



NATIONAL SCIENCE FOUNDATION
Division of Institution & Award Support

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December 20, 2024

Kurt Schnier
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 Vice Chancellor for Planning & Budget and Chief Financial Officer
 University of California Merced
 5200 Lake Road
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Reference: OIG Report No. 22-1-003

Dear Kurt Schnier,

The National Science Foundation (NSF) has completed the review and resolution of the NSF Office of Inspector General (NSF OIG) audit report on costs incurred under NSF awards by University of California, Merced (UCM) during the period September 1, 2017 to August 31, 2020.

The audit report identified a total of \$226,652 in questioned costs claimed on NSF awards and recommended that UCM strengthen its administrative and management controls for the areas in which findings were identified. As a result of its resolution efforts, NSF has determined to sustain \$221,170 of the questioned costs identified; however, based on alternative documentation reviewed and accepted during resolution, NSF will require repayment of only \$218,360. The table below summarizes the sustained, allowed, and disallowed costs by recommendation:

Rec	Description	Questioned	Sustained	Allowed	Disallowed	Final Action Complete
1.1	Unallowable Expenses	\$4,292	\$4,292	\$0	\$4,292	No
1.2	Unallowable Expenses	\$111,859	\$111,859	\$0	\$111,859	No
1.3	Unallowable Expenses	\$0	n/a	n/a	n/a	Yes
1.4	Unallowable Expenses	\$0	n/a	n/a	n/a	Yes
1.5	Unallowable Expenses	\$0	n/a	n/a	n/a	Yes
1.6	Unallowable Expenses	\$0	n/a	n/a	n/a	No
1.7	Unallowable Expenses	\$0	n/a	n/a	n/a	Yes
1.8	Unallowable Expenses	\$0	n/a	n/a	n/a	Yes
1.9	Unallowable Expenses	\$0	n/a	n/a	n/a	Yes
1.10	Unallowable Expenses	\$0	n/a	n/a	n/a	Yes
2.1	Inappropriately Allocated Expenses	\$55,221	\$49,739	\$8,292	\$46,929	No
2.2	Inappropriately Allocated Expenses	\$16,242	\$16,242	\$0	\$16,242	No
2.3	Inappropriately Allocated Expenses	\$0	n/a	n/a	n/a	No

2.4	Inappropriately Allocated Expenses	\$0	n/a	n/a	n/a	Yes
2.5	Inappropriately Allocated Expenses	\$0	n/a	n/a	n/a	No
3.1	ACM\$ Drawdowns That Exceeded Expenses	\$21,064	\$21,064	\$0	\$21,064	No
3.2	ACM\$ Drawdowns That Exceeded Expenses	\$0	n/a	n/a	n/a	Yes
3.3	ACM\$ Drawdowns That Exceeded Expenses	\$0	n/a	n/a	n/a	Yes
3.4	ACM\$ Drawdowns That Exceeded Expenses	\$0	n/a	n/a	n/a	Yes
4.1	Inadequately Supported Expenses	\$10,364	\$10,364	\$0	\$10,364	No
4.2	Inadequately Supported Expenses	\$7,128	\$7,128	\$0	\$7,128	No
4.3	Inadequately Supported Expenses	\$0	n/a	n/a	n/a	Yes
5.1	Indirect Costs Inappropriately Applied	\$482	\$482	\$0	\$482	No
5.2	Indirect Costs Inappropriately Applied	\$0	n/a	n/a	n/a	Yes
6.1	Payroll Subledger Expenses that Exceeded General Ledger Payroll Expenses	\$0	n/a	n/a	n/a	Yes
7.1	Inappropriately Budgeted Participant Support Costs	\$0	n/a	n/a	n/a	Yes
7.2	Inappropriately Budgeted Participant Support Costs	\$0	n/a	n/a	n/a	Yes
8.1	Non-compliance with UCM Policies	\$0	n/a	n/a	n/a	Yes
8.2	Non-compliance with UCM Policies	\$0	n/a	n/a	n/a	Yes
8.3	Non-compliance with UCM Policies	\$0	n/a	n/a	n/a	Yes
8.4	Non-compliance with UCM Policies	\$0	n/a	n/a	n/a	Yes
8.5	Non-compliance with UCM Policies	\$0	n/a	n/a	n/a	Yes
8.6	Non-compliance with UCM Policies	\$0	n/a	n/a	n/a	Yes
	Summary of Total Questioned Costs:	\$226,652	\$221,170	\$8,292	\$218,360	

