



National Science Foundation • Office of Inspector General
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MEMORANDUM

Date: JUN 12 2014

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

Karen Tiplady, Director
Division of Grants and Agreements

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

Subject: Audit Report No. 14-1-001
New York University

This memo transmits Cotton & Company's report for the audit of direct costs totaling \$72.6 million charged by New York University (NYU) to its sponsored agreements with NSF during the period July 1, 2009 through June 30, 2012. The objectives of the audit were to identify and report on instances of unallowable, unallocable, and unreasonable costs, as well as instances of noncompliance with regulations, federal financial assistance requirements, and the provisions of the NSF award agreements as they relate to the transactions tested.

The auditors determined that costs that NYU charged to its NSF sponsored agreements did not always comply with applicable Federal requirements. Specifically, the auditors determined that claimed costs totaling \$75,494 were questioned for indirect charges (██████████), foreign travel (██████████) equipment (██████████) and conference fees (██████████) that were determined as unallowable costs. NYU incorrectly charged indirect costs, unallocable costs, unreasonable costs, and unallowable costs to NSF awards.

The auditors recommended that NSF address and resolve the findings by requiring NYU to refund the questioned costs of \$75,494 and strengthen administrative and management processes and controls. NYU did not agree with all of the recommendations, however, they did agree that some of the questioned costs were unallowable. NYU's response, described in the report, is included in its entirety in Appendix B.

Appendix A contains a summary of the unallowable items that were questioned. Additional information concerning the questioned items was provided separately by the OIG to the Division of Institution and Award Support, Cost Analysis and Audit Resolution Branch. 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.

OIG Oversight of Audit

To fulfill our responsibilities under generally accepted government auditing standards, the Office of Inspector General:

- Reviewed Cotton & 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 Cotton & Company and NSF officials, as necessary, to discuss audit progress, findings, and recommendations;
- Reviewed the audit report, prepared by Cotton & Company to ensure compliance with generally accepted government auditing standards; and
- Coordinated issuance of the audit report.

Cotton & Company is responsible for the attached auditor's report on NYU and the conclusions expressed in the report. We do not express any opinion on the conclusions presented in Cotton & Company's audit report.

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 Billy McCain at 703-292-4989 or Ken Lish at 303-844-4738.

Attachment

cc: Alex Wynnyk, Branch Chief, CAAR
Michael Van Woert, Executive Officer, NSB

NEW YORK UNIVERSITY

**PERFORMANCE AUDIT OF INCURRED COSTS FOR
NATIONAL SCIENCE FOUNDATION AWARDS
FOR THE PERIOD JULY 1, 2009, TO JUNE 30, 2012**

**NATIONAL SCIENCE FOUNDATION
OFFICE OF INSPECTOR GENERAL**



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Office of Inspector General
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Subject: Performance Audit of New York University

Cotton & Company LLP (referred to as “we” in this letter) conducted a performance audit of expenditures reported by New York University (NYU) on the Federal Financial Reports (FFRs) that it filed with the National Science Foundation (NSF) for cost reimbursement under its grant awards. We evaluated whether the costs claimed by the recipients were allocable, allowable, reasonable, and in conformity with NSF award terms and conditions, as well as with applicable federal financial assistance requirements. This performance audit, conducted under Contract No. D12PS00465, was designed to meet the objective identified in the “Objectives, Scope, and Methodology” section of this report.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS), issued by the Government Accountability Office (GAO). We communicated the results of our audit and the related findings and recommendations to NYU and the NSF Office of Inspector General.

COTTON & COMPANY LLP

[REDACTED]

[REDACTED]

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NATIONAL SCIENCE FOUNDATION PERFORMANCE AUDIT OF INCURRED COSTS NEW YORK UNIVERSITY

I. BACKGROUND

The National Science Foundation (NSF) is an independent federal agency whose mission is “to promote the progress of science; to advance the national health, prosperity, and welfare; and to secure the national defense.” To support this mission, NSF funds research and education across all fields of science and engineering, primarily through grants and cooperative agreements to more than 2,000 colleges, universities, and other institutions throughout the United States.

Each federal agency has an Office of Inspector General (OIG) that provides independent oversight of the agency’s programs and operations. Part of the NSF OIG’s mission is to conduct audits and investigations to prevent and detect fraud, waste, and abuse. In support of this mission, the NSF OIG conducts independent and objective audits, investigations, and other reviews to promote the economy, efficiency, and effectiveness of NSF programs and operations, as well as to safeguard their integrity. The NSF OIG also hires contractors to provide audit services.

