

**Georgia State University Research Foundation, Inc.**  
30 Courtland Street  
Atlanta, Georgia 30303  
National Science Foundation Award Number  
IBN-0349042

Audit of Financial Schedules  
and  
Independent Auditors' Reports  
For the Period July 1, 2003 to September 30, 2004

**CONRAD AND ASSOCIATES, L.L.P.**  
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**Georgia State University Research Foundation, Inc.  
30 Courtland Street  
Atlanta, Georgia 30303**

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**EXECUTIVE SUMMARY**

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

## **BACKGROUND**

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In 2003, under the Science and Technology Centers (STC): Integrative Partnerships program,<sup>1</sup> NSF awarded a cooperative agreement to the Georgia State University (GSU) Research Foundation, Inc.,<sup>2</sup> for the operation of the Center for Behavioral Neuroscience (the Center) at Georgia State University in Atlanta, Georgia. The Center's overall mission is to define the interaction of brain processes and complex behaviors, and create a cadre of interdisciplinary investigators focused on behavioral neuroscience. To accomplish this mission, the Center brings together the research and educational expertise of eight academic "partner" institutions. This diverse group of behavioral biologists, psychologists, neuroscientists, molecular biologists and engineers from various Atlanta universities has access to core facilities equipped with the latest technologies to explore cutting-edge issues in behavioral neuroscience. The Center's major goals include refining and extending current methods for addressing problems in behavioral neuroscience, including imaging and computation, and developing novel technologies and animal models for understanding the brain's molecular mechanisms of learning and memory that underlie social behavior.

NSF originally awarded the cooperative agreement for the Center's establishment and support to Emory University, in 1999. The GSU Research Foundation participated in the Center as a subawardee, partner institution. In accordance with its STC program guidelines, NSF funded the Center for five years (in annual increments) with a potential duration of ten years. However, in late 2002, the Center Director and Principal Investigator (PI) left Emory University and the Center. Following this event, a former co-PI on the award was appointed as Center Director and Principal Investigator. Subsequently, in July 2003, NSF transferred the award from Emory University to GSU, the new Director's home institution and one of the Center's eight partner institutions. To accomplish the transfer, NSF terminated the award with Emory University and entered into a new cooperative agreement with GSU Research Foundation, award number IBN-0349042, for the remainder of the initial five-year award period. Emory University has continued its involvement with the Center as a subawardee, participating partner.

NSF Award IBN-0349042 grants the GSU Research Foundation financial support of \$8,949,568 to operate the Center for the period July 1, 2003 through October 31, 2004. Per the cooperative agreement, GSU is required to provide cost sharing in the amount of \$4,680,264 over the award period.

The NSF award is administered and operated by personnel at the Center for Behavioral Neuroscience located on the campus of GSU. The Center operates within GSU's Department of Biology, which is ultimately within the College of Arts and Science.

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<sup>1</sup> The NSF Office of Integrative Activities established the Science and Technology Centers (STC): Integrative Partnerships program in 1987, to enable innovative research and education projects of national importance that require a Center mode of support to achieve the research, education, and knowledge transfer goals shared by the separate partners.

<sup>2</sup> The State of Georgia established the Georgia State University Research Foundation, Inc., to contribute to the scientific, literary, educational, and charitable functions of Georgia State University in securing gifts, contributions and grants. The Research Foundation subawards most of its research grants to GSU, which then assumes responsibility for the fiscal administration of the grants.

## **AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY**

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At the request of the NSF Office of Inspector General (OIG), Conrad and Associates, L.L.P, conducted an audit of NSF Cooperative Agreement IBN-0349042, granted to the GSU Research Foundation to fund the Science and Technology Center for Behavioral Neuroscience, for the period July 1, 2003, to September 30, 2004. The audit objectives were to:

1. Determine whether the Schedule of Award Costs of GSU present fairly, in all material respects, the costs claimed on the Federal Cash Transaction Reports (FCTR) - Federal Share of Net Disbursements in conformity with NSF OIG's Financial Audit Guide, and the terms and conditions of the NSF award.
2. Identify matters concerning instances of noncompliance with laws, regulations, and the provisions of the award agreement pertaining to NSF awards, and weaknesses in GSU's internal control over financial reporting that could have a direct and material effect on the Schedule of Award Costs and GSU's ability to properly administer, account for, and monitor its NSF award.

To accomplish the objectives of the audit, we:

- Prepared a survey and internal control audit-planning document for OIG review and approval. The document included the proposed audit program and sampling methodology for performing the audit survey, gaining an understanding of the grantee's policies and procedures and financial systems for administering its NSF awards, identifying risks in the grantee's operations for effectively administering its NSF awards, and testing the grantee's significant internal controls to determine whether those controls are operating effectively to mitigate the identified risk.
- Prepared a survey and internal control assessment report for OIG review and approval. The assessment report included a summary of the results of the on-site audit survey and testing of significant internal controls.
- Prepared a substantive audit testing planning document for OIG review and approval. The document included the proposed audit program including sections on tests of compliance with applicable laws and regulations, and substantive testing procedures to determine whether costs charged to the NSF award(s) by the awardee are allowable, allocable, and reasonable in accordance with the applicable Federal cost principles and award terms and conditions.
- Prepared Notification of Findings (NOFs) based on the results of audit fieldwork. The NOFs included detailed information on each finding identified.

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States of America. This audit of the aforementioned award uses non-statistical sampling to test the costs claimed by GSU and to test for compliance with Federal and NSF award requirements.

## **SUMMARY OF AUDIT RESULTS**

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Our audit found that GSU was generally able to account for NSF funds. However, we identified a significant weakness in GSU's monitoring of subawardee costs and cost sharing that resulted in \$404,211 of questioned costs (See Note B-4: Subaward Costs). We also noted other areas where GSU can improve, including maintaining proper documentation of payroll and other direct expenses, as well as cost sharing.

<u>NSF Award No.</u>	<u>Award Budget</u>	<u>Claimed Costs</u>	<u>Costs Selected for Review</u>	<u>Questioned Costs</u>
IBN-0349042	\$ 8,949,568	\$ 5,915,793	\$ 2,441,337	\$ 174,846
Cost Sharing	<u>4,680,264</u>	<u>4,627,502</u>	<u>2,090,367</u>	<u>284,938</u>
Total	<u>\$ 13,629,832</u>	<u>\$10,543,295</u>	<u>\$ 4,531,704</u>	<u>\$ 459,784</u>

Our audit of this award disclosed questioned costs of \$459,784 in the following cost categories: salaries and wages, fringe benefits, travel, materials and supplies and "other" (venture grants), consulting, subawards, indirect, and GSU and subawardee cost sharing. Questioned costs are (1) costs for which there is documentation that the recorded costs were expended in violation of the law, regulations, or specific conditions of the award; (2) costs that require additional support by the awardee; or (3) costs that require interpretation of allowability by the NSF.

We noted compliance deficiencies and internal control weaknesses that could have a significant impact on GSU's ability to record, process, summarize, and report financial data, and effectively and efficiently administer the funds in a manner that is consistent with NSF and other Federal laws and regulations. If GSU fails to address these compliance and control weaknesses, similar problems may occur on other existing and/or future NSF awards granted to GSU.

The following is a brief description of the compliance and internal control findings that resulted from our audit. For a complete discussion of these findings, refer to the Independent Auditors' Report on Compliance and Other Matters and on Internal Controls over Financial Reporting Based on an Audit Performed in Accordance with Government Auditing Standards. (See page 7 of this report.)

### **Inadequate Subawardee Monitoring**

GSU needs to establish a risk-based monitoring program to ensure that costs invoiced or claimed and certified as cost sharing by the subawardees of the Center are accurate, allowable, allocable, and properly documented per NSF regulations and OMB Circulars. Approximately [REDACTED] or [REDACTED] percent of the cost sharing expenditures claimed and certified by GSU were contributed by subawardees. Additional subaward costs directly funded by NSF totaled [REDACTED] or [REDACTED] percent of the total costs claimed. However, for cost sharing contributions, the Center relied only on the subawardees' annual certifications of the amounts claimed, without requesting or maintaining additional documentation to prove the accuracy or validity of the claimed amounts. For NSF-funded subaward costs, the Center only reviewed the costs to ensure that the amounts invoiced did not exceed the approved budget. The Center did not review detailed ledgers or other documentation to ensure that the costs were actually incurred and benefited the NSF award.

As a result, we questioned \$271,376 of subawardees' cost share expenditures and \$132,835 of subaward costs funded by NSF for which neither the Center nor the subawardee could provide adequate documentation to support the costs claimed.

## **Other Compliance and Internal Control Weaknesses**

### **Inadequate Documentation**

**Payroll Expense** – Federal regulations and NSF award terms and conditions require that awardees maintain documentation supporting transactions. However, GSU was not always able to provide the required documents, or the documents provided were inadequate to support the charges.

