 2 CFR 220 (formerly OMB Circular A-21, Principles for Determining Costs Applicable to Grants, Contracts and Other Agreements with Educational Institutions). The audit report states that, as an instrumentality of the State of Louisiana, LBR should follow the requirements contained in 2 CFR 225 (formerly OMB Circular A-87, Principles for State, Local, and Indian Tribal Governments).

The LBR had adopted the Plan Confirmation method described in 2 CFR 220 based on the following recommendation contained in the letter dated 27 July 2004 from Alfred Wilson, NSF DGA Grant and Agreement Specialist, sent after a site visit in April of that year:

"It is recommended that the Board immediately revise their Time and Effort Reporting system to comply with OMB Circular A-21, Item J.8.c. (1). At least annually, the Board must certify through signature of the employee or first-line supervisor the allocations are reasonable in relations to work performed. Finally, the Board should develop written policies for Time and Effort Reporting in accordance with OMB Circular A-21, Item J.8."

The letter is included as **Appendix D**.

As also noted in the report, the LBR began using a time/effort reporting system compliant with 2 CFR 225 starting in July 2010 for employees charged to federal awards. Under this method, actual hours worked for each award are entered directly into the state payroll system for each two-week pay period. The payroll thus accurately reflects the actual effort expended.

Finding 2: Monitoring of Subawards Needs Improvement

Recommendation 2.a: Consider expanding fiscal subawardee monitoring policies and procedures to include subawardees other than LSU using a risk-based approach and require that all reports identify the amounts of expenditures reviewed.

Response:

The Board of Regents Audit section agrees with the recommendations noted above. The Audit section has used the following approach to determining which grantees would be audited in a given year.

- 1) The Audit Director reviews the Schedule of Sub-Recipients of Federal Program for both State and non-State entities.
- 2) The Audit Director prepares an Excel spreadsheet. This spreadsheet documents by CFDA # the total dollar amount received by each entity state and non-state and the percentage of funding received by each entity.
- 3) The Audit Director then selects for testing the entity receiving the highest percentage of funding by CFDA #.
- 4) In addition the Audit Director reviews the Single Audit Report for the State of Louisiana prepared by the Louisiana Legislative Auditor as well as Single Audit Reports for all private entities. Based on issues noted in these reports which may affect grants received by the entity from the BOR the Audit Director selects additional entities for testing as needed.
- 5) In addition the Audit Director reviews the prior audit reports issued by the BOR Audit section to determine if any entities require follow-up audits based on prior year findings.
- 6) Lastly the Audit Director meets with Sponsored Programs, LaGEARUP and the Associate Commissioner for Finance and Administration to determine if they have any entities receiving grants that they wish to have audits performed on.

Starting with the FYE June 30, 2011 audit cycle the Audit Director will expand his selection for testing those NSF grantees who have not received an audit in the prior five years. The Audit Director in FYE 2011 will select two additional grantees based on percentage of funding. In FYE 2012 and beyond the Audit Director will make note of which auditees have not received audits by the BOR and select the next two auditees which receive the most funding on a percentage basis and have not received an audit. This process will be evaluated as time passes to ensure that all entities are receiving audits. The Audit Director will of course include all auditees with prior audit findings in the list of grantees to be audited.

Currently all narratives and audit reports state the total amount of the funds received by the grantee for the grant under audit as well as the amount of funds under audit. Starting with the FYE June 30, 2011 audit cycle the narratives will state the total funding for that CFDA number passed through by the BOR for that FY under audit to all auditees as well as the percentage of funds received by that entity.

Starting in the current year and going forward the Audit Director will coordinate with Sponsored Programs to prepare a spreadsheet documenting all first tier subawards and their associated subawardees. The Audit Director will complete a risk analysis of the subawardees. For those

subawardees deemed a risk, Audit will audit all requests for reimbursement and supporting documentation to ensure funds are being spent in compliance with grant regulations and proper subrecipient monitoring is being performed by the first tier awardee.

Recommendation 2.b: Submit to NSF the \$17,696 of costs recovered from the University of Illinois by LSU.

Response:

LSU agrees with Foxx and Company's assessment that the University of Illinois exceeded 20% of the total salary line items.

LSU approved the University of Illinois invoices 8 and 9 in error in February 2009 and March 2009, respectively. These charges were included in our March 2009 invoice submitted to LBR in early April 2009. When Foxx and Company brought the error to our attention, immediate action was taken. LSU personnel contacted the department on campus, Center for Computation and Technology, and the University of Illinois.

As a result of contacting the University of Illinois, we learned that the University of Illinois personnel were aware of the budget deviation. They did not request LSU approval from the LSU Principal Investigator and the LSU authorized official because they transferred the salaries and the associated fringe benefits off of the project. This resulted in a credit invoice. University of Illinois' standard procedure is not to issue a refund check, but to wait until additional expenditures are incurred before submitting the next invoice.