In July 2012, the NSF OIG issued a solicitation to engage Cotton & Company to provide audit services to conduct a performance audit of costs incurred on NSF awards at New York University (NYU). Founded in 1831, NYU is the largest private university in the United States. The university, which is composed of 14 schools, colleges, and divisions, occupies five major centers in New York City. It operates branch campuses and research programs in other parts of the United States and abroad, as well as offering study-abroad programs in more than 25 countries. NYU has more than 40,000 students and offers more than 2,500 courses and 25 different degrees. In 2012, NYU received over \$157,295,000 in sponsored funding and was ranked 33rd among national universities by US News & World Report. During the period from July 1, 2009, through June 30, 2012, NYU had 394 active NSF awards, and reported expenditures on those awards of over \$72.6 million.

II. AUDIT RESULTS

Based on the results of our testing, we noted a number of compliance issues that resulted in our questioning \$75,494 of costs claimed by NYU. Specifically, we found:

- \$35,054 in unallowable indirect costs charged to NSF awards.
- \$[REDACTED] in unreasonable foreign travel charged to an NSF award.
- \$[REDACTED] in unreasonable equipment purchases made at the end of a grant’s period of performance.
- \$[REDACTED] in unallocable conference fees that were charged to an NSF award.

Appendix A of this report details the questioned costs by finding. We summarized NYU’s responses to each finding in the appropriate sections of the report. Appendix B of this report includes NYU’s response to the findings in its entirety.

Finding 1: Unallowable Indirect Costs

NYU [REDACTED] October 2010 [REDACTED] NSF Award No. 0721383. The adjustment was calculated using an incorrect indirect cost rate for the fiscal year ending August 31, 2008, and contained mathematical errors. As a result, indirect costs charged to the award were overstated by a total of \$35,054.

According to 2 Code of Federal Regulations (CFR) 220 (formerly Office of Management and Budget Circular A-21), *Cost Principles for Educational Institutions*, Appendix A, Section G.7:

Federal agencies shall use the negotiated rates for F&A costs in effect at the time of the initial award throughout the life of the sponsored agreement. "Life" for the purpose of this subsection means each competitive segment of a project. A competitive segment is a period of years approved by the Federal funding agency at the time of the award. If negotiated rate agreements do not extend through the life of the sponsored agreement at the time of the initial award, then the negotiated rate for the last year of the sponsored agreement shall be extended through the end of the life of the sponsored agreement. Award levels for sponsored agreements may not be adjusted in future years as a result of changes in negotiated rates.

The NSF *Proposal and Award Policies and Procedures Guide, Part II: Award & Administration Guide* (effective January 5, 2009), Chapter V: *Allowability of Costs*, Section D.1. (b) also refers to the indirect cost rate restrictions noted in 2 CFR 220 Appendix A, Section G.7.

NYU has negotiated indirect cost rate agreements (NICRA) with the U.S. Department of Health and Human Services that established predetermined indirect cost rates as follows:

Effective Period (NYU's Fiscal Year End is August 31)		Predetermined Rate
From	To	
09/01/2005	08/31/2007	[REDACTED]
09/01/2007	08/31/2008	[REDACTED]
09/01/2008	08/31/2010	[REDACTED]

NYU's support for [REDACTED] rate in calculating [REDACTED] for FYs 2008 through 2010. The university should have applied the [REDACTED] percent rate to the FY 2008 modified total direct costs (MTDC). The correct indirect rate is shown applied in the calculation below. In addition, the allocation [REDACTED] As a result of these errors, indirect costs were overstated by \$35,054, as shown below.

Description	NYU Calculation Provided	Corrected Calculation			Difference
		09/01/07 through 08/31/08	09/01/08 through 10/31/10	Total	
Total Costs					\$0
Less: Subcontracts > \$25,000					0
Less: Overhead Applied					0
MTDC					
Overhead Rate					
Total Overhead					<u>\$35,054</u>

Recommendations

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

1. Provide support to NSF's Director of the Division of Institution and Award Support that it has repaid the \$35,054 of questioned costs.
2. Strengthen the administrative and management controls and processes over its adjustments to indirect costs on federal awards.

New York University Response: NYU stated that it has controls and processes in place over its adjustment to indirect costs on federal awards, and that the error was corrected on November 26, 2013, when [REDACTED].

Auditors' Additional Comments: Because the error was not corrected until after the audit period, the finding remains in the report.