To resolve the audit findings and questioned costs, NSF conducted detailed reviews of applicable Federal and NSF requirements, proposal and award information maintained by the Agency, and documentation provided by UCM. The summary below provides the bases for the management decisions reached by NSF:

Finding 1: Unallowable Expenses

Recommendation 1.1: Resolve the \$4,292 in questioned salary expenses for which UCM has not agreed to reimburse NSF and direct UCM to repay or otherwise remove the sustained questioned costs from its NSF awards.

NSF Management Decision: The recommendation is sustained. It is NSF's management decision to sustain and disallow the questioned costs of \$4,292.

Corrective Action: NSF requires that UCM repay the disallowed costs of \$4,292. **Final action will be considered complete upon repayment of \$4,292.**

Recommendation 1.2: Direct UCM to provide documentation supporting that it has repaid or otherwise credited the \$111,859 in questioned salary, duplicate, publication, travel, and participant support costs for which it has agreed to reimburse NSF.

NSF Management Decision: The recommendation is sustained. It is NSF's management decision to sustain and disallow \$111,859.

Corrective Action: NSF requires that UCM repay the disallowed costs of \$111,859. **Final action will be considered complete upon repayment of \$111,859.**

Recommendation 1.3: Direct UCM to provide training regarding its policy requirements for charging salary to NSF awards to ensure personnel do not charge payroll to expired awards, additional compensation is appropriately supported and included in the effort reports, and employees appropriately certify effort reports to support the amount charged to federally sponsored programs.

NSF Management Decision: The recommendation is sustained.

Corrective Action: NSF has determined that UCM's updated internal controls and training are responsive to the recommendation. **NSF considers that final action is complete under Recommendation 1.3.**

Recommendation 1.4: Direct UCM to update its policies, procedures, and internal controls for certifying effort reports. The guidance could further include requirements for verifying that employees have certified their effort before charging the employees' salary expenses to sponsored awards.

NSF Management Decision: The recommendation is sustained.

Corrective Action: NSF has determined that UCM's updated policies, procedures and internal controls are responsive to the recommendation. **NSF considers that final action is complete under Recommendation 1.4.**

Recommendation 1.5: Direct UCM to strengthen its administrative and management processes for ensuring that it does not charge duplicate expenses to NSF awards. Updated procedures could include implementing internal controls to ensure that UCM does not charge any direct and indirect expenses to NSF more than once.

NSF Management Decision: The recommendation is sustained.

Corrective Action: NSF has determined that UCM's training for staff and updated procedures are responsive in strengthening its administrative and management processes to avoid duplicate charges to NSF awards. **NSF considers that final action is complete under Recommendation 1.5.**

Recommendation 1.6: Direct UCM to establish clear guidance regarding the allowability of publication expenses on sponsored projects, including the requirement to acknowledge NSF funding sources.

NSF Management Decision: The recommendation is sustained.

Corrective Action: NSF did not find UCM's corrective actions responsive to the recommendation; see NSF's email dated 8/15/2024. **Final action will be considered complete upon submission of an acceptable corrective action plan that addresses NSF concerns that were communicated to UCM in its 8/15/2024 email and a determination by NSF that UCM is responsive to the recommendation.**

Recommendation 1.7: Direct UCM to strengthen its administrative and management processes and procedures surrounding the charging of travel expenses.

NSF Management Decision: The recommendation is sustained.