Upon LSU's request, the University of Illinois issued a credit invoice on September 13, 2010 and a refund check payable to LSU in the amount of \$17,695.92 on September 16, 2010. LSU included this credit on our September 2010 invoice to LBR (see Appendix E). At this time, no refund is due to LBR or to the NSF.

Finding 3: Lack of Documentation of Incurred Costs at Southern University

Response:

The LBR agrees with the response from Southern University, which has been included in its entirety as Appendix F.

Concerning the questions on salaries, wages and fringe benefits, the university has Personnel Action forms, time sheets and copies of the pay history record for these employees.

Concerning the question of participant support, we are including an excerpt from Southern University's annual report submitted to the NSF FastLane system for the period 11/2005 to 11/2006 for this grant that states how the students participate and benefit from this award.

"The broader impact of the research participation of minority HBCU faculty and minority students is significant. They will benefit immensely from access to the unique resources offered by this summer research opportunity at the DOE lab (scientific/technical personnel, high-tech equipment, scientific culture, etc.). Their experiences at the lab will allow SUBR to add to its research infrastructure. The faculty member and his students will continue certain aspects of their research once they return to SUBR. As a result, many other students at SUBR will be directly impacted as

the FaST group interacts with them during systemic mentoring experiences.” (FaST stands for faculty and student team.)

The LBR has reviewed the financial information that Southern University maintains for this grant. Our review supports the invoices that Southern University has submitted to the LBR for reimbursement from the NSF grant. LBR and Southern University will provide documentation at the time of audit resolution.

Finding 4: Unallowable Charges Claimed

Recommendation 4.a: Refund the \$11,953 mistakenly charged to the NSF award.

The LBR agrees that \$11,952.83 was mistakenly charged to NSF due to a typographical error that occurred during payment coding, and will refund this amount to NSF.

Recommendation 4.b: Determine and document a use for the unused equipment that is consistent with the objectives of the ESPCoR award, or refund the \$2,227 to NSF.

Response:

As noted in the audit report, the microphone/speakers and web cameras were purchased as an integral part of the IOCOM distributed collaboration system, but at the time of purchase, it was not known exactly how many would be needed for the program participants. Because several participants were using Apple Macintosh computers, which did not require the use of separate microphones and cameras, the specified number of units were not distributed. It is the intent of the LBR, pending final audit resolution, to distribute the remaining microphones and cameras to participants of the current NSF EPSCOR award, [REDACTED] where they will be used for the same purpose: collaboration among researchers.

The LBR also wishes to note that the articles in question do not fall under the definition of 'equipment' as provided in 2 CFR Part 225:

"Equipment" means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of the capitalization level established by the governmental unit for financial statement purposes, or \$5,000.

Additional Questions asked by Foxx & Company

Additional Question #1:

Also, during the exit conference Mr. McCain from the NSF-OIG requested that LBR determine why LSU had only expended a small portion of their subaward for Award No. [REDACTED] so far along in the award process.

Response:

[This response was provided by the Center for Computation and Technology (CCT) at LSU.]

The difficulty of hiring and retaining staff is the major reason of the low expenditure rate on this project. Experienced High Performance Computer (HPC) networking, visualization, or data management staff were in incredible demand around the world; bringing them to Louisiana and retaining them here proved very difficult. The original project only lasted two years (10/1/07 - 9/30/09) and it was very hard to hire experienced HPC staff for such a short time to Louisiana. We also had problems retaining HPC staff on the project due to the State's budget crisis (The employees had no hope that the University could pick them up using State funds after the project ended. It was also hard to give individuals pay raises and promotions due to budgetary constraints. Finally, we could not compete with national supercomputing centers and other Teragrid sites). The State-mandated hiring and spending freeze also significantly delayed or impeded the spending on employees and equipment.

In addition, since the LBR audit was for the period ending September 30, 2009, only LSU expenditures through June 30, 2009 were included in the audit. (LSU's September 30, 2009 invoice to LBR was submitted in October and LBR reimbursed LSU in early December 2009.) The July – September expenditures were \$216,036.45. During this quarter, the expenditure rate increased from 35% to 44%.

(Additional note from LBR.)

Current total expenditures for this subaward now total \$1,723,478.60 as of December 31, 2010, which is 66% of the total available funding of \$2,620,259.

Additional Question #2:

Under Award No. [REDACTED], the amount claimed on the final expenditure report is \$2,987 less than what actually was expended in your accounting records and drawn down by LBR?