Finding 2: Unreasonable Foreign Travel

A principal investigator (PI) charged the costs of numerous trips to foreign countries to NSF Award No. [REDACTED], despite the fact that no funding had been budgeted for foreign travel. The purpose statements of several of these trips indicated that they were related in whole or in part to other projects, but the costs were charged entirely to the NSF grant.

According to 2 CFR Part 220, Section C.4:

A cost is allocable to a particular cost objective (i.e., a specific function, project, sponsored agreement, department, or the like) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a sponsored agreement if it is incurred solely to advance the work under the sponsored

agreement; it benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods.

NSF Award No. [REDACTED], titled "CAREER: Identifying and Measuring the Economic Value of Information on the Internet," was awarded in January 2007 with an effective period of 1 year ending January 31, 2008, and was subsequently extended through January 31, 2013. It included funding for domestic travel in the amount of \$ [REDACTED]. This funding was intended to support attendance at conferences and facilitate the presentation of research results to universities, businesses, and other organizations, to validate and possibly implement insights gained from the research.

We identified the following five trips that were charged to NSF Award No. [REDACTED] but that partially or wholly benefitted other research projects:

- The PI traveled to India (Mumbai, Hyderabad, and Calcutta) from December 24, 2011, to January 11, 2012, and was reimbursed a total of \$ [REDACTED] for per diem, flight, and taxi expenses. The PI stated that the "purpose was to get feedback on my research on social media marketing from various academics in Indian School of Business by giving a seminar and start some joint projects with academic colleagues there. Also, I had explored some joint projects with various companies in India that was related to my proposed project on user generated content." Associated indirect costs of \$ [REDACTED] (estimated at [REDACTED] percent) were also charged to the award.
- The PI traveled to Dar es Salaam, Tanzania from January 19 to January 29, 2012, and was reimbursed a total of \$ [REDACTED] for flight, taxi, hotel, visa, and food expenses. The PI stated that the "purpose was [REDACTED]" Associated indirect costs of \$ [REDACTED] (estimated at [REDACTED] percent) were also charged to the award.
- The PI traveled to India (Mumbai and Hyderabad) from March 13 to March 18, 2012, and was reimbursed a total of \$ [REDACTED] for per diem, flight, and taxi expenses. The PI stated that the "purpose was [REDACTED]" Associated indirect costs of \$ [REDACTED] (estimated at [REDACTED] percent) were also charged to the award.
- The PI traveled to Seoul, South Korea from April 7 to April 21, 2012, and was reimbursed a total of \$ [REDACTED] for flight and taxi expenses. The PI stated that the "purpose was to [REDACTED] in Seoul [REDACTED] The outcome [REDACTED]." Associated indirect costs of \$ [REDACTED] (estimated at [REDACTED] percent) were also charged to the award.

- The PI traveled to Munich, Germany from May 12 to May 19, 2012, and was reimbursed a total of \$ [REDACTED] flight, taxi, hotel, and food expenses. The PI stated that the “purpose was to get [REDACTED]. The outcome [REDACTED].” Associated indirect costs of \$ [REDACTED] (estimated at [REDACTED] percent) were also charged to the award.

We questioned the \$19,018 of travel costs and \$ [REDACTED] of associated indirect costs (estimated at [REDACTED] percent) because NYU was unable to provide documentation showing that the costs were allocable to NSF Award No. [REDACTED], or that costs were allocated to it in accordance with relative benefits received or another equitable relationship.

Recommendations

We recommend that NSF’s Director of the Division of Institution and Award Support address and resolve the following recommendations that NYU:

1. Repay NSF the \$ [REDACTED] of questioned costs.
2. Strengthen the administrative and management controls and processes over the allocability of all costs charged to federal awards.

New York University Response: NYU stated that it has controls and processes in place over the allocability and allowability of costs charged to federal awards. [REDACTED] costs charged to the project are allocable, allowable, and reasonable. In discussion with the PI for this project, all of the travel expenses incurred were [REDACTED], as the PI [REDACTED] during the trips.

Auditors’ Additional Comments: Our position regarding the finding does not change. As noted above, documentation provided to us during fieldwork indicated that the PI was [REDACTED] of these trips.

Finding 3: Unreasonable Equipment Purchases

Less than 90 days prior to the expiration date for NSF Award No. 0745253, NYU purchased [REDACTED] computer workstations totaling \$10,027 and charged the amount to the award. These purchases were not available for use during most of the award period and therefore were not necessary to accomplish the award objectives and did not benefit the NSF program.