Corrective Action: NSF has determined that UCM's staff training and updated travel policy are responsive in strengthening its administrative and management processes and procedures surrounding the charging of travel expenses. **NSF considers that final action is complete under Recommendation 1.7.**

Recommendation 1.8: Direct UCM to establish clear guidance regarding allowable uses of participant support cost funding. This guidance should address how to segregate and account for costs that UCM cannot cover using participant support cost funding, such as costs incurred for UCM employees and expenses associated with other direct costs that UCM did not specifically identify in the award budget.

NSF Management Decision: The recommendation is sustained.

Corrective Action: NSF has determined that UCM's participant support cost guidance and updated training are responsive in establishing clear guidance regarding allowable uses of participant support cost funding. **NSF considers that final action is complete under Recommendation 1.8.**

Recommendation 1.9: Direct UCM to strengthen its policies and procedures related to charging federal grants for student stipends that already have other funding sources. Updated procedures could include establishing clear guidance regarding funding sources to ensure that UCM does not unreasonably charge participants to federal grants.

NSF Management Decision: The recommendation is sustained.

Corrective Action: NSF has determined that UCM's updated policies and procedures, training, and internal controls are responsive in strengthening its policies and procedures related to charging federal grants for student stipends that already have other funding sources. **NSF considers that final action is complete under Recommendation 1.9.**

Recommendation 1.10: Direct UCM to require Principal Investigators or other designated staff to verify that expenses billed by consultants are consistent with the appropriate payment terms and conditions prior to charging expenses to NSF.

NSF Management Decision: The recommendation is sustained.

Corrective Action: NSF has determined that UCM's updated guidance, internal controls, and policies and procedures are responsive in verifying that expenses billed by consultants are consistent with the appropriate payment terms and conditions prior to charging expenses to NSF. **NSF considers that final action is complete under Recommendation 1.10.**

Finding 2: Inappropriately Allocated Expenses

Recommendation 2.1: Resolve the \$55,221 in questioned equipment, materials and supplies, and publication expenses for which UCM has not agreed to reimburse NSF and direct UCM to repay or otherwise remove the sustained questioned costs from its NSF awards.

NSF Management Decision: The recommendation is partially sustained. NSF determined to allow \$5,482 based on the determination that the allocation methodology was adequate. For four transactions, NSF determined to sustain the entire questioned amount due to lack of documentation at the time of the expenditure; however, a negotiated settlement was reached to disallow and repay a portion of the questioned costs because the awards received benefit. It is NSF's management decision to sustain \$49,739; however, only \$46,929 is disallowed and requires repayment.

Corrective Action: NSF requires that UCM repay the disallowed costs of **\$46,929. Final action will be considered complete upon repayment of \$46,929.**

Recommendation 2.2: Direct UCM to provide documentation supporting that it has repaid or otherwise credited the \$16,242 in questioned materials and supplies, maintenance, and publication expenses for which it has agreed to reimburse NSF.

NSF Management Decision: The recommendation is sustained. It is NSF's management decision to sustain and disallow \$16,242.

Corrective Action: NSF requires that UCM repay the disallowed costs of \$16,242. **Final action will be considered complete upon repayment of \$16,242.**

Recommendation 2.3: Direct UCM to strengthen its administrative and management controls and processes for supporting the allocation of expenses to sponsored projects.

Corrective Action: NSF determined that UCM is not responsive to the recommendation. **Final action is pending receipt and review of UCM's updated procedures for justifying and documenting allocation methodology decisions.**

Recommendation 2.4: Direct UCM to strengthen its administrative and management processes and procedures surrounding the approval of equipment expenses near the end of a grant's period of performance to ensure that UCM will receive the equipment before the grant expires. Updated procedures could include performing an additional review of equipment purchases made within 180 days of the grant's expiration date.

NSF Management Decision: The recommendation is sustained.

Corrective Action: NSF has determined that UCM's internal controls, procedures, and training are responsive to strengthening its administrative and management processes and procedures surrounding the approval of equipment expenses near the end of a grant's period of performance. **NSF considers that final action is complete under Recommendation 2.4.**

Recommendation 2.5: Direct UCM to provide training on how to assess and document the methodology used to allocate publication costs across each sponsored award acknowledged in the publication.

NSF Management Decision: The recommendation is sustained.