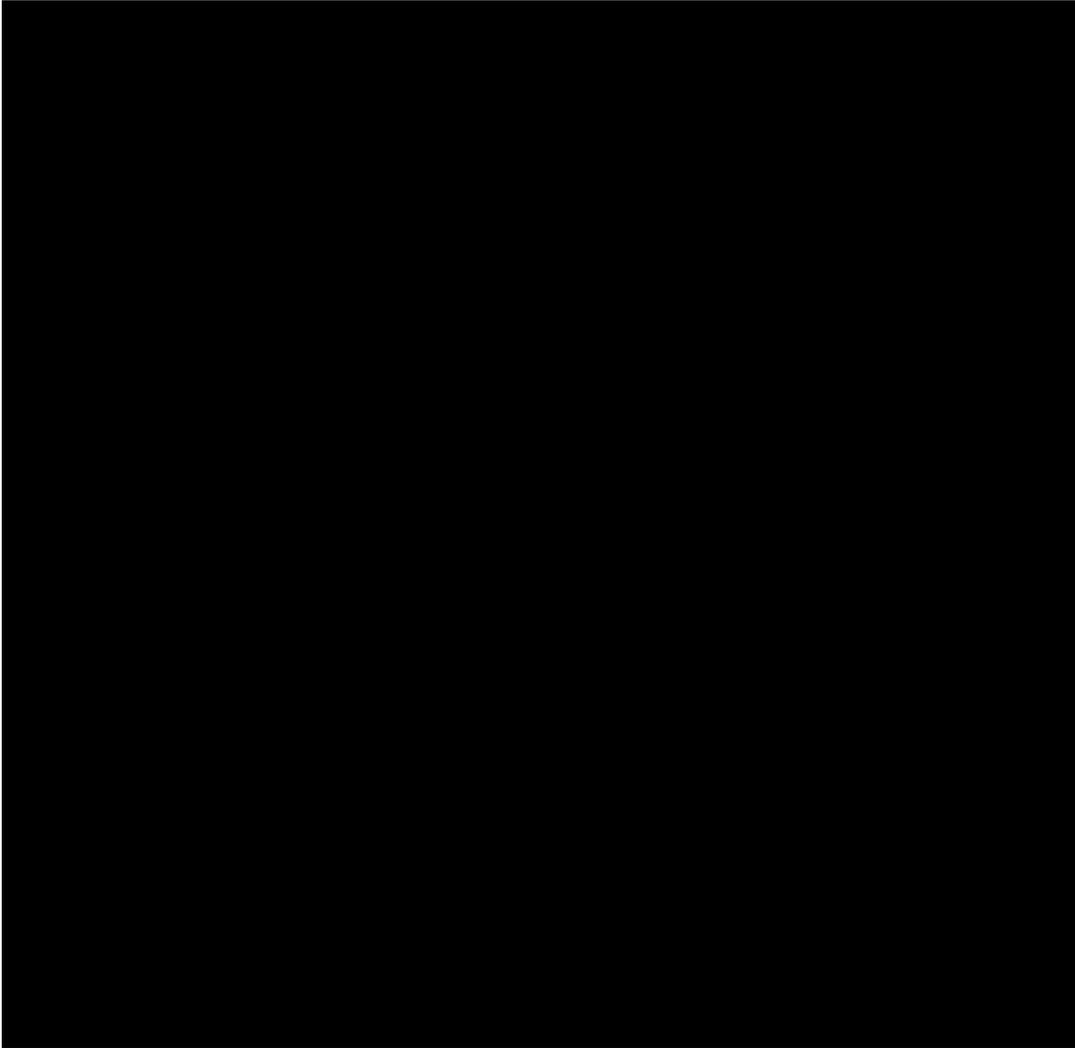
Response:

The amount of \$2987.66 is made up of the following: In FY 07 a prior year refund of \$1506.27 was returned to BOR for unexpended funds related to this grant and in FY 08 a prior year refund of \$567.97 was returned as well. This total of \$2074.24 was reused to offset expenditures related to the grant and subsequent draw was reduced by the amount of revenue refunded. This meant that of the total expenditures in the amount of \$8,931,273.99 only 8,929,199.75 was actually drawn from NSF because of having revenue on hand to offset expenditures.