According to 2 CFR 220 Appendix A, Section C, to be allowable for a federal grant, a cost must be allocable to the federal award and must be necessary and reasonable for the administration and performance of the award. In addition, 2 CFR 215 requires that a federal award recipient’s

financial management system maintain “effective control over and accountability of all funds, property and other assets.”

The NSF *Proposal and Award Policies and Procedures Guide, Part II: Award & Administration Guide*, Chapter V: *Allowability of Costs* reiterates that unallowable costs, such as meals and entertainment, pre-award costs, general-purpose equipment, and other unnecessary and unreasonable costs, should not be charged to NSF awards.

NSF Award No. 0745253 was awarded in March 2008 and had an effective period of April 1, 2008, to March 31, 2010. The annual reports for Year 1 (submitted in March 2009) and Year 2 (submitted in March 2010) indicated that the project participants were [REDACTED] in the proposal. The annual report for Year 2 stated that a post-doctoral scholar participating in the project [REDACTED] experimentation. A no-cost extension request was submitted in January 2010 to allow time for the post-doctoral scholar to [REDACTED], and the expiration date was extended to March 31, 2011.

The project participants purchased the [REDACTED] computer workstations less than 90 days prior to the grant expiration date. Specifically, on January 20, 2011, they purchased a [REDACTED] with widescreen monitor for \$[REDACTED]. On February 2, 2011, they purchased a [REDACTED] Workstation and accessories for \$[REDACTED]. The budget included [REDACTED] for computer maintenance and \$[REDACTED] for additional memory and replacement parts, but no funding had been allocated for the purchase of computer equipment.

The grant had an effective period of 3 years, or 1,095 days. The invoice dates for the computer workstations were 81 and 58 days prior to the grant expiration date, meaning that the workstations were available for use at most for the last 7.4 percent and 5.3 percent, respectively, of the grant period.

In response to our request for an explanation as to why computers were purchased despite equipment not being budgeted, NYU representatives stated:

The need for these computers was not anticipated in the initial budget, but as the project progressed, it became evident [REDACTED]

[REDACTED] resulted in the need [REDACTED].

The justification also indicated that the [REDACTED] and were needed for work that completed and extended the grant project. However, the project was not extended beyond March 31, 2011, and the final report was submitted in May 2011.

NYU personnel also stated that being part of the Federal Demonstration Project (FDP) allows them the expanded authority to make such purchases. However, while FDP is intended to streamline the administration of federally sponsored research, its ultimate goal is to improve “the productivity of research without compromising stewardship.” Thus, FDP organizations must still adhere to the requirements of their awards, as well as the federal regulations regarding costs

claimed on the federal awards; participation in the FDP does not relieve NYU of the requirement to only charge reasonable, allocable, and allowable costs to its NSF awards.

Recommendations

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

1. Repay NSF the \$ [REDACTED] of questioned costs.
2. Strengthen the administrative and management controls and processes over charging equipment to federal grants within the final 90 days of the grant's period of performance. Processes could include implementing policies and procedures to ensure that all equipment purchased and charged to a federal grant within the final 90 days of the grant's period of performance is reviewed for allowability, allocability, and reasonableness in terms of the grant award's purpose.

New York University Response: NYU stated that it has controls and processes regarding charging equipment to federal awards at the end of the performance period. Before an expense is charged to a project, [REDACTED] to the project are allocable, allowable, and reasonable. Based on discussion with the PI for this project, [REDACTED] of this project.

Auditors' Additional Comments: Our position regarding the finding does not change. None of the information provided by NYU justifies the need to spend over \$ [REDACTED] of grant funds for equipment only needed for the last few months of the award period.

Finding 4: Unallowable Conference Fees

Conference-related expenses charged to NSF Award No. 0613893 included \$931 of alcoholic beverages and \$194 of unnecessary meals.

According to 2 CFR 220 Appendix A, Section J.3, the costs of alcoholic beverages are unallowable.

The NSF *Proposal and Award Policies and Procedures Guide, Part II: Award & Administration Guide* (effective January 5, 2009), Chapter V: *Allowability of Costs* states that meals are allowable when they are an integral and necessary part of a conference, and that grant funds may be used for such meals. It further states that unallowable costs, such as meals and entertainment, should not be charged to NSF awards.

The VID2k10 Workshop was held on May 6 – 7, 2010, in New York City. A total of [REDACTED] individuals participated in the conference. On May 6, 2010, a dinner was held at a restaurant for conference participants. The receipt showed that \$931 of the bill was related to alcoholic

beverages, including 27 bottles of wine and 10 individually ordered alcoholic beverages. Alcoholic beverages are unallowable.