Corrective Action: NSF has determined that UCM is not responsive to the recommendation. **Final action is pending acceptance of proposed corrective actions in response to Recommendation 1.6.**

Finding 3: Inadequately Supported Expenses

Recommendation 3.1: Direct UCM to provide documentation supporting that it has repaid or otherwise credited the \$21,064 in questioned excessive Award Cash Management Service drawdowns for which it has agreed to reimburse NSF.

NSF Management Decision: The recommendation is sustained. It is NSF's management decision to sustain and disallow \$21,064.

Corrective Action: UCM has provided evidence of \$16,663 repayment. NSF requires that UCM repay the remaining disallowed costs of \$4,401. **Final action will be considered complete upon repayment of \$4,401.**

Recommendation 3.2: Direct UCM to strengthen its award close-out procedures. Updated procedures should ensure that UCM appropriately performs final award reconciliations and appropriately reimburses NSF for credits posted during the award close-out process.

NSF Management Decision: The recommendation is sustained.

Corrective Action: NSF has determined that UCM's internal controls and updated procedures are responsive to strengthening the award close-out procedures. **NSF considers that final action is complete under Recommendation 3.2.**

Recommendation 3.3: Direct UCM to implement additional accounting controls over the writing off of expenses in its accounts payable subledger. Updated controls should ensure that UCM posts credits to its general ledger for all expenses it writes off in its accounts payable subledger.

NSF Management Decision: The recommendation is sustained.

Corrective Action: NSF did not find UCM's corrective actions responsive to the recommendation; see NSF's email dated 8/15/2024. **Final action will be considered complete upon submission of an acceptable corrective action plan that addresses NSF concerns that were communicated to UCM in its 8/15/2024 email and a determination by NSF that UCM is responsive to the recommendation.**

Recommendation 3.4: Direct UCM to strengthen the administrative and management internal controls and processes over its Award Cash Management Service reconciliation process. Updated processes could include requiring that an individual who is independent from the standard Award Cash Management Service drawdown process perform periodic reconciliations of Award Cash Management Service cash drawdowns to UCM general ledger expenses for each active NSF award.

NSF Management Decision: The recommendation is sustained.

Corrective Action: NSF has determined that UCM's updated procedures and internal controls are responsive to strengthening the administrative and management controls and processes over the ACMS reconciliation process. **NSF considers that final action is complete under Recommendation 3.4.**

Finding 4: Inadequately Supported Expenses

Recommendation 4.1: Resolve the \$10,364 in questioned inadequately supported salary expenses for which UCM has not agreed to reimburse NSF and direct UCM to repay or otherwise remove the sustained questioned costs from its NSF awards.

NSF Management Decision: The recommendation is sustained. It is NSF's management decision to sustain and disallow the questioned costs \$10,364.

Corrective Action: NSF requires that UCM repay the disallowed costs of \$10,364. **Final action will be considered complete upon repayment of \$10,364.**

Recommendation 4.2: Direct UCM to provide documentation supporting that it has repaid or otherwise credited the \$7,128 in questioned consultant, travel, and publication expenses for which it has agreed to reimburse NSF.

NSF Management Decision: The recommendation is sustained. It is NSF's management decision to sustain and disallow \$7,128.

Corrective Action: NSF requires that UCM repay the disallowed costs of \$7,128. **Final action will be considered complete upon repayment of \$7,128.**

Recommendation 4.3: Direct UCM to strengthen its policies and procedures related to creating and retaining documentation, including introducing additional internal controls to help ensure that it appropriately creates and maintains all documentation necessary to support the allowability of expenses charged to sponsored programs.

NSF Management Decision: The recommendation is sustained.

Corrective Action: NSF has determined that UCM's implementation of a new effort reporting system, enhanced internal controls, and updated policies and procedures are responsive to the recommendation to strengthen its policies and procedures related to creating and retaining documentation necessary to support the allowability of expenses charged to sponsored programs. **NSF considers that final action is complete under Recommendation 4.3.**

Finding 5: Indirect Costs Inappropriately Applied

Recommendation 5.1: Direct UCM to provide documentation supporting that it has repaid or otherwise credited the \$482 in questioned indirect costs for which it has agreed to reimburse NSF.