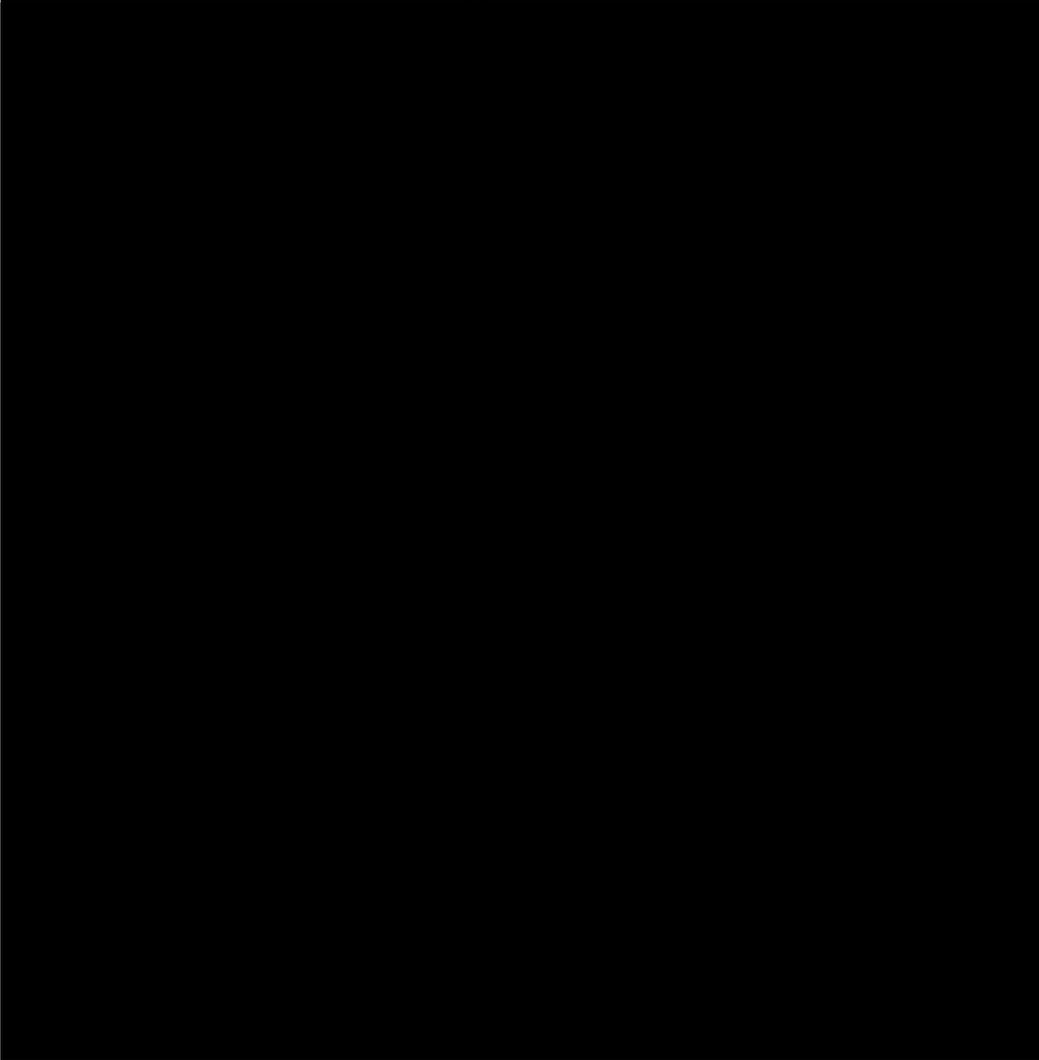
Also once the grant was financially closed, another refund was sent in the amount of \$913.42 which was mailed back to NSF via check # 3543702 on October 3, 2008.

The grand total is the \$2987.66 which is the amount in question .