**Direct Costs** – For 17 payroll transactions out of a sample [REDACTED] valued [REDACTED], GSU could not provide adequate documentation to substantiate payroll charges. As a result, we questioned \$15,493 in salaries and \$11,905 in associated fringe benefits and indirect costs.

**Cost Sharing** – We also questioned \$3,336 in salary costs for 2 payroll transactions out of a sample of [REDACTED] payroll and other direct cost transactions valued at [REDACTED] that GSU claimed as cost sharing. In one transaction, the Center was improperly charged for work done on a different grant. For the other transaction, GSU could not provide a certified Personnel Effort Report, and the associated Personnel Action Form indicated a termination date prior to the date of the transaction.

**Payroll Expense Internal Controls** - Additionally, we noted 51 direct payroll cost transactions and 6 cost sharing payroll transactions for which GSU was unable to provide Personnel Action Forms that reflect the employees' approved estimated work effort for the Center. Further, we noted that at certain high-volume times, in lieu of approved Personnel Action Forms, GSU provided the Center with lists of summer faculty and graduate assistants changes, contrary to GSU policy. Although many of the lists included signatures authorizing the changes, we identified 33 transactions involving payment for employees on these lists for whom GSU did not have proper authorizations and approvals. We did not question these costs because certified Personnel Effort Reports indicated work was completed which benefited the Center. Nevertheless, the lack of proper supporting documents indicates that GSU did not take adequate care in maintaining required documentation, and did not always follow its policies and procedures.

**Non-payroll Direct Expenses and Cost Sharing** – Similar to payroll expenses, GSU was not always able to provide documentation substantiating that non-payroll and cost sharing charges had been properly authorized and incurred in support of the NSF award.

**Travel** – For one travel transaction, out of a sample of eight, GSU was unable to provide documentation to substantiate that international travel expenses were related to the NSF award, or that the travel was properly approved. As a result, we questioned \$546 in travel and indirect costs.

**Other Direct Costs** – For 1 material and supply transaction, out of a sample of [REDACTED] valued at [REDACTED], and 1 venture grant<sup>3</sup> ("Other") transaction out of a sample of [REDACTED], valued at [REDACTED], GSU was unable to provide documentation that purchases were properly authorized, the supplies were received, or that charges were incurred on behalf of the Center or venture grant. As a result, we questioned a total of \$2,418 in material and supply costs, and \$500 in venture grant expenses, as well as \$1,328 for the associated indirect costs.

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<sup>3</sup> Venture grants are small, collaborative projects, funded by the Center at \$30,000 or less, that are initiated by Center participants whose leadership is at a level below the Center Director.



**Consulting Costs** – We noted one instance where GSU approved an invoice for consulting services for payment, but was unable to provide the contract for those services to demonstrate that the costs were reasonable and incurred on behalf of the Center. As a result, we questioned \$9,821 in consulting and associated indirect costs.

**Cost Sharing** – For 2 material and supply transactions, out of the sample of ■ payroll and other direct cost transactions valued at ■ that GSU claimed as cost sharing, GSU was unable to provide documentation that material and supply charges transferred to the Center from another project had been properly transferred and authorized as costs incurred for the benefit of the Center. As a result, we questioned \$10,225 in material and supply costs.

**Transfer of Award** – Prior to the transfer of the award from Emory University to GSU, GSU and other subawardees incurred expenses in the amount of ■, but charged these expenses to the new, GSU award. We did not question these costs because they were clearly incurred on behalf of the Center. Nevertheless, because these costs were incurred more than 90 days prior to the date of GSU's award, NSF grant regulations required GSU to formally request approval to claim these costs. This approval was not obtained because GSU did not have formal procedures in place that required compliance with the NSF approval requirements for pre-award costs.

## **SUMMARY OF RECOMMENDATIONS**

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To address the potential internal control weaknesses, we recommend that the Directors of NSF's Division of Acquisition and Cost Support (DACCS) and the Division of Grants and Agreements (DGA) instruct Georgia State University to (1) develop and implement written policies and procedures to assess and document each subawardee's risk of claiming non-allocable or non-allowable costs, including cost sharing expenditures; based on these risk assessments, perform periodic reviews of each subawardee's invoices to ensure costs claimed are allowable, allocable, and properly documented in accordance with NSF regulations and applicable OMB Circulars; and review cost sharing expenditures claimed by subawardees for allowability and allocability prior to the inclusion of the amounts in to GSU's annual cost sharing certification to NSF; (2) review and adhere to its payroll policies and procedures and ensure that all required documentation is properly filed and maintained for all employees charging salaries to the NSF award; (3) review and adhere to its policies and procedures to ensure that all required documentation is properly filed and maintained for all expenses and cost sharing charged to the NSF award; (4) and develop and implement written policies and procedures to ensure that expenses incurred more than 90 days in advance of any NSF award are properly approved in accordance with NSF's pre-award regulations.

## **SUMMARY OF AUDITEE'S RESPONSE TO AUDIT RESULTS**

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GSU did not concur with the first finding and recommendation although they agreed to consider the recommendation for future implementation of a more detailed risk-based system for monitoring subawardees. In addition, GSU partially concurred with the remaining three findings and recommendations and submitted additional documentation to support its position.

See **Appendix** section of this report for a complete copy of Georgia State University's response to the recommendations.

**FOLLOW-UP OF PRIOR AUDIT FINDINGS**

Since the inception of the grant award, the Center has never been audited by NSF or as a major program in the OMB A-133 Single Audit Report. The Center's expenditures are included in GSU's single audit report and are clustered as part of GSU's Research and Development Grants major program; however, a specific financial or compliance review of the Center's expenditures had not been performed prior to this audit.

**EXIT CONFERENCE**

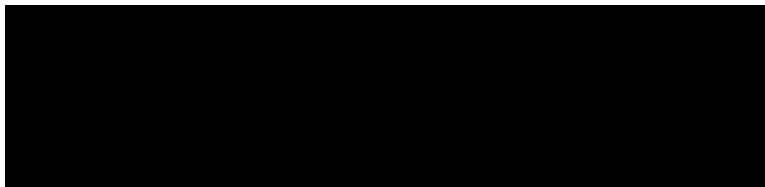
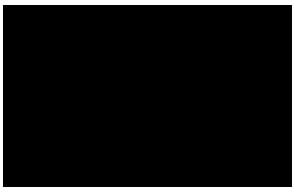
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We conducted an exit conference on July 1, 2005, with GSU at the Student Center Building, 44 Courtland Street, Atlanta, Georgia 30303. We discussed with GSU and Center management our findings and recommendations, as well as other observations contained in this report. The Center/GSU was informed that the preliminary findings and recommendations were subject to final review by NSF and that the report may include additional findings and recommendations and/or omit certain items discussed.

Representing GSU and the Center were:

Name

Title



Representing Conrad and Associates, L.L.P. was:

Name

Title



## FINDINGS AND RECOMMENDATIONS

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

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

We have audited the Schedule of Award Costs as presented in Schedule A, which summarizes the financial reports submitted by Georgia State University Research Foundation, Inc. (GSU) to the National Science Foundation (NSF) for the awards listed below and have issued our report thereon dated July 1, 2005.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
IBN-0349042	07/01/03 - 10/31/04	07/01/03 – 09/30/04

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 of America, and the *National Science Foundation Audit Guide* (November 2003).

**COMPLIANCE AND OTHER MATTERS**

Compliance with applicable Federal laws, regulations, and the NSF award terms and conditions is the responsibility of GSU's management. As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatement, we performed tests of GSU's compliance with certain provisions of laws, regulations, and the NSF award terms and conditions, noncompliance with which could have a direct and material effect on 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 disclosed instances of noncompliance described below that are required to be reported under *Government Auditing Standards* and the *National Science Foundation Audit Guide*. We considered these instances of noncompliance in forming our opinion on whether the *Schedule of Award Costs* (Schedule A) presented fairly in all material respects, in conformity with National Science Foundation policies and procedures, and determined this report does not affect our report dated July 1, 2005, on the financial schedule.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of GSU is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments made by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial schedules in accordance with accounting principles prescribed by the National Science Foundation. Because of inherent limitations in any internal control, errors or irregularities may nevertheless occur and may not be

detected. Also, projection of any evaluation to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Schedule of Award Costs (Schedule A) for the period July 1, 2003 to September 30, 2004, we considered GSU's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the schedule and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express such an opinion. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting, that, in our judgment, could adversely affect GSU's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule.

A material weakness is a reportable condition in which the design or operation of one or more of internal control elements does not reduce, to a relatively low level, the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters related to internal control over financial reporting that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

We noted the following matters, involving the internal control over financial reporting and operations, which we consider reportable conditions under standards established by the American Institute of Certified Public Accountants. However, we do not believe that any of the reportable conditions are material weaknesses.