The PI also charged the cost of dinners for herself and for others who participated in planning meetings prior to the conference. On April 7, 2010, the PI claimed \$ [REDACTED] for dinner for [REDACTED]. The documentation provided indicated that the itemized receipt had been lost. On April 21, 2010, the PI claimed \$ [REDACTED] for other individuals. Documentation only identified [REDACTED]. Dinner and other meals are not a necessary part of a planning meeting and should not be charged to NSF awards.

Recommendations

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

1. Provide support to NSF's Director of the Division of Institution and Award Support that it has repaid the \$931 of questioned alcohol costs.
2. Repay NSF the \$194 of questioned meal costs.
3. Strengthen the administrative and management controls and processes over conference, meal, and alcohol costs charged to its federal awards.

New York University Response: NYU stated that it has controls and processes in place over conference costs charged to federal awards. Before an expense is posted to a project, the

[REDACTED]
[REDACTED] applicable regulatory guidance such as OMB Circular A-21. In addition, all

[REDACTED] In this particular case, NYU agrees that the cost of alcoholic beverages should not have been charged to the grant. The university will therefore [REDACTED]

[REDACTED] thus refunding NSF for the unallowable expenses. NYU does not agree with the auditor's conclusion that the cited meals were not necessary for the planning of the conference. The [REDACTED] expenses were needed for the [REDACTED] to plan the conference. Therefore, the university does not believe a refund in the amount of \$194 to NSF is warranted.

Auditors' Additional Comments: Our position regarding the finding on the meal costs does not change. The meals were not part of the conference as required by NSF regulations. Holding meetings outside normal business hours is not a sufficient justification for NSF to pay for meals at meetings.

APPENDIX A: SCHEDULE OF QUESTIONED COSTS BY FINDING


NATIONAL SCIENCE FOUNDATION
ORDER # D12PS00465
PERFORMANCE AUDIT OF COSTS CLAIMED ON NSF AWARDS
NEW YORK UNIVERSITY

SCHEDULE OF QUESTIONED COSTS BY FINDING

Finding	Description	Cost Breakdown			Total Questioned and Unallowable Costs
		Direct Costs	Related Indirect Costs	Indirect Costs	
1	Unallowable Indirect Costs			<u>\$35,054</u>	\$35,054
2	Unreasonable Foreign Travel	\$19,018			
3	Unreasonable Equipment Purchases	10,027			
4	Unallowable Conference Fees	<u>1,125</u>			
	Total Questioned Costs	<u>\$30,170</u>			

FINDING 1

Performance Audit of Costs Claimed on NSF Awards, New York University
Schedule of Questioned Costs- Details of Transactions

Finding	Description	Cost Breakdown			Total Questioned Costs	
1	Unallowable Indirect Costs	Direct Costs	Related Indirect Costs	Indirect Costs	Unsupported	Unallowable
		\$ -	\$ -	\$ 35,054	\$ -	\$ 35,054
NSF Award No.						Journal Date
0721383						8/31/2010
¹ The amount we are charged						9/1/2007
NSF's GL Record No.						Note
N/A						A
						Note
Total Costs						A
Less Subcontracts > \$250,000						
Less Overhead Applied						
MTDC						
Overhead Rate						
Total Overhead	\$ -				\$ 35,054	
Notes:						
A	<p>Chapter V "Allowability of Costs," Section D.1.(b)(1). <i>Special Limitation concerning Predetermined Rates at Colleges and Universities subject to 2 CFR §220 (OMB Circular A-21)</i></p> <p>2 CFR §220 (OMB Circular A-21) contains an additional restriction on recovery of indirect costs for colleges and universities and other organizations of higher education. These awardees are subject to a further limitation in that the negotiated rate at the time the award is made shall be used throughout the life of the award. The applicable text from 2 CFR §220 (OMB Circular A-21) is repeated below</p> <p>"7. Fixed rates for the life of the sponsored agreement. Federal agencies shall use the negotiated rates for F&A costs in effect at the time of the initial award throughout the life of the sponsored agreement. "Life" for the purpose of this subsection means each competitive segment of a project. A competitive segment is a period of years approved by the Federal funding agency at the time of the award. If negotiated rate agreements do not extend through the life of the sponsored agreement at the time of the initial award, then the negotiated rate for the last year of the sponsored agreement shall be extended through the end of the life of the sponsored agreement. Award levels for sponsored agreements may not be adjusted in future years as a result of changes in negotiated rates."</p>					

FINDING 2

Performance Audit of Costs Claimed on NSF Awards, New York University
Schedule of Questioned Costs- Details of Transactions