Appendix A

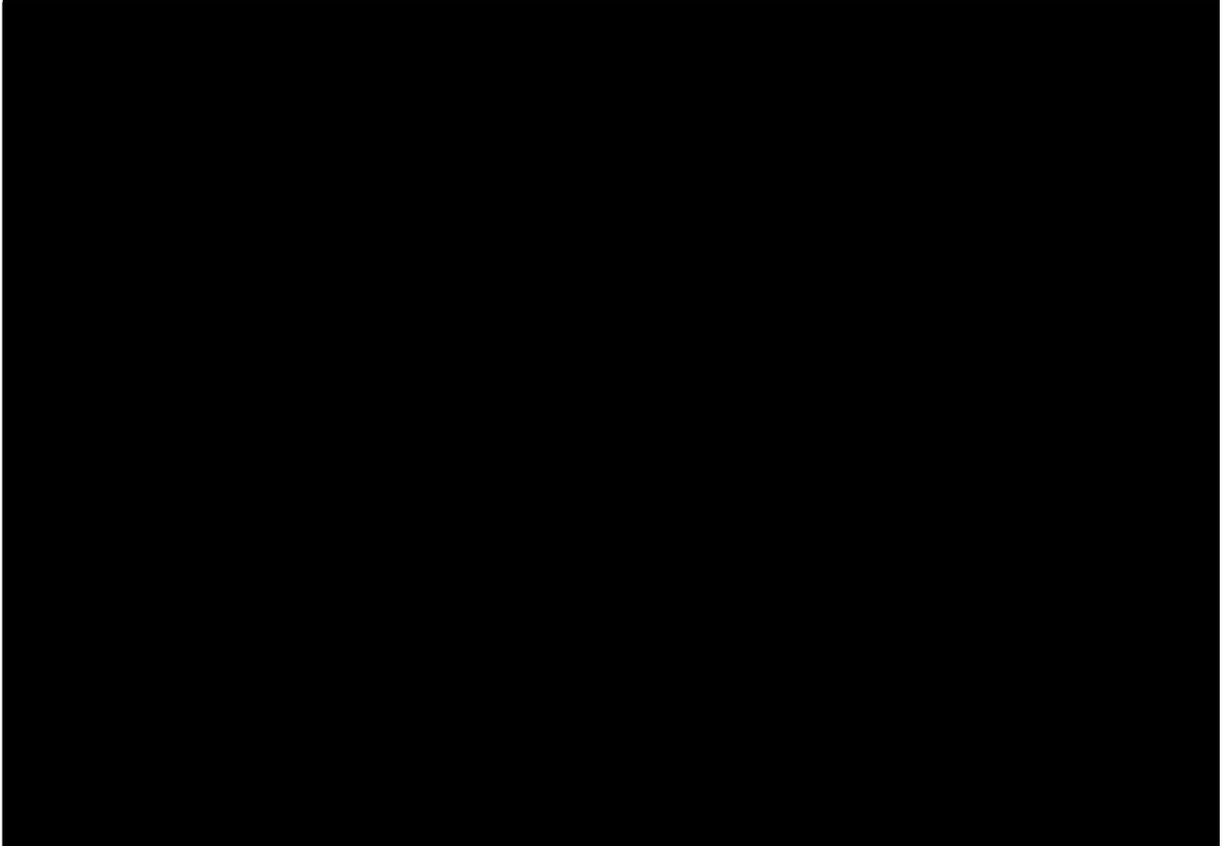


Appendix B



Appendix C

Time/effort for **Employee No. 6** for July 2010



Appendix D

Letter dated 27 July 2004 from Alfred Wilson, NSF DGA Grant and Agreement Specialist



NATIONAL SCIENCE FOUNDATION
4201 Wilson Boulevard
Arlington, VA 22230

Division of Grants and Agreements
Room 485
(703) 292-8244 VOICE
(703) 292-9140 FAX

July 27, 2004

[REDACTED]
Louisiana Board of Regents
1201 N. Third, Suite 6-200
Baton Rouge, LA 70802

Subject: Site Visit Review

Dear [REDACTED]:

On April 26 through 28, 2004, we visited your organization to assess the effectiveness and efficiency of your policies & procedures that the Board of Regents has in place to manage Federal funds. We evaluated your systems using the applicable requirements contained in the OMB Circulars A-110, A-102 and A-87. The review included an evaluation of accounting system procedures to assure that:

- direct and indirect costs are appropriately identified, accumulated, and reported;
- unallowable costs are appropriately identified and segregated; and
- the timekeeping and labor distribution systems are adequate; and cost information for billings is based on currently posted accounting data.

As a result of the site visit, we have the following findings and concerns:

1. General Management. The Board of Regents is the prime awardee on both the AMP and EPSCOR awards. However, all research effort is performed at the sub-awardee level, universities and colleges. During our review, it was disclosed that there was not a position or an individual with the responsibility of project management. While [REDACTED] monitors the financial progress and aspects of the award, there is not an individual tasked with overall project management responsibilities at the Board of Regents.

It is recommended that the Board further develop and refine policy and procedures regarding project management responsibilities.

2. Financial & Accounting System. The Board State Accounting office appears to have adequate managerial and financial systems in place to properly administer Federal funds. The Board has an accounting manual. However, the manual did not include written policies

& procedures in the areas of timekeeping, cost sharing, consultant and sub-recipient monitoring.

It is recommended that the Board develop written policies & procedures in these areas.

3. Time & Effort Reporting. The Board was unable to present time & effort reports or certifications for its employees. The current practice for the allocation of labor expense is to set the allocation at the time a new award is made to the Board. While OMB Circular A-21 allows for the Plan Confirmation method for labor allocation, it requires the organization to at least annually make a comparison of actual work performed to projected distributions. The labor allocation will be certified annually by the employee, principal investigator or responsible official using a suitable means of verification that the work was performed, stating that salaries & wages charged to sponsored agreements as direct charges are reasonable in relation to work performed.

It is recommended that the Board immediately revise their Time and Effort Reporting system to comply with OMB Circular A-21, Item J.8.c. (1). At least annually, the Board must certify through signature of the employee or first-line supervisor the allocations are reasonable in relations to work performed. Finally, the Board should develop written policies for Time and Effort Reporting in accordance with OMB Circular A-21, Item J.8.

4. Cost Sharing. At the time of our visit, the Board had three open awards with combined cost-sharing requirements of approximately \$11.3 million dollars. During discussion, we were informed that on the LS-AMP awards that the Board committed \$500,000 per year with partner institution responsible for the remaining amounts. The Board share is composed primarily of unclaimed salaries & wages and indirect cost applicable to the awards. While a significant portion of the requirement has been passed to the universities and colleges in the sub-award agreements, the Board is still ultimately responsible for meeting the cost share requirement. The Board does not have system in place to review and verify the allowability of the sub-awardees' cost-sharing.