### **Inadequate Subawardee Monitoring**

#### **Lack of Controls over Subawardee Costs Funded by NSF**

Contrary to applicable Federal regulations and the NSF award terms and conditions, GSU did not adequately monitor and accurately report subaward costs charged to the NSF award. GSU claimed costs from ■ subawards amounting to ■ or ■ percent of the total costs charged to the award. This occurred because GSU lacks adequate policies and procedures for a risk-based system to monitor and report its subaward costs. As a result, we questioned \$132,835 out of \$1,608,524 selected for review as indicated in the chart below. Questioned costs for one subawardee in particular, Morris Brown College, exceeded ■ percent of the costs tested for that subawardee.

OMB Circular A-110, Subpart C, Section .51 (a), requires recipients to manage and monitor each project, program and subaward. In addition, Subpart C, Section .21 (b)(1) requires accurate, current, and complete disclosure of the financial results of each federally sponsored project or program. Moreover, OMB Circular A-133, Subpart D, Section 400(d.3) requires an awardee to "monitor the activities of subrecipients 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."

Subawardees bill the Center on a monthly basis. The Business Manager reviews the subaward invoices to ensure that the amounts invoiced do not exceed the approved budget, then submits the invoices to GSU for payment through the financial system. However, there are no policies or internal controls in place to ensure the amounts on the invoices are accurate, allocable, allowable, and properly supported per NSF and OMB grant requirements. GSU assumed that the invoices from the subawardees were sufficient to support the costs claimed, and that an invoice signed by a fiscally-responsible person at the subawardee allowed GSU to accept the claimed costs as valid and allowable.

Because GSU has no process in place for assessing subaward billing risks, or verifying the validity of costs claimed by its subawardees and reviewing source documentation to support the costs, we conducted additional testing of subawardee expenditures. We selected a sample of invoices from each subawardee and requested the subawardees to submit source documentation supporting the amounts claimed on the selected invoices. After extensive review of all the source documentation provided, we noted that most of the costs claimed by six of the subawardees were properly supported. However, we assessed one subawardee, Morris Brown College, as high risk in that more than █████ of the █████ claimed by Morris Brown, or \$107,931, were improper costs, and were █████ percent of the \$131,285 we reviewed. Of this questioned amount, \$103,221 was for salaries and the related fringe benefits and indirect costs for which either the supporting documentation did not clearly indicate which award should be charged, the documentation indicated the costs should have been charged to a different award, or no documentation was provided. The remaining \$4,710 claimed was for indirect costs that Morris Brown improperly applied to fringe benefits, contrary to its indirect cost rate agreement.

GSU's failure to monitor and review subawardees' invoices may lead to funds being used for purposes other than those intended under the cooperative agreement (misuse) or defrauded, and reduces GSU's ability to efficiently and effectively manage and monitor NSF-funded expenditures and activities by subawardees. This lack of oversight contributed to \$132,835 in costs that could not be substantiated, as indicated in the chart below.

Subawardee	Exceptions Noted	Reviewed Costs	Questioned Costs
Emory University	<ul style="list-style-type: none"> <li>Supporting travel expense documentation was not provided for one transaction, and a second lacked proper approval or explanation.</li> <li>Indirect costs were improperly applied to participant support transactions.</li> </ul>	\$ 920,045	\$ 7,093
Morris Brown College	<ul style="list-style-type: none"> <li>Personnel effort reports were not provided for 41 transactions out of 117 tested; 10 transactions were attributed to a different grant; and 14 were missing the code indicating the charges benefited the NSF grant.</li> <li>Indirect costs were improperly applied to fringe benefits, contrary to the rate agreement.</li> </ul>	131,285	107,931
Morehouse College	<ul style="list-style-type: none"> <li>Personnel effort reports incorrectly charged 25 percent effort to the NSF award for an associate professor whose effort had already been correctly charged to the NSF award.</li> </ul>	117,341	14,029
Clarke Atlanta University	<ul style="list-style-type: none"> <li>No documentation was provided to support a consultant's fees or that the consultant costs benefited the NSF grant.</li> </ul>	55,798	3,782
All Other Subawardees	<ul style="list-style-type: none"> <li>No exceptions noted.</li> </ul>	384,055	0
Total		\$1,608,524	\$132,835

### Lack of Controls over Subawardee Cost Sharing Expenditures

Similarly, GSU also did not maintain adequate documentation to support cost sharing expenditures claimed by its subawardees or require such documentation from its subawardees, contrary to Federal regulations and NSF award terms and conditions.<sup>4</sup> This occurred because GSU does not have adequate, risk-based monitoring procedures in place to ensure that subawardee cost sharing expenditures are accurate, allocable, allowable, and adequately documented. GSU accepted cost sharing from 4 of its subawardees for approximately █████ million in expenditures based solely on certifications from the

<sup>4</sup> This discussion only relates to cost sharing provided by the Center's subawardees. It does not include cost sharing contributed by GSU itself. For the discussion of GSU's cost sharing, see pages 11 and 13.

subawardees. These certifications provide little to no detail on the nature or type of costs claimed and are the only source documents maintained by GSU to support the amount claimed as cost sharing. As a result, we questioned a total of \$271,376 in subawardee cost sharing expenditures out of \$1,266,196 selected for review, as indicated in the chart below.

NSF Grant General Conditions, Article 22, Section C, requires an awardee to maintain records of all claimed project costs including both cost sharing and NSF direct-funded costs. OMB Circular A-110, Subpart C, Section .23(a), prescribes the criteria and procedures for the allowability of cost sharing expenditures and requires, among other things, that cost sharing meet the same cost principles and documentation requirements as costs directly funded by NSF. In addition, OMB Circular A-110, Subpart C, Section .51(a), requires awardees to manage and monitor subawards.

On an annual basis, GSU requires its subawardees to complete cost sharing certifications of their cost sharing expenditures claimed to date. Using these certifications and its own cost sharing expenditure information, GSU compiles an overall cost sharing certification that it submits to NSF. As of September 30, 2004, subawardees, in total, had provided [REDACTED] of the [REDACTED] total cost sharing expenditures claimed by GSU. However, these subawardee certifications are the only source documentation maintained by GSU to support the subawardees' amounts claimed as cost sharing. No other detail listing or source documentation is submitted by the subawardees with their certifications to support the cost sharing claimed. In addition, GSU has no process in place to verify the accuracy and validity of the expenses claimed on the subawardee certifications. GSU relies solely on the subawardees' certifications to ensure the cost sharing amounts it claims to NSF are accurate and properly documented.

Because GSU has no process in place for verifying the validity of cost sharing claimed by its subawardees, we conducted additional testing of subawardee cost sharing. Based on our review of a sample of cost sharing expenditures claimed by subawardees, we found that \$271,376 or 21 percent of the \$1,266,196 claimed as cost sharing were inadequately supported by source documentation.

As a result of the lack of controls ensuring the accuracy and validity of cost sharing claimed by its subawardees, GSU may be certifying to cost sharing expenditures for the NSF award that either may not exist or are not allowable per federal and NSF regulations. In addition, this lack of subawardee oversight could result in GSU not meeting its overall cost-sharing requirement by the end of the award period.

Consequently, out of [REDACTED] in subawardee cost sharing selected for review, we questioned costs totaling \$271,376 as follows:

Subawardee	Exceptions Noted	Reviewed Costs	Questioned Costs
Emory University	<ul style="list-style-type: none"> <li>Emory claimed 75 percent, or \$225,341, of its vivarium expenses as cost sharing, but provided no documentation supporting the allocation to the Center. Emory officials noted that the Center's use of the vivarium had been steadily decreasing.</li> <li>One transaction questioned included costs for alcohol, an unallowable expense.</li> </ul>	\$1,187,605	\$ 225,562
Georgia Institute of Technology	<ul style="list-style-type: none"> <li>Cost share amounts were based solely on budgeted amounts rather than actual expenditures.</li> </ul>	45,814	45,814
All Other Subawardees	<ul style="list-style-type: none"> <li>No exceptions noted.</li> </ul>	32,777	0
Total		\$1,266,196	\$271,376

**Inadequate Controls Over Subawardee Consultant Costs** - Additionally, we noted that one of the Center's subawardees, Emory University, did not have written procedures for selecting consultants, nor

did they have procedures in place to determine whether payments for consultant services were reasonable. Our test work did not reveal any exceptions for costs exceeding the maximum consultant rate specified by NSF grant regulations, but Emory was not in compliance with NSF regulations specifying that written organizational standards be established prior to the hiring of consultants.

