# Audit of Grants Management and Expenditures on Selected NSF Awards at the University of South Dakota
### Vermillion, South Dakota

## National Science Foundation
## Office of Inspector General

**March 9, 2005**
**OIG 05-1-004**

# TABLE OF CONTENTS

## ACRONYMS

| | |
|---|---|
| **Council grant** | South Dakota Science and Technology Council |
| **DGA** | NSF Division of Grants and Agreements |
| **DSU** | Dakota State University |
| **EPSCoR** | Experimental Program to Stimulate Competitive Research |
| **F&A** | Facilities and Administrative |
| **HHS** | U.S. Department of Health and Human Services |
| **NSF** | U. S. National Science Foundation |
| **PFI grant** | Statewide Partnership to Support Technology Innovation and Entrepreneurship in South Dakota |
| **Rite Link grant** | Development and Evaluation of a Model Information Technology Training and Education Program for Rural Communities |
| **OMB** | U.S. Office of Management and Budget |
| **SOW** | Statement of Work |
| **USD** | University of South Dakota |
| **VP** | Vice President |

# EXECUTIVE SUMMARY

The Office of Inspector General (OIG) audited selected National Science Foundation (NSF) grants awarded to the University of South Dakota (USD). The objectives of the audit were to evaluate (1) USD's overall administration of NSF grant funds in accordance with award terms and conditions and (2) the allocability, allowability, and reasonableness of cost sharing and costs charged to three NSF grants.

USD's grants program has grown significantly over the last five years, doubling from just over $12 million in FY 1998 to over $25 million in FY 2003. Our audit found that USD adequately accounts for the direct costs charged to NSF grants in most respects. However, USD did not have a full time research director overseeing the Office of Research and resources devoted to grants administration did not sufficiently keep pace with the research growth. Specifically, the VP of the Office of Research and his Associate Dean both had direct research grant duties in addition to their overall grant administration duties. In addition, USD did not have an adequate understanding of its indirect cost rate structure and did not have a formalized system in place to determine which costs are direct or indirect. As a result, USD filed late and sometimes inaccurate annual reports, inadequately managed some subawards and subcontracts, and charged unallowable costs and cost sharing to NSF awards. Specifically, we questioned costs of $142,593 and cited an additional $53,875 as cost sharing at risk.

In addition to recovering the questioned costs and addressing the cost sharing at risk, our recommendations include that USD assign responsibility of overseeing grant administration to an individual that is independent of the research, who will assess current staffing levels to ensure these levels are adequate to administer a growing research program. USD also needs to develop policies and procedures that ensure grant problems are made known to sponsoring Federal agencies, annual reports are accurate and submitted timely, subawards and subcontracts are managed in accordance with Federal guidelines, only allowable costs are charged to NSF awards, and a system is put in place to determine which costs are charged directly or indirectly.

During the audit, USD took steps to correct some of these concerns. Also, based on this audit NSF declined to exercise option years four and five on one of the grants, allowing for $620,020 of NSF funds to be redirected to other programs in the Directorate for Computer and Information Science and Engineering.

**Summary of Auditee's Response**

USD generally agreed with the findings relating to late annual reporting and management of subawards. In addition, USD revised its policy to no longer claim cost sharing for personnel that worked in the Office of Research. However, USD disagreed that it submitted an inaccurate annual report, did not notify NSF of problems on a grant, and disputed most of the questioned costs and cost sharing. We summarized USD's response after each applicable recommendation and included the response in its entirety in Appendix B.

**Summary of Auditors' Comments**

We agree with and commend the actions USD has or plans to take addressing late annual reporting and management of subawards. However, we reaffirm our recommendations regarding the accuracy of annual reporting, notification of grant problems with NSF, and the questioned costs and cost sharing. The information provided by USD did not demonstrate that USD accurately reported results for the grant in the annual report, adequately notified NSF of grant difficulties, or understood its indirect cost rate structure, which resulted in the questioned costs and cost sharing. Following our summary of USD's responses, we have provided detailed comments explaining our concerns.

**BACKGROUND**

Founded in 1862, the University of South Dakota (USD) is located in Vermillion with additional Medical School campuses in Sioux Falls and Rapid City. USD is part of the State of South Dakota reporting entity for purposes of the Single Audit Act of 1996. As the University's largest Federal sponsor, the Department of Health and Human Services (HHS) is the cognizant Federal agency. HHS has currently set USD's predetermined indirect rate for sponsored research at 40.5 percent, effective to June 30, 2006.

USD has had notable success in obtaining Federal grants as evidenced by its 100 percent increase in Federal funds expended in the last 5 years, from just over $12 million in FY 1998 to over $25 million in FY 2003.[1] Only HHS and the Department of Education provide more Federal funds to USD than NSF. As of June 30, 2003, USD had 12 active NSF grants totaling over $5.7 million.