Finding	Description	Cost Breakdown			Total Questioned Costs	
		Direct Costs	Related Indirect Costs	Indirect Costs	Unsupported	Unallowable
2	Unreasonable Foreign Travel	\$ 19,018	\$ [REDACTED]	\$ -	\$ -	\$ [REDACTED]
NYU General Ledger Details						
NSF Award No.	Sampled Transaction Amount	NYU Account Description	NYU Budget Category	NYU Transaction Description	Fiscal Year	NYU Journal Date
[REDACTED]	\$ [REDACTED]	Travel & Living - Foreign	Travel	[REDACTED]	2012	2/17/2012
[REDACTED]	\$ [REDACTED]	Travel & Living - Foreign	Travel	[REDACTED]	2012	3/12/2012
[REDACTED]	\$ [REDACTED]	Travel & Living - Foreign	Travel	[REDACTED]	2012	5/7/2012
[REDACTED]	\$ [REDACTED]	Travel & Living - Foreign	Travel	[REDACTED]	2012	5/7/2012
[REDACTED]	\$ [REDACTED]	Travel & Living - Foreign	Travel	[REDACTED]	2012	6/26/2012
Description of Questioned Costs						
[REDACTED]						
Trip Details		Traveler's Justification for the Trips Taken				Note
[REDACTED]		[REDACTED]				A,B
[REDACTED]		[REDACTED]				A,B
[REDACTED]		[REDACTED]				A,B
[REDACTED]		[REDACTED]				A,B
[REDACTED]		[REDACTED]				A,B
Notes:						
A	<p>2 CFR Parts 215 and 220 Cost Principles for Educational Institutions (Office of Management and Budget Circular A-21, Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements with Educational Institutions)</p> <p>Section C.3: Reasonable costs. A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefore, reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made. Major considerations involved in the determination of the reasonableness of a cost are: whether or not the cost is of a type generally recognized as necessary for the operation of the institution or the performance of the sponsored agreement; the restraints or requirements imposed by such factors as arm's-length bargaining, Federal and State laws and regulations, and sponsored agreement terms and conditions; whether or not the individuals concerned acted with due prudence in the circumstances, considering their responsibilities to the institution, its employees, its students, the Federal Government, and the public at large; and, the extent to which the actions taken with respect to the incurrence of the cost are consistent with established institutional policies and practices applicable to the work of the institution generally, including sponsored agreements.</p> <p>Section C4: A cost is allocable to a particular cost objective (i.e., a specific function, project, sponsored agreement, department, or the like) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a sponsored agreement if it is incurred solely to advance the work under the sponsored agreement; it benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods.</p>					
B	<p>National Science Foundation Award and Administration Guide; Chapter V "Allowability of Costs," Section B, "Direct Costs."</p> <p>Expenditures under NSF cost reimbursement grants are governed by the Federal cost principles and must conform with NSF policies, grant special provisions and grantee internal policies. Grantees should ensure that costs claimed under NSF grants are necessary, reasonable, allocable, and allowable under the applicable cost principles, NSF policy, and/or the program solicitation.</p>					

FINDING 3

Performance Audit of Costs Claimed on NSF Awards, New York University
Schedule of Questioned Costs- Details of Transactions

Finding	Description	Cost Breakdown			Total Questioned Costs	
		Direct Costs	Related Indirect Costs	Indirect Costs	Unsupported	Unallowable
3	Unreasonable Equipment Purchases	\$ 10,027	\$ -	\$ -	\$ -	\$ -
NYU General Ledger Details						
NSF Award No.	Sampled Transaction Amount	NYU Account Description	NYU Budget Category	NYU Transaction Description	Fiscal Year	NYU Journal Date
0745253	\$				2011	1/13/2011
0745253	\$				2011	3/11/2011
Description of Questioned Costs						
We are questioning all dollars related to each general ledger transaction tested above as we determined that the equipment purchased was not available for use during most of the award period and therefore was not necessary to accomplish the award objectives and did not benefit the NSF program.						
Description of Equipment		Justification Provided for the purchase of the Computers at the End of the Grant Period when No Computers Were Budgeted				Note
						A,B
						A,B
Notes:						
A	National Science Foundation Award and Administration Guide, effective January 18, 2011; Chapter V "Allowability of Costs," "Basic Considerations." Expenditures under NSF cost reimbursement grants are governed by the Federal cost principles and must conform with NSF policies, grant special provisions and grantee internal policies. Grantees should ensure that costs claimed under NSF grants are necessary, reasonable, allocable, and allowable under the applicable cost principles, NSF policy, and/or the program solicitation. "Definitions." General Purpose Equipment is defined as permanent equipment that is usable for other than research, medical, scientific or technical activities, whether or not special modifications are needed to make it suitable for a particular purpose. Examples of general purpose equipment include office equipment and furnishings, air conditioning equipment, reproduction and printing equipment, motor vehicles and computer equipment. "General Purpose Equipment." Expenditures for general purpose equipment are normally unallowable unless the equipment is primarily or exclusively used in the actual conduct of research.					
B	2 CFR Parts 215 and 220 Cost Principles for Educational Institutions (Office of Management and Budget Circular A-21, Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements with Educational Institutions) Section C Basic Considerations Factors affecting allowability of costs. The tests of allowability of costs under these principles are they must be reasonable; they must be allocable to sponsored agreements under the principles and methods provided herein; they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and they must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items.					