### **Recommendation No. 1**

We recommend that NSF's Directors of DACS and DGA instruct Georgia State University to develop and implement written policies and procedures to assess and document each subawardee's risk of claiming non-allocable or non-allowable costs, including cost sharing expenditures. As part of that assessment, GSU should ensure that subawardees have adequate policies and procedures for overseeing and verifying propriety of subawardee expenditures. Based on the level of risk assessed, GSU should perform periodic reviews of each subawardee's invoices to ensure costs claimed are allowable, allocable, and properly documented in accordance with NSF regulations, OMB Circulars A-110 and A-133, and any other applicable OMB Circulars. In addition, these policies and procedures should include a process for reviewing cost sharing expenditures claimed by subawardees for allowability and allocability prior to the inclusion of the amounts in GSU's annual cost sharing certification to NSF. These reviews should be of sufficient scope and quality to allow GSU to provide reasonable assurance that all costs claimed are accurate, allowable, and properly documented per NSF regulations and OMB Circulars.

### **Awardee Comments**

GSU does not concur with this finding and asserts that the university's oversight of subawardee cost share expenditures is adequate and consistent with the current federal requirements outlined in OMB Circular A-133. GSU has a two-tier process in place that encompasses both programmatic and fiscal oversight. The Principal Investigator/department business manager reviews subawardee invoices to affirm satisfactory performance as well as a review of cost versus budget. In addition, the university requires subawardees certification of valid and allowable cost share expenditures and requests annual audit letters from subawardees certifying completion of their annual A-133 audit and attesting that they had no instances of material weaknesses and no findings applicable to the GSU award. If a subawardee has a problem noted in an A-133 audit, our procedure includes a process for following up on the corrective action plan to ensure that the subawardee has corrected the problem.

Although we believe our current system is comprehensive and cost-effective, GSU will consider the auditor's recommendation for future implementation of a more detailed risk-based system for monitoring each subawardee's risk of claiming non-allocable or non-allowable cost, including cost sharing expenditures. However, presently we do not have the necessary resources to establish such an expanded system, nor is it a federal requirement.

### **Auditor's Response**

GSU, in its response, does not provide evidence of financial monitoring beyond that described in the condition to the finding. In our review, we noted that the subawardees did not always respond timely to the annual audit letters referred to in the comments and there was a lack of adequate follow-up by GSU. Our testing of subawardee expenditures revealed several exceptions which indicate a lack of adequate monitoring, and particularly noted Morris Brown College as high risk because it was unable to provide invoices or other documentation to support most of its claimed costs. We acknowledge that GSU will consider future implementation of a more detailed risk-based system for monitoring subawardee expenditures. However, we continue to believe that during the audit period GSU did not have an adequate process in place for assessing subaward billing risks, or verifying the validity of costs claimed by its subawardees and reviewing source documentation to support the costs, and therefore, the finding will remain as stated.



## **Other Compliance & Internal Control Weaknesses**

### **Lack of Documentation of Effort/Inadequate Payroll Documentation**

**Direct Costs** – For 17 payroll transactions out of a sample of [REDACTED] valued at [REDACTED], GSU could not provide adequate documentation to substantiate payroll charges, contrary to federal regulations and NSF award terms and conditions. Seven of the transactions lacked adequate source documentation and five were transfers to the Center’s payroll account from other projects without explanation or source documentation. The amount charged for three of the transactions did not agree with the source documentation, and documentation for the remaining two transactions indicated the costs should be charged to different projects. In another instance, one employee’s 100 percent salary allocation had not been adjusted to reflect his actual time worked at the Center of 50 percent. This occurred because GSU did not take adequate care to maintain the documentation, or investigate unexplained journal entries transferring costs from other projects. As a result, we questioned \$82,573 (\$46,693 in salary costs and \$35,880 in associated fringe benefit and indirect costs).

**Cost Sharing** – We also questioned \$3,336 in salary costs associated with 2 payroll transactions out of a sample of [REDACTED] cost sharing transactions valued at [REDACTED].<sup>5</sup> In one transaction, the Center was improperly charged for work done on a different grant. For the other transaction, the source documentation that GSU provided indicated the person terminated employment prior to the date of the transaction.

**Payroll Expense Internal Controls** - Additionally, we noted 51 out of the [REDACTED] direct payroll cost transactions and 6 cost sharing payroll transactions out of the [REDACTED] cost sharing transactions, for which GSU was unable to provide Personnel Action Forms (PAF) that reflect the employees’ approved estimated work effort for the Center. Further, we noted that at certain high-volume times, GSU provided the Center with lists containing summer faculty and graduate assistant changes, rather than establishing the employees in the payroll system through approved PAFs, as GSU’s policy requires. For many of the employees, the lists included signatures authorizing the change similar to the PAF. However, we identified 33 transactions involving payment for employees on these lists for whom GSU did not have the proper authorizations and approvals. We did not question any specific costs due to these missing Personnel Action Forms and proper authorizations because the approved timekeeping records reasonably indicated that some level of effort benefited the Center.

OMB Circular A-21, Section J, Subsection 8.c, Paragraph (3) (c) states, “Reports will reasonably reflect the activities for which employees are compensated by the institution. To confirm that the distribution of activity represents a reasonable estimate of the work performed by the employee during the period, the reports will be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed.” Likewise, NSF Grant General Conditions, Article 22, Section C, requires an awardee to maintain records of all claimed project costs including both cost sharing and costs to be paid NSF. OMB Circular A-110, Subpart C, Section .23(a), prescribes the criteria and procedures for the allowability of cost sharing expenditures and requires, among other things, that cost sharing meet the same cost principles as costs to be paid by NSF.

Although for the most part, GSU does have formal policies in place to govern the payroll process, the fact that GSU could not locate the Personnel Action Forms or used non-approved alternative documentation indicates that the formal policies and procedures are not being adequately followed to ensure that documentation supporting payroll transactions is maintained as the policy requires. For those large-volume, short duration Center transfers such as summer faculty and graduate assistant changes, GSU needs to determine whether to incorporate its current practice into its policies and procedures and ensure that proper authorizations and approvals are obtained. Without complete policies and procedures and a

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<sup>5</sup> We sampled a total of 75 transactions that GSU claimed as cost sharing. The sample included transactions from salaries, materials and supplies, and tuition waivers.

process for ensuring that the policies and procedures are followed, GSU is unable to verify that its personnel are properly paid and that the amounts paid are properly charged to the NSF award as direct costs or cost sharing.

## **Recommendation No. 2**

We recommend that NSF's Directors of DACS and DGA instruct Georgia State University to review and adhere to its payroll policies and procedures and ensure that all required documentation, to include both Personnel Action Forms and Personnel Effort Reports, be properly filed and maintained for all employees charging salaries to the NSF award.

## **Awardee Comments**

GSU partially concurs with this finding. Due to the decentralized administrative structure of the Human Resources function at GSU, approved Summer Faculty and Graduate Research Assistant spreadsheets were frequently used in lieu of HR Personnel Action Forms (PAFs) during peak periods of high-volume transactions. This has been a long-standing practice at the University that will be incorporated into our written policies and procedures.

GSU also wishes to clarify for the record the facts surrounding questioned cost of \$46,693 in salary costs and related fringes of \$10,058, and the auditor's statement concerning the "...one employee's 100 percent salary allocation had not been adjusted to reflect his actual time worked at the Center of 50 percent." The CBN project involves research and instructional related activities. As indicated in the letter, the employee devoted 100% effort to the Center as documented by the Personnel Effort Report.

## **Auditor's Response**

Upon review of the letter included with the awardee comments, we will accept the 100% effort for the employee in question and reduce the questioned costs by \$31,200 salary expense plus the associated fringe benefits and indirect costs. Questioned salary costs are now \$15,493, plus \$3,337 of associated fringe benefits and \$8,568 of indirect costs. The remaining awardee comments are responsive to the finding and recommendation.

## **Inadequate Documentation of Non-payroll Direct Expenses and Cost Sharing**

Similar to payroll expenses, GSU was not always able to provide documentation substantiating that non-payroll and cost sharing charges had been properly authorized and incurred in support of the NSF award.

CFR Title 2, Part 215 (OMB Circular A-110), Subpart C, 215.21 (b) (7) states recipients' financial management systems shall provide for "Accounting records including cost accounting records that are supported by source documentation." Furthermore, OMB Circular A-21, Part C, section 2 states that for costs to be allowable, they must be both reasonable and allocable.

**Travel Costs** - Specific to travel expenses, OMB Circular A-21, Part J, Section 53 requires that any travel costs reimbursed by Federal grants be "consistent with those normally allowed in like circumstances in the institution's non-federally sponsored activities." GSU's policy requires that international travel be pre-approved. For 1 travel transaction out of a sample of 8 valued at \$7,173, GSU was unable to provide documentation to substantiate that international travel expenses had been properly approved prior to the trip. As a result, we questioned \$2,154 (\$1,480 in travel costs and \$674 in associated indirect costs).