Coordination and overall administration of research efforts at USD are assigned to the Office of Research, which is comprised of three professionals and two administrative staff people. A Vice President (VP), who is also the Dean of Graduate Education, heads the office,[2] as well as working directly on some research grants. Two associate deans assist the VP. One associate dean is devoted solely to the USD Medical School in Sioux Falls and the other associate dean works at the USD main campus dividing his time between direct work on grants and Associate Dean duties. A Sponsored Programs Coordinator and a secretary complete the Office of Research staff. Two additional people dedicated within the University's accounting office account for grant funds.

**OBJECTIVES, SCOPE, AND METHODOLOGY**

The audit objectives were to evaluate (1) USD's administration of NSF grant funds in accordance with award terms and conditions and (2) the allocability, allowability, and reasonableness of cost sharing and costs charged to three NSF awards. The following chart contains the relevant information on these awards.

---

[1] Federal funds include direct Federal funds, Federal pass-though funds, and Federal financial aid.
[2] The VP, who heads the Office of Research, dedicates 45 percent of his time to the duties of this position, 50 percent as the Dean of Graduate Education, and 5 percent as the USD EPSCoR representative. He has held these positions since 1998.

| NSF Award | Grant Title | Grant Period | Award Amount |
|---|---|---|---|
| EPS-9871955[3] | *South Dakota Science and Technology Council (**Council grant**)* | 7/1/1998 - 6/30/2003 | $297,168 |
| EHR-0125385 | *Statewide Partnership to Support Technology Innovation and Entrepreneurship in South Dakota (**PFI grant**)* | 1/1/2002 - 12/31/2004 | $598,247 (plus cost sharing of $62,547) |
| EIA-0296091[4] | *Development and Evaluation of a Model Information Technology Training and Education Program for Rural Communities (**Rite Link grant**)* | 9/1/2000 - 8/31/2003 | $1,079,852 |

In evaluating the adequacy of USD's administration of NSF grants, we reviewed applicable Federal and NSF policy and procedures, NSF award jackets, and USD accounting data. We also interviewed appropriate HHS, USD, and NSF officials. We reviewed the expenditures reflected in USD's accounting records and financial statements and performed detailed testing of those costs incurred specifically on the three NSF grants noted and extended our review of financial transactions to other NSF funded projects as deemed necessary.[5] We made two site visits[6] to USD's main campus in Vermillion, South Dakota, and interviewed key personnel to gain an understanding of USD's management controls.

In addition to audit work performed at USD, we conducted audit work at Dakota State University (DSU) because one of the audited grants, the Rite Link grant, was originally awarded to DSU under award EIA-0086076. NSF and DSU agreed to transfer the grant, effective September 2001, when the PI moved to USD in July of that year. We interviewed DSU personnel, including the Co-PI who worked on a major portion of the Rite Link grant. We will be issuing a separate report specifically detailing the result of our audit work at DSU.

We conducted our audit in accordance with the Comptroller General's *Government Audit Standards* and included such tests of accounting records and other auditing procedures, as we considered necessary, to fully address the audit objectives.

---

[3] The original period of performance for this award was from 7/1/1998 to 6/30/2000. A no-cost extension was granted on 5/15/01, which extended the award two additional years: 6/30/2001 to 6/30/2003.
[4] This grant was originally awarded to Dakota State University under grant EIA-0086076 for $1,049,852, with options for increasing the award by $320,014 in FY 2003 and by $300,006 in FY 2004. The award was transferred to USD on September 1, 2001 in conjunction with the transfer of the PI from DSU to USD under new grant number EIA-0296091. An amendment was signed on 6/13/2002 increasing the award by $30,000. The PI officially transferred to USD on July 1, 2001.
[5] USD had 9 other active NSF awards as follows: EPS-0082978, DBI-0097536, DUE-0123002, DGE-0124950, EPS-0126795, CHE-0138951, SES-0139431, EAR-0208247, and DBI-0216473.
[6] Our sites visits to USD were during Feb/Mar 2003 and Sep/Oct 2003.

# FINDINGS AND RECOMMENDATIONS

1. **USD Needs to Improve its Annual Reporting Process and Management of Subawards and Subcontracts**

NSF and Federal grant requirements require grantees to keep their sponsoring agencies informed about the status of their research projects. In particular, grantees need to submit periodic progress reports and to notify the Federal awarding agency in the case of problems, delays, or adverse conditions, which significantly affect its ability to fulfill the grant objectives. Additionally, a grantee must monitor work performed and billings submitted by subawardees and subcontractors.

However, our audit found:
- Instances of inaccurate, untimely, and missing annual reports for nine of USD's 12 active awards from NSF; and
- On two NSF grants, subaward agreements and subcontracts were not signed, until after work had begun and contained unclear statements of work. Also, the subawardees and subcontractors did not submit 10 of the 18 required progress reports.