FINDING 4

Performance Audit of Costs Claimed on NSF Awards, New York University
Schedule of Questioned Costs- Details of Transactions

Finding	Description	Cost Breakdown			Total Questioned Costs	
		Direct Costs	Related Indirect Costs	Indirect Costs	Unsupported	Unallowable
4	Unallowable Conference Fees	\$ 1,125	\$ -	\$ -	\$ -	\$ [REDACTED]
NYU General Ledger Details						
NSF Award No.	Sampled Transaction Amount	NYU Account Description	NYU Budget Category	NYU Transaction Description	Fiscal Year	NYU Journal Date
0613893	\$ [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	2010	8/23/2010
0613893	\$ [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	2010	8/11/2010
Description of Questioned Costs						
We are questioning a portion of each of these transactions related to unallowable or unreasonable conference related expenses incurred on NSF grant no. 0613893						
NSF Award No.	Total Transaction Amount	Total Questioned	Description of Unallowable Costs			Note
0613893	\$ [REDACTED]	[REDACTED]	[REDACTED]			A
0613893	\$ [REDACTED]	[REDACTED]				B
						B
Notes:						
A	2 CFR Parts 215 and 220 Cost Principles for Educational Institutions (Office of Management and Budget Circular A-21, Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements with Educational Institutions) Section J.3. Alcoholic beverages. Costs of alcoholic beverages are unallowable.					
B	National Science Foundation Proposal and Award Policies and Procedures Guide, Part II- Award & Administration Guidelines: Chapter V “Allowability of Costs,” effective January 4, 2010; Chapter V “Allowability of Costs,” Section C.5. Meetings and Conferences: Meals and Coffee Breaks. When certain meals are an integral and necessary part of a conference (e.g., working meals where business is transacted), grant funds may be used for such meals. Grant funds may also be used for furnishing a reasonable amount of hot beverages or soft drinks to conference participants and attendees during periodic coffee breaks.					

APPENDIX B: NEW YORK UNIVERSITY RESPONSE



NEW YORK UNIVERSITY

[REDACTED]
Post-Award Financial Operations

Sponsored Programs Administration
105 East 17th Street, 3rd Floor
New York, NY 10003
[REDACTED]
[REDACTED]

Dear Mr. [REDACTED]

We have reviewed your audit results and related findings and recommendations in regards to the performance audit that you have conducted on behalf of National Science Foundation over the expenditures reported by New York University (NYU) on the Federal Financial Reports (FFRs) that it filed with NSF for cost reimbursement against its grant awards.

Attached please find NYU responses to your audit findings and recommendations. We are also providing additional supporting documents to justify that the costs claimed were allocable, allowable, reasonable, and in conformity with NSF award terms and conditions, as well as with applicable federal financial assistance requirements.

Please feel free to contact us if you have any questions. Thank you!

Sincerely,

[REDACTED]

Finding 1: Unallowable Indirect CostsNSF Award No. 0721383 –

NYU has controls and processes in place over its adjustment to indirect costs on federal awards. Before the final closeout of the project, the senior financial analyst from Sponsored Programs Administration (SPA) department will review the final cost analysis to ensure that the total project expense is accurately reported, including indirect costs calculated based on the applicable indirect cost rates.

Although the calculation for indirect cost as of Oct 31, 2010 of [REDACTED] it [REDACTED] project. [REDACTED] by [REDACTED] Cotton & Co., we provided documentation demonstrating the error had been corrected. Therefore, a refund in the amount of \$35,054 to NSF is not needed. We are again providing the documentation demonstrating the unallowable indirect cost was corrected, please see attached support.