**Other Direct Costs** – GSU's policy requires that purchases be pre-approved and certified when received. For 4 material/supply transactions out of a sample of 57, valued at \$57,784, GSU was unable to provide documentation that purchases were properly authorized, or that the supplies had been received. For another material/supply transaction, GSU was unable to locate any

documentation to support the charge. For 8 venture-grant (“Other”) transactions out of a sample of [REDACTED] valued at [REDACTED], GSU was unable to provide documentation that the supplies charged to the grant had been received, and for 1 transaction, could not provide any documentation to support the charge to the grant. As a result we questioned a total of \$5,947 in materials and supplies costs (\$4,087 in materials and supplies costs and \$1,860 in associated indirect costs). We also questioned a total of \$6,531 in other costs (\$4,489 in venture grant costs and \$2,042 in associated indirect costs).

**Consulting Expenses** - We noted one instance, out of a sample of two transactions, where GSU had approved a consulting invoice for payment, but was unable to provide the contract for the services to demonstrate that the costs were reasonable and incurred on behalf of the NSF award. For consulting services, the NSF Grant Policy Manual, Chapter VI, section 616.1 (a) states that the “adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation and termination provisions),” is a factor in determining the allowability of costs. Additionally, GSU’s policy requires that contracts be entered into for services, and supporting documentation be maintained. As such, we questioned \$9,821 (\$6,750 in consulting costs and \$3,071 in associated indirect costs).

**Cost Sharing** – For 2 material/supply transactions, out of a sample of [REDACTED] total cost sharing transactions, GSU was unable to provide documentation that the materials and supplies charges transferred to the Center from another project had been properly authorized as having been incurred for the benefit of the NSF award. As a result, we questioned \$10,225 in materials and supplies costs.

GSU did not adequately follow its policies and procedures to ensure that it maintained the necessary supporting documentation. As such, the lack of compliance with Federal standards for financial management systems limits GSU’s ability to ensure travel costs and material and supplies charged to the NSF award, either directly or claimed as cost sharing, are allowable, allocable, reasonable, and properly supported per NSF regulations and OMB Circulars.

### **Recommendation No. 3**

We recommend that NSF’s Directors of DACS and DGA instruct Georgia State University to review and adhere to their policies and procedures and ensure that all required documentation is properly filed and maintained for all expenses and cost sharing charged to the NSF award.

### **Awardee Comments**

GSU partially concurs with this finding. Regarding the questioned Travel transaction, we provide a copy of the GSU Travel Authorization that was given to the auditor during his visit. The document includes the approval signature of Dr. Elliot Albers, Principal Investigator for the NSF award, thus indicating the appropriateness of the travel expenses for the NSF award and prior approval of the trip.

The questioned Other Direct Costs expenses of \$8,576 included \$5,658 of P-Card (Purchase Card) transactions. Therefore, purchase orders were not required nor are invoices stamped received. According to GSU P-Card policy, which we complied with for the \$5,658 of expenses, all P-Card transactions must be recorded on a monthly activity log and any applicable receipts must be maintained with the log. The monthly statement must be reconciled with the monthly activity log within thirty (30) calendar days of receipt of the bank statement and approved (signed off) by cardholder’s supervisor or designee. The reconciled activity logs and receipts must be submitted to the P-Card Administrator within 30 days of the end of each calendar quarter. We concur that documentation for the remaining two transactions (journal entries totaling [REDACTED]) were not provided and accept the auditor’s recommendation that we review and adhere to GSU policies and procedures to ensure filing and maintaining of required documentation.

With respect to the questioned Consulting Expense of [REDACTED], documentation was maintained at Emory University, the original party to the contract. Emory could not pay the final invoice on the consulting agreement after transfer of the award to GSU; however, it was a legitimate obligation of the NSF funded project. As explained in our response to Item 4, this was one of the difficulties resulting from the unusual nature of this award transfer.

Finally, the auditor did not provide any information on the questioned costs of \$10,225 in Cost-Sharing in the initial schedule last July nor in the current report. Therefore, GSU requests removal of this item from the report.

**Auditor's Response**

We have reviewed GSU's documentation supporting the travel transaction, and accept \$1,105 that was transferred to Stipends during FY 2004 and used for the individual's graduate allowance. The remaining \$375, which is the amount in excess of the authorization, was to be reclassified to Stipends during the following year and therefore, remains a questioned cost at September 30, 2004.

Regarding Other Direct Costs, we received adequate documentation to accept the P-Card transactions of [REDACTED], and [REDACTED] in associated indirect costs. We continue to question \$2,418 in material and supply costs, \$500 in venture grant costs, and \$1,328 in associated indirect costs.

With respect to the questioned Consulting Expense of \$6,750, this amount was questioned because Emory University was also unable to provide a consulting agreement, and therefore, the questioned cost will remain.

Regarding the questioned cost sharing of \$10,225, the following information was requested from GSU:

Date	Proj./Grant	Account	Amount	Description	Comments
10/29/03	SKJF	7124100	\$1,463	Supplies and materials transferred from BRSCR	Need support for original purchase
None	SLLC	714990	8,764	Supplies and materials transferred from BRSCR	Need support for original purchase
Total			\$10,225		

We have not received documentation supporting these costs, therefore, questioned costs remains unchanged.

**Pre-Award Charges Incurred in Advance of 90-day Limitation**

Prior to the transfer of the award from Emory University to GSU, GSU and other subawardees incurred expenses and charged these expenses to the new award without formally requesting or receiving approval from NSF, as required by NSF's grant conditions. Expenses in the amount of [REDACTED] that should have been claimed against the old cooperative agreement with Emory University were claimed against the new cooperative agreement with GSU.

NSF Grant General Conditions, Article 3(a) states that "Grantees may approve pre-award costs incurred within the ninety calendar-day period immediately preceding the effective date of the award. Requests for approval of pre-award costs for periods greater than 90 calendar days must be submitted electronically via the FastLane system. "

We did not question these costs because they were clearly incurred on behalf of the Center. Nevertheless, because these costs were incurred more than 90 days prior to the date of GSU's award, GSU was required to formally request approval from NSF before claiming these costs. This approval was

not obtained because GSU did not have formal procedures in place that required compliance with the NSF pre-award time specifications.

NSF award terms and conditions relating to pre-award charges are designed so that awardees can make limited preparations in expectation of an award. These costs must be allowable and necessary for the economical and effective conduct of the project. GSU's failure to fully comply with NSF pre-award requirements limits GSU's ability to ensure costs claimed to the NSF award are allowable, allocable, reasonable, and properly supported per NSF regulations and OMB Circulars.

#### **Recommendation No. 4**

We recommend that NSF's Directors of DACS and DGA instruct Georgia State University to develop and implement written policies and procedures to ensure that expenses incurred in advance of an award are properly approved in accordance with pre-award policies in NSF regulations.

#### **Awardee Comments**

GSU partially concurs with this finding. While we acknowledge that GSU and subawardees incurred and charged expenses to the new award prior to the effective date, we contend that such charges were approved by the Principal Investigator, incurred with the full knowledge of NSF, and with the expectation that NSF would transfer the award and execute the cooperative agreement with GSU effective November 1, 2002. NSF OIA and DGA officials discussed the requirements of the transfer and forwarded the proposed Cooperative Agreement to GSU on December 18, 2002. GSU officials only received notification on July 31, 2003 of the official start date of July 1, 2003. Clearly, not knowing the actual effective date made it impossible for GSU to request NSF approval of pre-award costs beyond the 90-day limitation. Contrary to the auditor's statement that GSU did not have formal procedures in place that required compliance with the NSF pre-award time specifications, GSU has had an institutional prior approval system (IPAS) that facilitates compliance since 1990. GSU also contends that the difficulty associated with the transfer was compounded by the fact that Emory University was still the official award recipient at the time that NSF appointed [REDACTED], a Georgia State University employee, as the Principal Investigator. This arrangement made it difficult for GSU to administer the award since the official PI authorized and approved the charges, yet the expenses could not be charged to the account of the award recipient, Emory University. Although GSU had an established IPAS in place at the time of the transfer, federal requirements on prior approvals do not address the unique situation of this NSF transfer.

#### **Auditor's Response**

We acknowledge the difficulty of administering this transfer of the NSF award; however, because GSU did not formally request or receive approval from NSF, the finding remains as stated.

We considered these internal control weaknesses in forming our opinion of whether Schedule A is presented fairly in all material respects, in conformity with National Science Foundation policies and procedures, and determined that this report does not affect our report dated July 1, 2005, on the financial schedule.

This report is intended solely for the information and use of Georgia State University Research Foundation, Inc.'s management, the National Science Foundation, 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.