These deficiencies occurred because the VP and the Associate Dean in the Office of Research were overextended and could not adequately oversee their grants or the USD program overall. As a result without timely and accurate information from USD, NSF was not aware and therefore not able to timely address the significant difficulties USD was experiencing on the Rite Link grant. Partly based on information provided by our office, NSF declined to fund option years four and five of that grant, amounting to about $620,000. Also, without active oversight, subawardees and subcontractors may not have met the grant objectives, may have overcharged for costs incurred, or delayed project completion.

## Inaccurate and Untimely Annual Reports

The NSF Grant General Conditions specify an awardee's responsibilities and requirements related to annual reporting. Specifically, awardees are required to file annual reports informing NSF of progress in meeting award research goals. In addition, OMB Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations,* requires a grantee to notify the Federal awarding agency in the case of problems, delays, or adverse conditions, which materially impair the grantee's ability to meet the objectives of the award.

However, USD often submitted untimely annual reports. Additionally, for one grant, USD did not notify the NSF program officer of problems that significantly decreased the likelihood of successful completion of the award and submitted an inaccurate annual report. Each of these issues is discussed below.

*Late Submission of Annual Reports*

NSF Grant General Conditions, 15c *Annual Project Reporting Requirements* – "annual project reports shall be submitted at least three months prior to the end of the current budget period." NSF relies on annual reports to stay informed of grantee progress in meeting award goals and to quickly address problems and issues that may arise. Accordingly, it is important that the reports be timely and fully disclose the status of the project.

However, USD did not timely submit 13 of 18 annual reports for 9 of 12 active awards. The numbers of months the reports were overdue ranged from 1 to 47 months. Another 2 annual reports were not submitted at all. We observed that grants fully funded up front were late in reporting while those with incremental funding reported timely. The table below shows the active awards as of June 2003 and the dates that the related annual reports were filed:[7]

**Annual Progress Reports**

| NSF Award | Award Start Date | Award Expiration Date | Report Due Date | Date Report Submitted | Months Late |
|---|---|---|---|---|---|
| Council Grant | Jul-98 | Jun-03 | Apr-99 | 03/05/2003 | 47 |
| SES-9876527 | Apr-99 | Mar-03 | Jan-02 | 03/19/2002 | 3 |
| | | | Jan-01 | 04/25/2001 | 4 |
| | | | Jan-00 | 04/21/2000 | 4 |
| EPS-0082978 | Dec-00 | Nov-03 | Sep-02 | 05/06/2003 | 8 |
| | | | Sep-01 | 07/02/2002 | 10 |
| DBI-0097536 | May-01 | Apr-04 | Feb-00 | 02/14/2003 | On-time |
| | | | Feb-01 | 01/31/2003 | On-time |
| | | | Feb-02 | 02/01/2002 | On-time |
| DUE-0123002 | Jan-02 | Dec-05 | Oct-02 | 09/26/2003 | 12 |
| PFI Grant | Jan-02 | Dec-04 | Oct-02 | 01/14/2003 | 3 |
| EPS-0126795 | Nov-01 | Oct-03 | Aug-02 | 07/30/2002 | On-time |
| CHE-0138951 | Apr-02 | Mar-04 | Jan-03 | 12/31/2002 | On-time |
| SES-0139431 | Mar-02 | Feb-05 | Dec-02 | No report filed as of Dec 2003 | 12 |
| EAR-0208247 | Aug-02 | Jul-04 | May-03 | 06/08/2003 | 1 |
| DBI-0216473 | Jun-02 | May-05 | Mar-03 | No report filed as of Dec 2003 | 9 |
| Rite Link Grant | Sep-01 | Aug-03 | Jun-03 | 07/15/2003 | 1 |
| | | | Jun-02 | 09/04/2002 | 3 |
| **Totals** | | | | | 18 Reports submitted, 13 late reports |

---

[7] USD had not sent NSF two annual reports as of June 2003 and we confirmed that the reports had not been sent as of December 2003.

*Inaccurate Annual Reporting on the Rite Link Grant*

Because of concerns communicated to us by NSF program personnel, we reviewed the Rite
Link grant annual report for the period September 2001 to September 2002 for accuracy.
Our review found that USD overstated the level of effort staff contributed to the project and
the extent of technical progress and accomplishments that had been achieved. The report
also understated the difficulties the project faced in meeting its intended objectives.
Specifically:

- The annual report identified 34 individuals as each having contributed more than 160
  hours on the grant during the year. However, we found that seven of them did no work
  on the grant and an additional seven worked far fewer than the 160 hours reported by
  USD. Also, four people who worked on the grant during the reporting period were not
  noted on the annual report.[8] The PI stated DSU personnel provided the labor effort
  information but the PI never checked on its accuracy.