It is recommended that the Board develop written policies & procedures for Cost-Sharing in accordance with OMB Circular A-110.23. Further, the Board should aggressively monitor the cost-sharing progress of the universities and colleges to assure that the requirements are being met. Unmet cost sharing requirements are the responsibility of the Board.

5. Sub-recipient Monitoring. As previously stated, the Board is the fiscal agent for the two NSF awards. Louisiana universities and colleges perform the actual research and program effort. For LS-AMP, there are 11 partner institutions with cost-sharing and participant support cost requirements. Accordingly, it is very important that the Board monitor the performance and financial progress to assure that programmatic goals are met. Our review disclosed that the Board is monitoring the overall financial progress of the sub-awardees but compliance with NSF specific terms were lacking. Specifically, the Board did not monitor for compliance with participants support cost or cost-sharing requirements. Finally, the Board did not perform monitoring visits at any of the 11 partnering institution.

It is recommended that the Board develop written policies & procedures for Sub-recipient Monitoring in accordance with OMB Circular A-133, §.400(d). The policy and procedures

should specifically address cost-sharing and participant support costs. It is also recommended that the Board establish an award-monitoring program in light of the unique relationship between the Board and the partnering institutions.

6. As an adjunct to the review of the Board of Regents, we judgmentally selected and visited the five campuses of the eleven partnering institutions. We limited our review to the areas of cost sharing, time & effort reporting, participant support costs and accounting system of the participating institutions. The report and findings related to each institution is included as attachment to letter. In accordance with the NSF Grant General Conditions, Article 1.a., "Awardee Responsibilities and Federal Requirements," the Board of Regents shall resolve the findings related to each institution and submit corrective actions taken to resolve findings to NSF.

These findings represent potential weaknesses in the effectiveness and efficiency of your policies & procedures that you have in place to manage Federal funds. Therefore, it is important that you act promptly to correct these weaknesses. Your response should be submitted to me as soon as possible but no later than August 18, 2004 at the following address:

**National Science Foundation
Attn: Alfred Wilson
4201 Wilson Boulevard, Room 485
Arlington, VA 22230**

Finally, please feel free to call me with any questions concerning this letter. Questions dealing with accounting or financial issues should be directed to Rosalind Jackson-Lewis. She can be reached on (703) 292-4582 or you can send an email at rjackson@nsf.gov. All other questions can be directed to me on (703) 292-4835 or you can send an email at awilson@nsf.gov. The Foundation appreciates your cooperation during the site visit.

Sincerely,

Alfred Wilson,
Grant and Agreement Specialist
Division of Grants & Agreements

copy to:

██████████ Executive Director of Special Programs
Dr. James Hicks, EHR/HRD
Dr. Julio Lopez-Ferraro, EHR/EPSCOR
Dionie Henry, Branch Chief, BFA/DGA
Paulette Green, Section Head, BFA/DGA
Monitoring Chron File, CAAR

Appendix E

September, 2010 invoice submitted by LSU to LBR, showing credit of \$17,695.92

and

Letter dated 28 February 2011 from [REDACTED]
[REDACTED]



Finance & Administrative Services
Office of Accounting Services
Sponsored Program Accounting

February 28, 2011

[REDACTED]
LA Board of Regents
By Email

Dear [REDACTED]

Below are our comments regarding finding # 2 as requested in your February 23, 2011 e-mail.

LSU agrees with Foxx and Company's assessment that the University of Illinois exceeded 20% of the total salary line items.

LSU approved the University of Illinois invoices 8 and 9 in error in February 2009 and March 2009, respectively. These charges were included in our March 2009 invoice submitted to LBR in early April 2009. When Foxx and Company brought the error to our attention, immediate action was taken. LSU personnel contacted the department on campus, Center for Computation and Technology, and the University of Illinois.

As a result of contacting the University of Illinois, we learned that University of Illinois personnel were aware of the budget deviation. They did not request LSU approval from the LSU Principal Investigator and the LSU authorized official because they transferred the salaries and the associated fringe benefits off of the project. This resulted in a credit invoice. University of Illinois' standard procedure is not to issue a refund check, but to wait until additional expenditures are incurred before submitting the next invoice.

Upon LSU's request, the University of Illinois issued a credit invoice on September 13, 2010 and a refund check payable to LSU in the amount of \$17,695.92 on September 16, 2010. LSU included this credit on our September 2010 invoice to LBR. At this time, no refund is due to LBR.