Conrad and Associates, L. L. P.  
Irvine, California  
July 1, 2005

**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 Georgia State University Research Foundation, Inc. (GSU) to the National Science Foundation (NSF) on the Federal Cash Transactions Reports (FCTR) – Federal Share of Net Disbursements for the NSF award listed below. In addition, we have also audited the amount of cost sharing claimed on the award. The Federal Cash Transactions Reports, as presented in the *Schedule of Award Costs* (Schedule A), are the responsibility of GSU's management. Our responsibility is to express an opinion on Schedule A, based on our audit.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
IBN 0349042	07/01/03 – 10/31/04	07/01/03 – 09/30/04

Except as discussed in the following paragraph, 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 of America, and the *National Science Foundation Audit Guide* (November 2003). Those standards and the *National Science Foundation Audit Guide* require that we plan and perform the audit to obtain reasonable assurance that the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The accompanying financial schedules were prepared in conformity with the requirements of the *National Science Foundation Audit Guide* as described in the Notes to the Schedules, and are not intended to be a complete presentation of financial position in conformity with accounting principles generally accepted in the United States of America.

Schedule B identifies \$174,846 of NSF-funded and \$284,938 of cost sharing costs that are questioned as to their allowability under the award agreements. Questioned costs are (1) costs for which there is documentation that the recorded costs were expended in violation of the law, regulations or specific conditions of the award, (2) costs that require additional support by the awardee, or (3) costs that require interpretation of allowability by the National Science Foundation – Division of Acquisition and Cost Support (DACs). The National Science Foundation will make the final determination regarding whether such costs are allowable. 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 questioned costs identified in Schedule B, the financial schedule referred to above presents fairly, in all material respects, the costs claimed on the Federal Cash Transactions Reports as presented in the Schedule of Award Costs (Schedule A), for the period of July 1, 2003 to September 30, 2004, in conformity with the *National Science Foundation Audit Guide*, *NSF Grant Policy Manual*, terms and conditions of the NSF award and on the basis of accounting described in the Notes to the Financial Schedules.



In accordance with *Government Auditing Standards* and the provisions of the *National Science Foundation Audit Guide*, we have also issued a report dated July 1, 2005 on tests of GSU's compliance with certain provisions of laws, regulations, the provisions of the *National Science Foundation Audit Guide*, and the award applicable to GSU and conditions and our consideration of GSU's internal control over financial reporting. The purpose of that report is to describe the scope of our 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 read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of GSU's management, the National Science Foundation, 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.

Conrad and Associates, L.L.P.  
Irvine, California  
July 1, 2005

**Georgia State University Research Foundation, Inc**  
National Science Foundation Award No. IBN – 0349042  
Schedule of Award Costs  
From July 1, 2003 to September 30, 2004  
Interim

<u>Cost Category</u>	<u>Approved Budget</u>	(A) <u>Claimed Costs</u>	<u>Tested Costs</u>	<u>Questioned Costs</u>	<u>Schedule Reference</u>
Direct costs:					
Salaries and wages				\$15,493	B-1
Fringe benefits				3,337	B-2
Equipment				-	
Travel – Domestic				375	B-3
Participant Support				-	
Other direct costs:					
Materials and supplies				2,418	B-3
Publication costs				-	
Consultant services				6,750	B-3
Subawards				132,835	B-4
Other				500	B-3
Total direct costs				\$161,708	
Indirect costs				13,138	B-5
TOTAL	<u>\$8,949,568</u>	<u>\$5,915,793</u>	<u>\$2,441,337</u>	<u>\$174,846</u>	
Cost Sharing:					
Subawards				\$ 271,376	
GSU				13,562	
TOTAL	<u>\$4,680,264</u>	<u>\$4,627,502</u>	<u>\$2,090,366</u>	<u>\$ 284,938</u>	

(A) The total claimed costs agree with the total expenditures reported by GSU on the Federal Cash Transactions Report - Federal Share of Net Disbursements as of the quarter ending September 30, 2004. Claimed costs reported above are taken directly from the awardee's books of accounts.

See accompanying notes to this financial schedule.

**Georgia State University Research Foundation, Inc.**  
National Science Foundation Award No. IBN – 0349042  
Schedule of Questioned Costs  
From July 1, 2003 to September 30, 2004

**Note B-1 Salaries and Wages**

During our review of salaries and wages, we noted exceptions for lack of adequate support resulting in questioned costs as follows:

Date	Job Title	Questioned Amount	Comments
11/26/03	Research Scientist	\$1,625.00	Retroactive adj. to DLN39 <sup>6</sup> but the PER was not adjusted
07/15/03	Assistant Professor	4,999.67	Need PAF and payroll register
11/26/03	Temp/Hourly	600.00	There were no timesheets for the pay period.
06/30/03	Graduate Research Assistant	633.33	There was no explanation for the transfer.
06/30/03	Graduate Research Assistant	633.33	Need transfer register and an explanation for the transfer.
11/26/03	Graduate Research Assistant	633.33	Need transfer register and an explanation for the transfer.
11/26/03	Graduate Research Assistant	633.33	Need transfer register and an explanation for the transfer.
11/26/03	Graduate Research Assistant	633.33	Need transfer register and an explanation for the transfer.
11/26/03	Graduate Research Assistant III	252.10	PAF is █████, PER is █████; Need PER for Fall 03
04/30/04	Graduate Research Assistant	450.45	PER doesn't agree with PAF. PAF is 64%, PER is █████
04/30/04	Graduate Research Assistant	312.52	PAF is \$750, PER is █████ which would be █████.
09/30/04	Graduate Research Assistant	333.33	Personnel action form reflects should be 100% BSCIR.
09/30/04	Graduate Research Assistant	333.33	Personnel action form reflects 100% BIOLR.
08/30/04	Assistant Professor	2,500.33	There was no PAF for this period. Need PER for total activity
04/09/04	Temp Student Assistant	460.00	Need PAF and payroll register.
04/09/04	Temp Student Assistant	180.00	Need PAF and payroll register.
04/09/04	Temp Student Assistant	280.00	Need PAF and payroll register.
	<b>Total</b>	<b>\$15,493.38</b>	

<sup>6</sup> DLN39 is GSU's accounting code for the NSF award.

**Note B-2 Fringe Benefits**

As a result of questioning salaries and wages (Note B-1 and B-2), we have also questioned the corresponding amount of fringe benefit costs. Questioned fringe benefits cost is calculated as follows:

Questioned salary	\$15,494
Questioned fringe benefit	<u>\$ 3,337</u>

**Note B-3 Non Payroll Expenditures**

In our review of the cost categories other than payroll, we noted several transactions that were not properly supported with documentation. We question these transactions as follows:

Date	Vendor/Payee	Questioned Amount	Comments
<b>Travel</b>			
06/07/04	Employee	\$375.35	Need adequate supporting documentation.
<b>Materials and Supplies</b>			
11/14/03	J/E	2,418.13	Need documentation for the transfer
<b>Consulting</b>			
08/01/03	Institute for Biomedical Philosophy	6,750.00	No contract provided.
<b>Other Direct Costs</b>			
01/06/04	John Early	500.00	Only journal entry provided. Need a worksheet order, actual invoice, and request for payment forms.
<b>Total Questioned Costs</b>		<b>\$10,043.48</b>	

**Note B-4 Subaward Costs**

We reviewed a sample totaling over 50% of the costs submitted to GSU for reimbursement by each of the subcontractors. We noted several exceptions which we have documented below by subcontractor, and by cost category.

Date	Payee	Questioned Amount	Comments
<b><u>Emory University</u></b>			
<b>Travel</b>			
	Aramark Ed	\$855.60	No supporting documentation provided
07/18/03	Blimpie's Subs	125.50	No approval & purpose.
Subtotal Travel		\$981.10	

<b>Indirect Costs</b>			
		\$5,601.78	Indirect cost on participant support classified as travel
		510.17	Indirect cost on questioned direct costs at [REDACTED]
Subtotal Indirect Costs		\$6,111.95	
<b>Total Emory University</b>		<b>\$7,093.05</b>	
<b>Morris Brown College</b>			
<b>Salaries and Wages</b>			
01/30/03	Post Doc Research Associates	\$554.80	There was no personnel effort report.
02/15/03	Grant Coordinator	240.00	Date of personnel action form does not show DNL39 grant.
02/15/03	Post Doc Research Associates	554.80	There was no personnel effort report.
02/28/03	UG Research Assistant	1,287.00	There was no personnel effort report.
02/28/03	Grant Coordinator	456.00	Date of PER does not show DLN 39 grant.
02/28/03	UG Research Assistant	189.00	Timesheet shows that time was attributed to NIDA grant.
02/28/03	Post Doc Research Associates	554.80	There was no personnel effort report.
02/28/03	Post Doc Research Associates	554.80	There was no personnel effort report.
03/14/03	Grant Coordinator	708.00	Date of personnel action form does not show DNL39 grant.
03/14/03	UG Research Assistant	207.00	Timesheet shows that time was attributed to NIDA grant.
03/30/03	Grant Coordinator	576.00	Date of personnel action form does not show DNL39 grant.
03/30/03	UG Research Assistant	182.70	Timesheet shows that time was attributed to NIDA grant.
03/30/03	Post Doc Research Associates	554.80	There was no personnel effort report.
04/15/03	Grant Coordinator	660.00	Date of personnel action form does not show DNL39 grant.
04/15/03	UG Research Assistant	261.00	Timesheet shows that time was attributed to NIDA grant.
04/15/03	Post Doc Research Associates	554.80	There was no personnel effort report.
04/30/03	Grant Coordinator	768.00	Date of personnel action form does not show DNL39 grant.
04/30/03	UG Research Assistant	693.00	Timesheet shows that time was attributed to NIDA grant.
04/30/03	Research Assistant	232.00	Timesheet shows that time was attributed to NIDA grant.
04/30/03	Post Doc Research Associates	554.80	There was no personnel effort report.
05/15/03	Post Doc Research Associates	554.80	There was no personnel effort report.