- The report stated, *"The project personnel have plans to expand outreach to North
  Dakota, Nebraska, Arizona, and other rural states in year 3."* Although the PI told us
  that the project was discussed in a general sense during some meetings with people from
  other states, the Co-PI and the Director of the Business Education Institute at DSU
  responsible for developing and conducting the training said there was never a realistic
  plan to "outreach" the training program to other states. After all, they reasoned, the need
  for distance Information Technology (IT) workers had significantly decreased. In
  addition, a critical part of the training was the use of an interactive video network that
  had been set-up throughout South Dakota but was not available to other states.

- The report claimed, *"The primary contribution of the project to date has been its impact
  on rural economic development."* However, based on information from the Co-PI, the
  PI, and other key people involved in the project, no trainees obtained distance IT
  positions and the class of second year trainees was less than half the size of the first year
  group.

- USD also reported that *"One company* ███████████ *...has not been able to employ as
  many participants as originally anticipated"* and *"Two of the original business partners
  are currently not hiring and the third is hiring very few."* These statements incorrectly
  give the perception that at least some of the trainees were getting jobs, when in fact, only
  one trainee was hired by any of the business partners and the position for this individual
  was not a distance IT position for which he had been trained.

The PI acknowledged that he did not adequately verify the facts he included in the annual
report to NSF. Further, he did not have the Co-PI review the annual report, although the Co-
PI oversaw the IT training subaward, which represented $400,000 or 50 percent of the
$790,000 award total.

---

[8] This finding is an issue of misstating the effort expended on the grant as reported in the annual report and does not
involve labor costs claimed as expenses for the NSF award.

*Inadequate Notification of Problems on the Rite Link Grant*

The listed goal of the Rite Link Grant was to "enable residents in remote rural communities to participate in the new information economy."  It was believed there was a significant shortage of IT workers, therefore, the award was primarily to provide IT training to allow individuals located in rural areas to help address this perceived shortage.

However, shortly after the award was made, the IT job market radically changed, as many IT companies failed and no longer needed workers.  Although a training module was developed and over 100 people were trained, not a single trainee received a distance IT job[9] offer, although the PI told us that one trainee did eventually obtain an IT related position.  Also, a key factor in USD's grant proposal was that the PI had established three business partners to assist in developing the training and, presumably, hire some of the trainees.  However, we found very little business partner involvement and, except for the one person mentioned above, none of the business partners hired any of the NSF funded trainees.

*Annual Reporting Important Part of Grants Management*

NSF relies on annual reports to stay aware of grant progress as well as any grant problems.  When annual reports are late and/or inaccurate, NSF's ability to make timely and effective program and funding decisions is impeded.  For example, the initial NSF program officer on the Rite Link grant told us that if the PI had properly informed NSF of the difficulties on this grant, the project objectives or scope may have been changed to allow for better use of the funds or the funds could have been redirected to a more viable project.  As it was, NSF decided, partly as a result of information sharing between the OIG and responsible NSF program office, to decline funding of the award's remaining two option years, allowing NSF to redirect the remaining $620,020[10] of unspent funds to other NSF projects.

The responsible NSF program officers were not aware of the lack of business partner involvement or trainee hiring until we brought it to their attention.  The PI admitted disappointment with the outcome of the Rite Link project and that he should have kept NSF better informed of the difficulties, but he, as well as others involved in the project, hoped that the IT downturn was temporary and related positions would return, allowing the grant to be successful.

---

[9] Distance IT jobs are positions with non-local IT firms in which the employee stays in South Dakota and works from their home computer or from a nearby center.

[10] The PI was officially notified of NSF's decision not to fund the last two years of the grant on May 16, 2003.

**Subawards and Subcontracts not Adequately Managed**

Federal grant regulations require primary awardees to oversee and monitor award funds passed to subrecipients and subcontractors.[11]  Specifically, OMB Circular A-110, states, "Recipients are responsible for managing and monitoring each … subaward supported by the award," and OMB Circular A-133 provides specific guidance to award recipients for monitoring their subrecipients.  OMB Circular A-110 also contains the requirements of primary awardees for the management of subcontracts.[12]  Important elements of an effective subaward and subcontract oversight program include formal agreements defining work expectations and completion dates and reviews of supporting documentation as a basis for subaward and subcontract payments.  However, USD lacked such a program, although subawards and subcontracts represented over 50 percent of award expenditures on the Rite Link and PFI grants.[13]  Specifically our review found that all five subawards and five subcontracts[14] made on these grants were formalized well past the start of performance, a subcontract with an unclear statement of work (SOW), invoices on a subcontract paid without adequate supporting documentation, a subcontractor used as a conduit to pass funds to another organization, and progress reports not received from both subrecipients and subcontractors.

The following table lists, by applicable award, the subawards and subcontracts we reviewed and the concerns identified with each:

---

[11] OMB guidelines for subaward monitoring are delineated in OMB Circular A-133**,** *Audits of States, Local Governments, and Non-Profit Organizations* - Appendix B: *March 2001 Compliance Supplement* section M. *Subrecipient Monitoring*.  See also, OMB Circular A-110, section .51(a) *Reports and Records - Monitoring and reporting program performance.*

[12] OMB Circular A-110, sections .41 through .48 *Procurement standards,* requires that solicitations for goods and services provide for a clear and accurate description what is to be performed under the procurement.