NSF Management Decision: The recommendation is sustained. It is NSF's management decision to sustain and disallow \$482.

Corrective Action: NSF requires that UCM repay the disallowed costs of \$482. **Final action will be considered complete upon repayment of \$482.**

Recommendation 5.2: Direct UCM to strengthen its monitoring procedures and internal control processes for applying indirect costs to federal awards.

NSF Management Decision: The recommendation is sustained.

Corrective Action: NSF has determined that UCM's internal controls are responsive to strengthening monitoring procedures for applying indirect cost to federal awards. **NSF considers that final action is complete under Recommendation 5.2.**

Finding 6: Payroll Subledger Expenses that Exceeded General Ledger Payroll Expenses

Recommendation 6.1: Direct UCM to strengthen the administrative and management internal controls and processes over its financial systems.

NSF Management Decision: The recommendation is sustained.

Corrective Action: NSF has determined that UCM's updated training, internal controls, and policies and procedures are responsive to strengthening the administrative and management internal controls and processes over UCM's financial systems. **NSF considers that final action is complete under Recommendation 6.1.**

Finding 7: Inappropriately Budgeted Participant Support Costs

Recommendation 7.1: Direct UCM to update its current pre-award procedures and internal controls for reviewing NSF proposal budgets to ensure that all costs included in the participant support cost budget comply with NSF terms and conditions.

NSF Management Decision: The recommendation is sustained.

Corrective Action: NSF has determined that corrective actions taken in response to Recommendation 1.8 are also responsive to Recommendation 7.1. **NSF considers that final action is complete under Recommendation 7.1.**

Recommendation 7.2: Direct UCM to establish clear guidance regarding the allowable uses of participant support cost funding. This guidance should address how to segregate and account for costs that cannot be covered with participant support cost funding, such as costs incurred for employee salaries, non-participant expenses, and workshops.

NSF Management Decision: The recommendation is sustained.

Corrective Action: NSF has determined that corrective actions taken in response to Recommendation 1.8 are also responsive to Recommendation 7.2. **NSF considers that final action is complete under Recommendation 7.2.**

Finding 8: Non-compliance with UCM Policies

Recommendation 8.1: Direct UCM to strengthen its administrative and management procedures to ensure employees certify effort within 120 days of the end of the reporting period.

NSF Management Decision: The recommendation is sustained.

Corrective Action: NSF has determined that UCM's updated internal control for certifying effort reports, as noted in response to Recommendation 1.4, are responsive to the recommendation. **NSF considers that final action is complete under Recommendation 8.1.**

Recommendation 8.2: Direct UCM to strengthen its administrative and management procedures for travel expenses to ensure travelers submit expense reports within 45 days of completing the trip, obtain appropriate approval for exceptions and reimbursements, and complete documentation required to support travel expenses in accordance with UCM policy.

NSF Management Decision: The recommendation is sustained.

Corrective Action: NSF has determined that UCM's updated travel policies and procedures and annual travel e-course requirement are responsive to the recommendation. **NSF considers that final action is complete under Recommendation 8.2.**

Recommendation 8.3: Direct UCM to strengthen its administrative and management procedures for cost transfers to ensure it does not transfer costs to an award without first obtaining the appropriate documentation and approval.

NSF Management Decision: The recommendation is sustained.

Corrective Action: NSF has determined that UCM's updated internal controls are responsive to strengthening the administrative and management procedures for cost transfers. **NSF considers that final action is complete under Recommendation 8.3.**

Recommendation 8.4: Direct UCM to strengthen its administrative and management procedures and internal controls for using procurement cards on sponsored funding purchases.

NSF Management Decision: The recommendation is sustained.

Corrective Action: NSF has determined that UCM's updated policies and procedures, training, and internal controls are responsive in strengthening procedures and internal controls for procurement cards. **NSF considers that final action is complete under Recommendation 8.4.**

Recommendation 8.5: Direct UCM to strengthen its administrative and management procedures for subawards to ensure that it appropriately completes the Subaward Request Form prior to charging subawardee costs to NSF awards.