05/15/03	Grant Coordinator	900.00	Date of personnel action form does not show DNL39 grant.
05/15/03	UG Research Assistant	513.00	Timesheet shows that time was attributed to NIDA grant.
05/30/03	Post Doc Research Associates	554.80	There was no personnel effort report.
05/30/03	Grant Coordinator	927.60	Date of personnel action form does not show DNL39 grant.
05/30/03	UG Research Assistant	533.70	Timesheet shows that time was attributed to NIDA grant.
05/30/03	Research Assistant	640.00	Timesheet shows that time was attributed to NIDA grant.
06/15/03	Post Doc Research Associates	554.80	There was no personnel effort report.
06/15/03	Grant Coordinator	1,248.00	Date of personnel action form does not show DNL39 grant.
06/15/03	UG Research Assistant	360.00	Timesheet shows that time was attributed to NIDA grant.
06/30/03	Post Doc Research Associates	554.80	There was no personnel effort report.
06/30/03	Assistant Professor	1,297.50	There was no personnel effort report.
06/30/03	Professor	1,834.20	There was no personnel effort report.
06/30/03	Grant Coordinator	876.00	Date of personnel action form does not show DNL39 grant.
07/15/03	Grant Coordinator	864.00	Date of personnel action form does not show DNL39 grant.
07/30/03	Post Doc Research Associates	554.80	There was no personnel effort report.
07/30/03	Professor	1,834.20	There was no personnel effort report.
07/30/03	Grant Coordinator	948.00	Date of personnel action form does not show DNL39 grant.
08/15/03	Post Doc Research Associates	554.80	There was no personnel effort report.
08/15/03	Assistant Professor	2,595.00	There was no personnel effort report.
08/15/03	Professor	3,668.40	There was no personnel effort report.
08/15/03	Grant Coordinator	960.00	Date of personnel action form does not show DNL39 grant.
08/30/03	Post Doc Research Associates	554.80	There was no personnel effort report.
08/30/03	Assistant Professor	2,595.00	There was no personnel effort report.
08/30/03	Assistant Professor	1,297.50	There was no personnel effort report.
08/30/03	Professor	1,834.20	There was no personnel effort report.
08/30/03	Grant Coordinator	1,128.00	Date of personnel action form does not show DNL39 grant.
09/15/03	Post Doc Research Associates	554.80	There was no personnel effort report.

09/15/03	Assistant Professor	1,250.00	There was no personnel effort report.
09/15/03	Professor	1,746.14	There was no personnel effort report.
09/30/03	Post Doc Research Associates	554.80	There was no personnel effort report.
09/30/03	Assistant Professor	1,250.00	There was no personnel effort report.
09/30/03	Professor	1,746.14	There was no personnel effort report.
11/15/03	Assistant Professor	1,107.50	There was no personnel effort report.
11/26/03	Assistant Professor	1,107.50	There was no personnel effort report.
12/15/03	Assistant Professor	1,107.50	There was no personnel effort report.
12/30/03	Assistant Professor	1,107.50	There was no personnel effort report.
01/15/04	Assistant Professor	1,107.50	There was no personnel effort report.
01/30/04	Professor	1,391.68	There was no personnel effort report.
02/15/04	Professor	1,391.68	There was no personnel effort report.
02/29/04	Professor	1,391.68	There was no personnel effort report.
03/15/04	Professor	1,391.68	There was no personnel effort report.
03/31/04	Professor	1,391.68	There was no personnel effort report.
04/15/04	Professor	1,391.68	There was no personnel effort report.
04/30/04	Professor	1,391.68	There was no personnel effort report.
<b>Subtotal Salaries and Wages</b>		\$63,462.34	
<b>Fringe Benefits</b>		\$4,854.87	Fringe benefits on questioned salaries at ██████
<b>Indirect Cost</b>			
		\$4,709.98	Base used for computing indirect costs included fringe benefits instead of only salaries and wages.
		34,904.29	Indirect cost on questioned direct salaries at ██████.
<b>Subtotal Indirect Costs</b>		\$39,614.27	
<b>Total Morris Brown College</b>		<b>\$107,931.48</b>	

<b>Clark Atlanta University</b>			
<b>Consultant Services</b>			
05/29/03	Lord, Aeck, & Sergent, Inc.	\$2,710.56	Unable to determine daily rate. Also, this type of expenditure is not included in the budget.
<b>Indirect Cost</b>			
		1,070.67	Indirect cost on questioned direct costs at [REDACTED]
<b>Total Clark Atlanta University</b>		<b>\$3,781.23</b>	
<b>Morehouse College</b>			
<b>Salaries and Wages</b>			
02/27/03	Associate Professor	\$1,323.83	Effort was 0%, charged as [REDACTED]
03/28/03	Associate Professor	1,323.83	Effort was 0%, charged as [REDACTED]
04/29/03	Associate Professor	1,323.83	Effort was 0%, charged as [REDACTED]
05/29/03	Associate Professor	1,323.83	Effort was 0%, charged as [REDACTED]
06/27/03	Associate Professor	1,323.83	Effort was 0%, charged as [REDACTED]
07/30/03	Associate Professor	1,323.83	Effort was 0%, charged as [REDACTED]
08/28/03	Associate Professor	1,323.83	Effort was 0%, charged as [REDACTED]
09/29/03	Associate Professor	1,323.83	Effort was 0%, charged as [REDACTED]
10/30/03	Associate Professor	1,323.83	Effort was 0%, charged as [REDACTED]
Subtotal Salaries and Wages		\$11,914.47	
<b>Fringe Benefits</b>		\$2,114.82	Fringe benefits on questioned salaries at [REDACTED]
<b>Total Morehouse College</b>		<b>\$14,029.29</b>	
<b>Grand Total of Subaward Questioned Costs</b>		<b>132,835.05</b>	

**Note B-5 Indirect Costs**

We have computed questioned indirect costs on the questioned direct costs that are in the cost base for computing indirect costs for GSU as follows:

Questioned Direct Costs:

Salaries and Wages

Fringe Benefits

Non-Payroll Costs

Total

Indirect cost rate

Total

[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
13,138



**Georgia State University Research Foundation, Inc.**  
 Summary Schedules of Awards Audited and Audit Results  
 From July 1, 2003 to September 30, 2004

**Summary of Awards Audited**

Award Number	Award Period	Audit Period
IBN-0349042	07/01/03– 10/31/04	07/01/03 – 09/30/04

Award Number	Type of Award	Award Description
IBN-0349042	Cooperative Agreement	Center for Behavioral Neuroscience

**Summary of Questioned and Unresolved Costs by Award**

NSF Award Number	Award Budget	Claimed Costs	Questioned Costs	Unresolved Costs
IBN-0349042	\$8,949,568	\$5,915,793	\$174,846	-

**Summary of Questioned Cost by Explanation**

Condition	Questioned Cost Amount	Internal Control Weaknesses	Non-Compliance
Inadequate Internal Controls for Oversight of the Award	\$174,846	\$174,846	-

**Summary of Internal Control Weaknesses and Non-Compliance Issues**

Condition	Non-Compliance or Internal Control?	Material, Reportable or Other?
Inadequate Internal Controls for Oversight of the Award	Internal Control	Reportable

**Georgia State University Research Foundation, Inc.**  
Notes to Financial Schedules  
From July 1, 2003 to September 30, 2004

**Note 1: Summary of Significant Accounting Policies**

Accounting Basis

The accompanying financial schedules have been prepared in conformity with National Science Foundation (NSF) instructions. Schedule A has been prepared from the reports submitted to NSF and information obtained from the accounting records maintained for the grant award by GSU. 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 award, all funds not expended according to the award agreement and budget 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. Equipment

Equipment purchased with NSF funds 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 statement 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.

C. 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.

**Georgia State University Research Foundation, Inc.**  
Notes to Financial Schedules  
From July 1, 2003 to September 30, 2004

**Note 2: NSF Cost Sharing and Matching**

The following represents the cost share requirements and actual cost share as of September 30, 2004:

	Cost Share Required	Actual Cost Share Claimed	Unallowable Cost Share	Actual Allowable Cost Share	Actual Cost Share Over/(Under) Required
<b>Award No. IBN-0349042</b>					
Year 1	\$2,219,045	\$1,962,369	\$ 129,910	\$1,832,459	\$ (386,586)
Year 2	2,461,219	2,665,133	155,028	2,510,105	48,886
Total	\$4,680,264	\$4,627,502	\$284,938	\$4,342,564	\$ (337,700)

\* The fact that the allowable cost share is under the cost share required does not result in questioned costs because GSU is under spent on their NSF award by \$3,033,775 at September 30, 2004.