[13] The same person was PI on both awards.

[14] Includes consultant agreements, which were procured under Letters of Agreement (LOA).

**Review of Subawards and Subcontracts on Rite Link and PFI Grants**

| NSF Award | Subawards and Subcontracts | Award Amount | Days work done before agreement signed | Reports: Required | Reports: Missing | Other Issues |
|---|---|---|---|---|---|---|
| Rite Link grant | Subcontract | $11,000 | 40 days | 1 | | SOW – did not specify report content or due date |
| | Subaward | 400,360 | 115 days | 2 | 1 | |
| | Subcontract | 36,128 | 111 days | 2 | | |
| | Subcontract | 32,335 | 139 days | 1 | 1 | SOW vague, invoices paid with out adequate supporting documentation [15] |
| **Rite Link Subtotal** | | **$479,823** | **Avg. 101 days** | **6** | **2** | |
| PFI grant | Subaward | $16,513 | 21 days | 3 | 2 | |
| | Subaward | 17,558 | 24 days | 3 | 2 | |
| | Subaward | 20,962 | 39 days | 3 | 2 | |
| | Subaward | 17,513 | 85 days | 3 | 2 | |
| | Subcontract | 44,237 | 28 days | | | |
| | Subcontract | 470 | 20 days | | | |
| **PFI Subtotal** | | **$117,253** | **Avg. 36 days** | **12** | **8** | |
| **TOTALS** | | **$597,076** | **Avg. 62 days** | **18** | **10** | |

- **Work begun before agreements formalized:** All subrecipients and subcontractors began work before formal agreements were signed. The subrecipient agreements and subcontracts were not formalized until 20 to 139 days after work began, with the average being 62 days. By not formalizing until after work begins, USD risks misunderstandings with the subawardee or subcontractor as to the terms and conditions for how and on what grant funds can properly be expended.

- **Unclear Statements of Work:** The SOWs on two of the four Rite Link subcontracts were vague in defining work requirements and expected due dates. As a result, it was difficult to determine what NSF got for the funds expended on the larger of these two subcontracts. Although, the PI admitted disappointment with the performance of the subcontractor, the subcontractor claimed that it was not provided adequate direction on work expectations from the PI. Additionally, the PI used this subcontractor to pass

---

[15] $12,000 under this subaward was passed directly to the Rite Team Association at the direction of the PI

$12,000 directly to the Rite Team Association[16] to obtain a marketing plan, even though this was not specified in the work requirements. Furthermore, an adequate marketing plan was not delivered and as of November 2003 almost the entire amount remained unspent on the books of the association.

- **Outstanding reports:** Subawardees and subcontractors did not provide 10 of 18 progress and final reports required under the Rite Link and PFI grants. For example, for the four subawards under the PFI grant, eight of the twelve reports were not submitted. Nevertheless, USD paid all requests for reimbursement on the subawards with no indication as to why the deliverable requirements were not met or enforced.

Without active USD oversight, subawardees and subcontractors could incur costs not in line with grant objectives, overcharge for costs incurred, and/or delay project completion. For example, on the RITE Link subcontract indicated above, the PI was disappointed with the support provided by a subcontractor, but had little recourse because the SOW was unclear.

## Growth in Grant Workload Outpaced Resources For Grants Administration

The annual reporting and subaward/subcontract issues noted above occurred because staffing at USD did not keep pace with the significant growth in USD's Federal grants program and USD lacked a full time research director. Specifically, the primary function of the Office of Research at USD is overseeing USD's grants program and assisting faculty in obtaining, administering, and accounting for research grants. USD's federal research program has experienced significant growth over the last 5 years, increasing Federal funds expended from over $12 million in FY 1998 to over $25 million in FY 2003. However, both the VP of the Office of Research and the Associate Dean had direct research responsibilities, are board members of outside organizations, and traveled extensively limiting their ability to oversee USD's growing grants program. The USD President told us that USD needs a full time research director, but its establishment has reportedly been delayed by the limited availability of funding. In any event, NSF Grant Conditions and the OMB Circulars require institutions to provide grant oversight, making it imperative that personnel assigned to the grant have sufficient availability to oversee Federal grants in its charge. Additional resources are therefore needed at USD, including the assignment of a research director who can devote sufficient time to managing grants administration.