NSF Award No. 0606415 –

NYU does not agree with the auditor's conclusion that we used an indirect cost rate that did not comply with our federally negotiated agreement. The auditors used an indirect cost agreement dated May 5, 2004. The correct indirect cost rate for this award, received on July 22, 2006, should be [REDACTED] dated July 2, 2007. This agreement shows that [REDACTED] agreement, which spanned fiscal years beginning on and through September 1, 2005 to August 31, 2009. Therefore, the auditor's calculation is erroneous, and the refund in the amount of \$[REDACTED] to NSF is not warranted.

Finding 2: Unreasonable Foreign TravelNSF Award No. [REDACTED] –

NYU has controls and processes in place over the allocability and allowability of costs charged to federal awards. [REDACTED] [REDACTED] are allocable, allowable and reasonable.

The position put forth by the auditors is not in [REDACTED] In discussion with PI for this project, all of the travel expenses incurred were related to only [REDACTED] expenses were not related to any other research [REDACTED]

[REDACTED] NYU's position is that the travel expenses are fully allocable and allowable to this grant, and a refund in the amount of \$ [REDACTED] to NSF is not warranted. Our position is further supported by the annual and final progress report(s) submitted by the PI to the NSF Program Office.

Finding 3: Unsupported Per Diem Expense

NSF Award No. 1026333 –

The University has a standard practice [REDACTED]

While certain documentation was not available at the time of audit, we are now attaching documentation supporting all costs claimed for reimbursement. [REDACTED]

expense, we do not believe there are sufficient grounds for this issue to be a finding. Furthermore, we believe that a refund in the amount of \$ [REDACTED] to NSF is not warranted.

Finding 4: Unreasonable Equipment Purchases

NSF Award No. 0745253 –

NYU has controls and processes regarding charging equipment to federal awards at the end of the performance period. [REDACTED]

are allocable, allowable and reasonable.

NYU does not agree with the auditor's conclusion that the equipment purchases were not necessary to accomplish the award objectives and did not benefit the NSF program. Based on discussion with Principal Investigator for this project, the purchase of the [REDACTED] [REDACTED] necessary to complete the research work

of this project. During the progress of the project, the PI developed [REDACTED] and also [REDACTED] computer powers. Even though these computer purchases were made less than 90 days prior to the grant expiration date, however, the research and publications directly related to this grant continue beyond the grant end date. [REDACTED]

[REDACTED] were necessary to accomplish the program objectives; a refund in the amount of \$ [REDACTED] to NSF is not warranted.

Finding 5: Unallowable Conference Fees

NSF Award No. 0613893 –

NYU has controls and processes in place over conference costs charged to federal awards. Before an expense is posted to the project, [REDACTED] and applicable regulatory guidance such as OMB Circular A-21. In addition, all payments require [REDACTED] [REDACTED] we agree that the cost of alcoholic beverages should not have been charged to the grant. Therefore we will record [REDACTED] [REDACTED] has refunding NSF for the unallowable expenses.

We do not agree with the auditor's conclusion that the cited meals were not necessary for the [REDACTED] [REDACTED] Therefore, we do not believe a refund in the amount of \$ [REDACTED] to NSF is warranted.

APPENDIX C: OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES, SCOPE, AND METHODOLOGY

The NSF OIG Office of Audits engaged Cotton & Company LLP (referred to as “we” in this report) to conduct a performance audit of costs that NYU incurred on NSF awards for the period from July 1, 2009, through June 30, 2012. The objectives of the audit were to identify and report on instances of unallowable, unallocable, and unreasonable costs, as well as instances of noncompliance with regulations, federal financial assistance requirements, and the provisions of the NSF award agreements as they relate to the transactions tested.

At NSF’s request, NYU provided [REDACTED]

NYU management is responsible for establishing and maintaining effective internal control to help ensure that federal award funds are used in compliance with laws, regulations, and award terms. In planning and performing our audit, we considered NYU’s internal control solely for the purpose of understanding the policies and procedures relevant to the financial reporting and administration of NSF awards in order to evaluate NYU’s compliance with laws, regulations, and award terms applicable to the items selected for testing, but not for the purpose of expressing an opinion on the effectiveness of NYU’s internal control over award financial reporting and administration. Accordingly, we do not express an opinion on the effectiveness of NYU’s internal control over its award financial reporting and administration.

Our work required reliance on [REDACTED]

The NSF OIG identified and provided to us a list [REDACTED]

[REDACTED] transactions that we requested support for.

We reviewed the [REDACTED]

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.