**Note 3: Indirect Cost Rates**

Award Number	Indirect Cost Rate	Base
IBN-0349042	██████████	Modified Direct Costs

**APPENDIX A – AWARDEE’S COMMENTS TO REPORT**

OFFICE OF RESEARCH AND AWARDS ADMINISTRATION

**Mailing Address:**  
P.O. Box 3999  
Atlanta GA 30302-3999

**In Person:**  
Alumni Hall - Suite G-76  
30 Courtland Street  
Atlanta GA 30303

Phone: 404/651-4350  
Fax: 404/651-4436  
Website: <http://www.gsu.edu/~wwwvpr>



September 25, 2006

[REDACTED] CPA, CFE  
Conrad and Associates, L.L.P.  
2301 Dupont Drive, Suite 200  
Irvine, CA 92612

RE: Audit Response

Dear [REDACTED]

Georgia State University submits the enclosed response to the draft audit report of the National Science Foundation award # IBN-0349042 as you requested, for your review and inclusion in the final report. If you have any questions or comments concerning the response, please feel free to contact me at [REDACTED].

Sincerely,

[REDACTED]

Enclosure

cc: Karen Scott, NSF-Office of Inspector General  
Karen Hamilton, NSF-Office of Inspector General  
[REDACTED]

**Georgia State University Research Foundation, Inc. Response  
To the Audit Report of National Science Foundation Award Number  
IBN-0349042**

**A. Inadequate Subawardee Monitoring**

**Finding #1:**

**Lack of Controls over Subawardee Costs funded by NSF**

GSU lacks adequate policies and procedures for a risk-based system to monitor and report its subaward costs.

**Lack of Controls over Subawardee Cost Sharing Expenditures**

GSU also did not maintain adequate documentation to support cost sharing expenditures claimed by its subawardees or require such documentation from its subawardees, contrary to Federal regulations and NSF award terms and conditions. GSU has no process in place to verify the accuracy and validity of the expenses claimed on the subawardee certifications. GSU relies solely on the subawardees' certifications to ensure the cost sharing amounts it claims to NSF are accurate and properly documented.

**Response # 1:**

*GSU does not concur with this finding and asserts that the university's oversight of subawardee cost share expenditures is adequate and consistent with the current federal requirements outlined in OMB Circular A-133. GSU has a two-tier process in place that encompasses both programmatic and fiscal oversight. The PI/department business manager reviews subawardee invoices to affirm satisfactory performance as well as a review of cost versus budget (See attached Exhibit 1). In addition, the university requires subawardees certification of valid and allowable cost share expenditures and requests annual audit letters from subawardees certifying completion of their annual A-133 audit and attesting that they had no instances of material weaknesses and no findings applicable to the GSU subaward. If a subawardee has a problem noted in an A-133 audit, our procedure includes a process for following up on the corrective action plan to ensure that the subawardee has corrected the problem.*

*Although we believe our current system is comprehensive and cost-effective, GSU will consider the auditor's recommendation for future implementation of a more detailed risk-based system for monitoring each subawardee's risk of claiming non-allocable or non-allowable cost, including cost sharing expenditures. However, presently we do not have the necessary resources to establish such an expanded system, nor is it a federal requirement.*

## **B. Other Compliance & Internal Control Weaknesses**

### **Finding # 2:**

#### **Lack of Documentation of Effort/Inadequate Payroll Documentation**

Although for the most part, GSU does have formal policies in place to govern the payroll process, the fact that GSU could not locate the Personnel Action Forms or used non-approved alternative documentation indicates that the formal policies and procedures are not being adequately followed to ensure that documentation supporting payroll transactions is maintained as the policy requires.

### **Response # 2:**

*GSU partially concurs with this finding. Due to the decentralized administrative structure of the Human Resources function at GSU, approved Summer Faculty and Graduate Research Assistant spreadsheets were frequently used in lieu of HR Personnel Action Forms (PAFs) during peak periods of high-volume transactions. This has been a long-standing practice at the University that will be incorporated into our written policies and procedures.*

*GSU also wishes to clarify for the record the facts surrounding questioned cost of \$46,693 in salary costs and related fringes of \$10,058, and the auditor's statement concerning the "...one employee's 100 percent salary allocation had not been adjusted to reflect his actual time worked at the Center of 50 percent." (See attached Exhibit 2). The CBN project involves research and instructional related activities. As indicated in the letter, [REDACTED] devoted 100% effort to the Center as documented by the Personnel Effort Report.*

### **Finding # 3:**

#### **Inadequate Documentation of Non-payroll Direct Expenses and Cost Sharing**

GSU did not adequately follow its policies and procedures to ensure that it maintained the necessary supporting documentation. As such, the lack of compliance with Federal standards for financial management systems limits GSU's ability to ensure travel costs and material and supplies charged to the NSF award, either directly or claimed as cost sharing, are allowable, allocable, reasonable, and properly supported per NSF regulations and OMB Circulars.

### **Response # 3:**

*GSU partially concurs with this finding. Regarding the questioned Travel transaction, we provide a copy of the GSU Travel Authorization that was given to the auditor during his visit. The document includes the approval signature of [REDACTED], PI for the NSF award, thus indicating the appropriateness of the travel expenses for the NSF award and prior approval of the trip (See attached Exhibit 3).*

*The questioned Other Direct Costs expenses of \$8,576 included \$5,658 of P-Card transactions. Therefore, purchase orders were not required nor are invoices stamped received. According to GSU P-Card policy, (GSU Business Services website, <http://www2.gsu.edu/~wwwpch/pcardmanual.pdf>), which we complied with for the \$5,658 of expenses, all P-Card transactions must be recorded on a monthly activity log, and any applicable receipts must be maintained with the log. The monthly statement must be reconciled with the monthly activity log within thirty (30) calendar days of receipt of the bank statement and approved (signed off) by cardholder's supervisor or designee. The reconciled activity logs and receipts must be submitted to the P-Card Administrator within 30 days of the end of*

each calendar quarter. (See attached Exhibit 4.) We concur that documentation for the remaining two transactions (journal entries totaling ██████████) were not provided and accept the auditor's recommendation that we review and adhere to GSU policies and procedures to ensure filing and maintaining of required documentation.

With respect to the questioned Consulting Expense of \$6,750, documentation was maintained at Emory University, the original party to the contract. Emory could not pay the final invoice on the consulting agreement after transfer of the award to GSU; however, it was a legitimate obligation of the NSF funded project. As explained in our response to Item 4., this was one of the difficulties resulting from the unusual nature of this award transfer.

Finally, the auditor did not provide any information on the questioned costs of \$10,225 in Cost-Sharing in the initial schedule last July nor in the current report. Therefore, GSU requests removal of this item from the report.

**Finding # 4:**  
**Pre-Award Charges Incurred in Advance of 90-day Limitation**

Prior to the transfer of the award from Emory University to GSU, GSU and other subawardees incurred expenses and charged these expenses to the new award without formally requesting or receiving approval from NSF, as required by NSF's grant conditions. This approval was not obtained because GSU did not have formal procedures in place that required compliance with the NSF pre-award time specifications.

**Response # 4:**

GSURF partially concurs with this finding. While we acknowledge that GSU and subawardees incurred and charged expenses to the new award prior to the effective date, we contend that such charges were approved by the Principal Investigator, incurred with the full knowledge of NSF, and with the expectation that NSF would transfer the award and execute the cooperative agreement with GSU effective November 1, 2002. NSF OIA and DGA officials discussed the requirements of the transfer and forwarded the proposed Cooperative Agreement to GSU on December 18, 2002 (See attached Exhibit 5). GSU officials only received notification on July 31, 2003 of the official start date of July 1, 2003 (See attached Exhibit 6). Clearly, not knowing the actual effective date made it impossible for GSU to request NSF approval of pre-award costs beyond the 90-day limitation. Contrary to the auditor's statement that GSU did not have formal procedures in place that required compliance with the NSF pre-award time specifications, GSU has had an institutional prior approval system (IPAS) that facilitates compliance since 1990. GSU also contends that the difficulty associated with the transfer was compounded by the fact that Emory University was still the official award recipient at the time that NSF appointed ██████████ a Georgia State University employee, as the Principal Investigator. This arrangement made it difficult for GSU to administer the award since the official PI authorized and approved the charges, yet the expenses could not be charged to the account of the award recipient, Emory University. Although GSU had an established IPAS in place at the time of the transfer, federal requirements on prior approvals do not address the unique situation of this NSF transfer.