### *Office of Research Staff Overextended*

The VP and the Associate Dean, with support from the Sponsored Programs Coordinator, share the responsibility for overseeing the overall administrative management of USD's grants program. However, neither the VP nor Associate Dean could adequately assist in this effort because they had many other responsibilities. For example, the VP was also the Dean of Graduate Education, PI on two NSF awards, Co-PI on four other awards, and

---

[16] This non-profit entity consists of Rite Link grant first year trainees. The trainees formed this association to pool their resources in hopes of getting small consulting jobs after none of them received distance IT positions. The amount remains on the books of the association after the firm they contracted with did not deliver an adequate plan.

a sitting member on four boards.[17]  Similarly, the Associate Dean's time was significantly over-committed as well.  Specifically, he served as the acting VP for the Office of Research from March 2002 to November 2002,[18] which was in addition to carrying out his existing responsibilities, which alone added up to 150 percent of the Associate Dean's available time.[19]  In addition, both individuals traveled a great deal during FY 2003.  Specifically the VP was on travel over 60 days and the Associate Dean over 70 days, further limiting their availability for grant oversight and administration.  This lack of adequate time and resources led to several of the issues we found during the audit, for example the VP submitted the first annual report on the Council grant almost 4 years late and the Associate Dean, who was the PI on the Rite Link grant, did not notify NSF of problems with the grant, submitted an inaccurate and late annual report, and did not adequately manage the subawards and subcontracts made under this grant.

The Sponsored Programs Coordinator reminded all PI's of due dates for final grant reports, but there was no system in place to ensure annual reports were prepared and submitted timely or accurately.  We were told varying reasons why annual reporting had been late but of note, one PI stated he had just forgotten and would have benefited from a reminder.

---

[17] The job description of the VP of the Office of Research showed his time divided as follows: VP of the Office of Research (45 percent), Dean of Graduate Education (50 percent), and EPSCoR Representative (5 percent).  He was PI on the Council Grant and on NSF award EPS-0126795, and Co-PI on four other awards.  The boards he sits on are as follows: The EPSCoR Foundation, American Chemical Society, South Dakota Health Research Foundation, and South Dakota Health Technologies Institute.

[18] The President of the USD took time off to run for Governor of South Dakota, and the VP of the Office of Research assumed temporarily the full-time responsibilities for the VP of Academic Affairs from March 2002 through November 2002.

[19] The Associate Dean's indirect duties were as follows: maintain contact with funding agencies, assist faculty and staff about funding opportunities, write successful research proposals (34 percent); develop working relationships and build partnerships with local business leaders (33 percent); and, manage the South Dakota Health Technologies, Inc. (33 percent).  It should be noted that this last function was reassigned as of 10/1/2003.  However, he was unable to fully perform these functions because at the same time, he was working 50 percent of his time directly on two NSF awards (as PI he directly charged 40 percent of his time to the Rite Link grant and 10 percent to the PFI grant).  Lastly, he was a member of three boards as well: the Small Business High Technology Institute, the Genesis of Innovation for South Dakota, and the RITE Team Association.

Recommendations:

1.  We recommend that the Division Director, Division of Grants and Agreements in conjunction with the Division Director, Division of Institution and Award Support ensure USD assign responsibility for overseeing administration of Federal grants to a full time research director, who is independent of the research and who will have sufficient time to focus on grant administration duties.  In addition, this person should ensure current staffing levels are adequate to administer a growing research program.

> **Auditee's Response**
>
> USD plans to separate the responsibilities for overseeing the Office of Research from the responsibilities for overseeing the Graduate School and change the level of effort of the VP for Research to a full-time position to oversee the Office of Research.  In addition, USD is searching for a permanent VP for Research.  The University also plans to review staffing levels for the Office of Research and will include any needed staff increase in the 2006 budget process.
>
> **Auditor's Comments**
>
> Once implemented, we believe USD's actions addressing the staffing of research administration should adequately address the recommendation.

2.  We recommend that the Division Director, Division of Grants and Agreements in conjunction with the Division Director, Division of Institution and Award Support direct USD to institute policies that ensure sponsoring agencies are notified in a timely manner of events that significantly affect a project, and requirements for annual reporting and procurement and monitoring of subawards are met.

> **Auditee's Response**
>
> Regarding inadequate notification of problems on Rite Link grant, USD disagreed with our finding that it did not keep NSF adequately informed in a timely manner.  Specifically, USD claimed that it informed NSF program personnel about the grant problems during a site visit in November 2002.  Furthermore, USD claims the annual report "clearly informed NSF that the decline in IT economy during the project was having an adverse impact on the project."  USD further states that there were "four different NSF program managers assigned to the project during the time period discussed in the audit report."
>
> Pertaining to the timeliness and accuracy of annual reports, the auditee agreed to improve timeliness of annual reports and the accuracy of hours reported in annual reports by providing its PIs with reminders 30 days prior to annual report due dates and to include a reminder to verify the number of hours each person worked.  However, USD claimed the statements from the Rite Link annual reports were "taken out of context," and therefore the audit report does not correctly represent the facts.  They restate several sentences

from the annual progress report and provide some additional information to explain how the audit has taken quotes out of context. Specifically, USD raises the following concerns:

- Regarding plans to expand the program to other states, USD states the program reached other states as evidenced by a conference held on September 29, 2002, in which representatives participated from North Dakota and Nebraska. Training could also reach other states, as evidenced by several "remote participants" successfully completing training over the Internet.