Sincerely,
[REDACTED]

336 Thomas Boyd Hall • Baton Rouge, LA • 70803 [REDACTED]

www.fas.lsu.edu/AcctServices/

Appendix F

Letter dated 28 February 2011 from





VICE CHANCELLOR FOR FINANCE
AND ADMINISTRATION
P. O. BOX 9212
PHONE (225) 771-5021
FAX (225) 771-2018

February 28, 2011

[REDACTED]
Louisiana Board of Regents
Post Office Box 3677
Baton Rouge, LA 70821-3677

**RE: Response to NSF Audit-Award Numbers [REDACTED]
[REDACTED] (May 15, 2004 to September 30, 2009)**

Dear [REDACTED]:

We do not concur with the audit finding and related questioned costs associated with the University's subcontract under NSF Award No. [REDACTED]. Southern University has adequate documentation to support all costs incurred on the referenced award. University management questions the protocol that this audit followed. NSF auditors did not conduct an entrance or exit conference with administrative management of the University, as is the prescribed practice at the University. As such, the auditor's expectations were not clearly defined. The University's response to the findings and questioned costs by category are discussed below.

Salaries

The University does not concur with this finding and the related questioned cost amount of \$258,047. All payroll records are supported by personnel action forms, payroll registers, timesheets, and after-the-fact activity reports, as required by federal guidelines. Documentation to support salary payments was previously provided. In accordance with University policy all salary payments are supported by time reporting which is approved by the project manager or department head and the Human Resources Division of the University. Management of the University was not made aware of the payroll exceptions including a list of the employee names and amounts that were questioned. Obviously some payroll salaries were accepted and others were not; this information was needed to adequately respond to the finding. In an earlier communication dated January 28, 2011, the University specifically requested of the auditors "*If there are specific issues with regards to the documentation already submitted, we ask that these*

Baton Rouge, Louisiana 70813-0400 [REDACTED] [REDACTED]

"A People's Institution Serving the State, the Nation, and the World."

issues be submitted so that we may clearly identify the issue and provide additional documentation where appropriate.” The auditors did not provide the requested information. The University cannot appropriately respond to this *alleged* finding until the auditors provide documentation to support the basis of their finding.

Fringe Benefits

The University does not concur with this finding and the related questioned cost amount of \$101,383. All benefits expenses are supported by actual costs incurred and can be verified through approved rates based on the retirement system in which the employee is enrolled. Substantially all of the employees of the Southern University System are members of the following Louisiana Retirement System(s):

- Louisiana State Employees Retirement System (LASERS)-single-employer defined benefit plan
- Teacher’s Retirement System of Louisiana (TRSL)-cost-sharing multiple-employer defined benefit plan
- Teacher’s Retirement System of Louisiana (TRSL)- defined-contribution plan

Each plan is a statewide public employee retirement system and is available to all eligible employees. Also, Louisiana Revised Statutes 11:921 created an optional retirement plan (ORP) for academic and administrative employees of public institutions of higher education. This is a defined contribution plan that provides for full and immediate vesting of all contributions remitted on behalf of the participants. The employee and employer contribution rates may vary by year and plan. The employee and employer contribution rates may vary by year and the plan selected. Approved rates are published by the applicable retirement system each year and budgeted rates will vary from actual rates. University employees are also enrolled in a state group employee benefit plan. Actual costs of the plan will vary depending upon the type and coverage (single, multiple, family, etc.) selected. Documentation is available to support the actual costs incurred for individual employee coverage. We do not understand how salary expenses for some employees were allowed the related fringe benefit expenses for the same group of employees have been denied by the auditors. Fringe benefit expenses must be reviewed on an individual employee basis and not on an entire category of expense basis.

Participant Support Costs

The University does not concur with this finding and the related questioned cost amount of \$127,412. We do not agree with the auditor in Note 3 wherein it is stated: “*Southern University only provided us a spreadsheet with names of students and amounts paid.*” In addition to the official student BBD120 .pdf report file (not a spreadsheet) that showed student names and amounts paid, the University also mailed copies of account snapshots and billing statements for all participants reflecting the amount of participant support costs that was posted to each student’s account along with copies of paid checks and appropriate explanations as needed to reconcile the check amount to the actual award amount. Programmatic monitoring to ensure that

participants fulfill the expectations of the program (studying, seminar attendance, research participation, etc) is conducted by the LS-LAMP director and staff prior to approving documents for payment.

Indirect Costs

The University does not concur with this finding and the related questioned cost amount of \$60,899. The indirect costs should be restored once the auditor formally notify management of the employees who fall into this category and give the University an opportunity to resolve the issues related to the disallowances and questioned costs.