NSF Management Decision: The recommendation is sustained.

Corrective Action: NSF has determined that UCM's updated procedures and internal controls are responsive to ensure completion of the subaward request form prior to charging subawardee costs to NSF awards. **NSF considers that final action is complete under Recommendation 8.5.**

Recommendation 8.6: Direct UCM to strengthen its administrative and management procedures and internal controls for reviewing whether expenses are eligible for inclusion in the Modified Total Direct Cost base.

NSF Management Decision: The recommendation is sustained.

Corrective Action: NSF has determined that UCM's updated internal controls, training, and procedures are responsive in strengthening procedures related to determining eligibility in the Modified Total Direct Cost base. **NSF considers that final action is complete under Recommendation 8.6.**

Required Actions to be taken by UCM:

NSF requires that UCM provide updated corrective action plans (CAP) for the above summarized internal control and compliance recommendations where NSF determined that UCM was not responsive to the recommendations. **Updated CAPs are required for Recommendations 1.6, 2.3, and 2.5.** The updated CAPs should detail all actions, or interim actions, taken that fully address the recommendations, including the individuals responsible for internal control compliance and the dates that corrective actions were implemented. If interim or temporary actions were taken in anticipation of some future actions, provide a list of pending actions necessary for full implementation of corrective actions, responsible individuals, and target implementation dates. **Updated CAPs are due within 30 days of the date of this letter, or January 21, 2025**

Based on the above, the total disallowed amount is \$218,360. UCM has provided NSF evidence of \$16,663 in repayments. **Repayments of \$25 under open award 1555375; \$32,899 under open award 1820875; and \$2,603 under open award 1840265 must be made as general ledger (GL) adjustments.** Provide evidence of repayments under the open awards by providing a copy of the ACM\$ transaction detail and the supporting GL transaction listing for the award being credited. Please highlight the

credited amount and verify that the net expenses on the GL transaction listing agree with the ACM\$ payment amounts requested. **Repayment of the remaining \$166,170 must be made via www.pay.gov.** Please reference OIG Audit Report No. 22-1-003. Any necessary adjustments to ACM\$ as a result of the repayment will be made by the NSF Division of Financial Management (DFM). **Repayment of disallowed costs must be received no later than 90 days from the date of this letter, or March 20, 2025. Failure to provide timely repayment may result in DFM initiating formal collection through the Department of Treasury, Debt Management Services.**

Following are the pending pay.gov repayment amounts by award number:

Award #	Pending Repayment
1059551	\$954
1150115	\$9,003
1254192	\$2,271
1309673	\$2,505
1324919	\$3,875
1331109	\$1,000
1331939	\$2,596
1352627	\$170
1362565	\$6,110
1410199	\$5,344
1423515	\$31,129
1430351	\$23,002
1442348	\$1,524
1505061	\$37,327
1557151	\$206
1616759	\$11,827
1633429	\$533
1633722	\$1,768
1654311	\$10,364
1710211	\$2,822
1720501	\$3,172
1737381	\$1,639
1744637	\$429
1747821	\$3,720
1808926	\$2,041
1834756	\$612
1844416	\$190
1928873	\$37
	\$166,170

Please be aware that UCM's right to appeal cost disallowances by NSF is outlined in Chapter XII.B of the NSF Proposal and Award Policies and Procedures Guide (PAPPG), which may be found online at: https://www.nsf.gov/publications/pub_summ.jsp?ods_key=pappg. **An appeal must be filed within 30 days from the date of this letter, or January 21, 2025.**

The University's timely responses and cooperation with the NSF audit resolution process are greatly appreciated. Should you have any questions regarding this letter or the NSF audit resolution process, please contact me at 703-292-4579.

Sincerely,

Carrie Davison

Carrie Davison
Senior Cost Analyst
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Division of Institution and Award Support

cc: Amanda Preston-Nelson
Associate Vice Chancellor and Controller
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