- Concerning the impact on rural economic development, USD believes that if the entire paragraph from the annual report were included in the report, their claim on impacting rural economic development would be clearly identified. Of note, the paragraph discusses the receptiveness of rural communities to the project's objectives and the fact that over 700 hundred people attended two Rite Link community meetings and over 100 participated in the training.

- With respect to the lack of business partner involvement and hiring, USD also included the entire paragraph from the annual report to support its position that USD correctly represented that the grant was not meeting its objectives. The paragraph discussed how the downturn in the economy made the task of identifying business partners "much more difficult." The annual progress report also states that the project team had met with several "large IT companies such as Microsoft and Time Warner/AOL to discuss the project" and claims these companies were very supportive of the concept, but were not hiring anyone.

USD also states that significant changes have been made to its subaward procedures such as requiring "clear statements of work, definition of deliverables or milestones and payment schedules tied to deliverables." USD also informed us that the Rite Team Association had ceased operations as of August 2004 and the Association planned to return any remaining funds to the contributing rural communities.

**<u>Auditor's Comments</u>**

Pertaining to inadequate notification of problems on Rite Link grant, we recognize that NSF officials were made aware of some of the problems being experienced on the grant during its site visit in November 2002, however these problems existed at the time the annual report was prepared, which was prepared prior to the site visit. Based on discussions with NSF program personnel and our review of the site visit report, we saw no evidence that USD informed NSF during the site visit about the lack of business partner involvement and the fact that the training did not result in hiring any people for IT positions. USD does not explain why the annual report issued in September 2002, two months prior to the site visit, did not convey the extent of the problems on the grant. Prompt and accurate notification to NSF of grant problems in annual progress reports is essential so NSF program officers have the opportunity to timely address these types of problems.

In relation to the timeliness and accuracy of annual reports, the new procedure of reminding the PIs of impending due dates for annual reports along with the new procedure to verify the accuracy of its participants are positive steps that should address the problems of late annual reporting and misrepresenting the level of effort of participants on projects. However, regarding the accuracy of the Rite Link grant annual report, our interviews with the PI and the co-PI on the Rite Link grant support our position that the statements in the annual report were inaccurate. We believe our findings concerning the inaccurate annual report are still valid. Specifically:

- Regarding plans to expand the program to other states, we believe the information about a conference which included out-of-state participants and a few trainees taught via the Internet does not support that there was an official plan to expand the program to other states. Also, during the audit the Co-PI at DSU responsible for developing and conducting the training said there was never a realistic plan to "outreach" the training program to other states.

- Concerning the impact on rural economic development, the grantee does not explain how the project had an impact on rural economic development other than quoting the entire paragraph from the annual report. We expected the annual report to address the impact on rural economic development by stating the grant effect on businesses hiring IT positions.

- Pertaining to the lack of business partner involvement and hiring, USD does not explain how quoting the entire paragraph refutes our position that the annual report exaggerates the involvement of the business partners and the perception that trainees were being hired.

The changes proposed by the USD regarding the subaward management procedures appear to address our recommendations. Also, because the Rite Team Association ceased operations as of August 2004 and did not have any unspent funds, we removed our recommendation regarding NSF following up on the unspent funds.

3. We recommend that the Division Director, Division of Grants and Agreements in conjunction with the Division Director, Division of Institution and Award Support recognize USD as a high-risk awardee under its risk management program and as part of this program consider an on-site visit to ensure USD implements corrective actions to address our recommendations.

**Auditee's Response**

USD believes it should not be categorized as a high-risk awardee because it either adequately addressed the recommendations cited in the report or it disagreed with the audit findings.

13

**Auditor's Comments**

As part of its post award monitoring process, NSF should ensure the USD actions have been implemented and have corrected the findings disclosed in audit report.  Until NSF has made such a determination, we believe USD should be categorized as a high-risk awardee.

## 2. Unallowable Costs Claimed

OMB Circular A-110 requires a grantee to have a documented system to identify whether costs are allowable, allocable, and reasonable in accordance with applicable cost principles. Specifically, the grantee should have a documented procedure in place to identify which functions are to be charged direct or indirect. Our audit found that USD adequately tracks, accounts, and maintains documentary support for direct costs charged to NSF grants except for one instance where it incorrectly charged $11,972 of augmented salaries to one NSF award. However, USD lacked an understanding of indirect costs and did not assign an individual the responsibility of determining whether a cost is direct or indirect. As a result USD inappropriately charged indirect costs totaling $130,620, as direct costs or cost sharing, on four different NSF awards[20], thereby recovering twice for the same costs. Specifically, USD:

- Claimed the same salary costs twice, as both direct and indirect costs on Council grant;
- Claimed the same salary costs twice, both as indirect and as cost sharing on three NSF awards;
- Claimed proposal preparation costs incorrectly as direct costs on the Council grant; and
- Augmented faculty salaries with NSF grant funds without required NSF approval.