Cost Sharing

The University does not concur with this finding and the related questioned cost amount of \$152,182. All cost share expenses claimed by the University are supported by adequate documentation including personnel action forms, time sheets, and journal vouchers reflecting accurate computations based on approved indirect cost recovery standards. The amount claimed by the University exceeds NSF's 5% minimum statutory required amount. The cost share expenses claimed by the University are accounted for in the same manner as direct costs charged to an award in accordance with 2 CFR 215. This includes accounting and recording of cost share expenses in separate ledger accounts. These expenses are supported by adequate and reasonable source documentation which reflects appropriate levels of supervisory and management review and approvals. Programmatic monitoring to ensure that the matching costs benefits the NSF award is conducted by the LS-LAMP director and staff prior to approving documents for payment.

In summary, the University does not concur with the auditors' findings and recommendations. The University makes every effort to ensure that fiscal and programmatic compliance with existing policies and procedures takes place to ensure that all costs charged to the NSF award are complete, allocable, accurate, and sufficiently documented. Management of the University is appealing the results of the auditor's findings and request that additional field work takes place at the University to include meetings and interviews with appropriate levels of management. Management of the University also requests a formal exit conference with the NSF auditors as prescribed by existing University practice. The University is committed to providing all documentation to facilitate the favorable completion of this audit.

Sincerely,

A large black rectangular redaction box covering the signature area.

**ATTACHMENT B – STATUS OF PRIOR
REVIEW FINDINGS**

STATUS OF PRIOR REVIEW FINDINGS

A previous OIG audit, a NSF 2004 Financial Administrative Site Visit, and an OMB Circular A-133 Audit identified concerns. We performed procedures to determine whether these issues had been resolved.

OIG's 1998 Audit.

The OIG audit questioned the cost for equipment not authorized in the budget and over-allocation of indirect costs. It also disclosed internal control findings regarding the LBR's financial management system. LBR did not adequately record subcontract costs by NSF-approved budget line item; the financial management system did not adequately account for participant support at the subawardee level; and the payroll system did not adequately track performance. The current NSF awards do not have indirect costs included in the grant budget and the equipment purchases are immaterial. According to NSF's resolution memorandum dated November 4, 1998, all issues were satisfactorily resolved. However, even though LBR revised its time keeping system, it adopted incorrect procedures. LBR adopted procedures which are for universities not state agencies. Because LBR is a state agency the provisions of 2 CFR Part 225 apply these regulations require the awardee to use time and effort reporting system for personnel working more than one program. (See the finding on salary and wages at LBR under finding number 1 in the report on internal controls and compliance.)

NSF's 2004 Financial Administrative Site Visit

The site visit determined that LBR was unable to present time and effort labor reports for its employees. Therefore, LBR needed to develop written policies and procedures for timekeeping. Also, the LBR did not have a system in place to review and verify the allowability of sub awardee cost sharing. Accordingly, the NSF recommended that the LBR develop written policies and procedures for cost sharing and aggressively monitor the cost sharing progress of subawardee universities to ensure that requirements are being met. In addition, LBR did not have policies and procedures for subawardee monitoring and did not perform monitoring visits at any of its partnering institutions. Hence, the NSF recommended that LBR develop applicable written policies and procedures. LBR did strengthen its subawardee monitoring by establishing policies and procedures on monitoring cost sharing and matching through the use of internal auditors. LBR uses the LBR internal auditor to periodically review costs incurred at subawardees. However, for NSF funded subawardees only LSU subawards were reviewed on site. See Finding No. 2. Also, LBR revised its time reporting in accordance with 2 CFR 220 (OMB Circular A-21) as recommended by the NSF team. However, 2 CFR 220 (OMB Circular A-21) does not apply to LBR because it is a department of the State of Louisiana, therefore 2 CFR 225 (OMB Circular A-87) applies. (See finding 1 in the report on internal controls and compliance.)

OMB Circular A-133 Audit

The FY 2007 OMB Circular A-133 audit report for the state of Louisiana included a finding that the LBR did not adequately monitor sub awardees on a U.S. Department of Education grant

award. However, according to the FY 2008 Single Audit this issue was resolved. In addition, the FY 2008 Single Audit had a finding on the IT system for the State of Louisiana which affects LBR and LSU. The State's Division of Administration (DOA) had not performed internal audits to monitor, assess, and report on the effectiveness of the state's centralized information technology (IT) controls. This finding was resolved according to the FY 2009 Single Audit.

ATTACHMENT C – EXIT CONFERENCE

EXIT CONFERENCE

We conducted an exit conference on January 19, 2011 with LBR. We discussed preliminary findings and recommendations noted during the audit. Representing LBR were:

Name	Title
[REDACTED]	[REDACTED]

Representing the National Science Foundation – Office of Inspector General was:

Name	Title
Billy McCain	Audit Manager

Representing Foxx & Company were:

Name	Title
[REDACTED]	

HOW TO CONTACT
THE OFFICE OF INSPECTOR GENERAL

Internet

www.oig.nsf.gov

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oig@nsf.gov

Telephone

703-292-7100

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1-800-428-2189

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National Science Foundation
4201 Wilson Blvd., Suite 1135
Arlington, VA 22230