Appendix A contains a schedule delineating the unallowable costs of $142,592, and costs sharing at risk of $53,875. Each finding is discussed separately below.

### Salary Costs Claimed Directly and Indirectly on the Council Grant

OMB Circular A-21 requires that costs be charged consistently either directly to projects or indirectly as facilities and administrative (F&A) costs. USD did not consistently charge its project administrative costs as indirect costs and instead directly charged some of the same costs to NSF awards. In particular, USD incorrectly charged $105,125, which equates to half of the salary for the VP of the Office of Research (who is also the Dean of Graduate Education), directly to the Council grant for 14 months. USD included the salary and fringe benefits of the VP of the Office of Research as part of its F&A rates and therefore, these costs are not eligible to be charged directly to NSF awards. Although USD recovered the VP's salary through indirect costs, USD proposed the VP's salary as direct costs on an NSF grant. Furthermore, except for the 14 months when the VP was the PI on the Council grant; USD's grants accounting office correctly charged his salary to indirect cost functions.

### VP Salary Incorrectly Claimed as Cost Sharing

OMB specifies that unrecovered indirect costs can be claimed as cost sharing on Federal awards. However, USD recovered Office of Research expenses as part of indirect costs and claimed the same costs as cost sharing. Specifically, we found that a portion of the VP's salary was claimed

---

[20] We expanded our scope to look at all active NSF awards that had cost sharing requirements and found that a portion of the VP's salary was also incorrectly claimed as cost sharing on 2 other awards, EPS-9977752 and EPS-0126795.

as cost sharing on 3 NSF awards: EPS-9977752 ($11,980) and EPS-0126795 ($24,897) and the PFI grant ($28,978).[21]

## Unallocable Proposal Preparation Costs Charged to the Council Grant

OMB Circular A-21 states that proposal preparation expenses should be charged as part of indirect costs and therefore are reimbursable through the F&A rate. However, we found a consultant's fee of $7,000 to write a grant proposal[22] and related travel expenses of $2,552 incorrectly charged as direct costs to the Council grant.

## Unapproved Augmented Faculty Salaries on the PFI Grant

OMB Circular A-21, states that grant funds should not be used to increase the base salary of faculty members unless the sponsoring agency approves, in writing, such augmented salaries. We found that USD augmented the salaries of two faculty members using PFI grant funds. One person was paid $5,000 and another $2,500 above their base salaries with PFI grant funds, as evidenced by copies of the employment contracts for the two faculty members. According to the NSF program officer for the grant, NSF had not given approval for augmented payments to faculty members on this grant.

## Inadequate Understanding of Indirect Cost Rate Structure and Federal Regulations Led to Questioned Costs and Cost Sharing at Risk

During the audit we found that USD's current predetermined rate was based on a proposal developed in 1993 by a consulting firm. The initial negotiated predetermined rate agreement expired in June 1999, and at that time HHS decreased the existing rate by one percent and extended it through 2006 without USD providing a new indirect cost proposal. Partially because USD relied on a consulting firm to compile the proposal, USD staff did not have an adequate understanding of its F&A rate structure. For example, in 1993 one individual worked half time as VP of the Office of Research, and a different person was the half time Dean of Graduate Education, but both of these positions were included as part of the indirect costs pools. However, USD was not aware of this and in 1998 when the VP of the Office of Research, who was also the Dean of Graduate Education, proposed half of his salary as direct costs on the Council grant, USD did not note the inconsistency nor did it revise its indirect cost rate structure to reflect the direct charging of the VP salary to NSF awards. This lack of understanding also directly led to the unallowable cost sharing and the costs sharing at risk.

The Manager of Accounting Services did not think USD needed a documented process for keeping track of its actual indirect costs because of the predetermined rates in place. He added

---

[21] USD also claimed cost sharing on a portion of the salary of the Associate Dean of the Office of Research on the PFI grant, however as this position did not exist at the time of the indirect cost proposal in 1993, we did not question this salary. USD should be aware that because the Office of Research was established as an indirect function, salaries of personnel assigned to this office, even those added since the cost proposal like the Associate Dean, are technically not eligible for cost sharing on NSF awards.

[22] The proposal was for a NSF Math and Science Partnership grant.

that even if they wanted to track these costs they didn't have the necessary staff.  Nevertheless, USD needs to have a documented system in place that defines which functions are indirect and which are direct so that costs are not claimed twice on any NSF awards.

During the course of the audit we also found that Office of Research personnel, specifically the VP and the Associate Dean, were either not sufficiently aware of Federal regulations or should have better enforced them.  For example proposal writing costs were incorrectly charged directly to the Council grant because the Associate Dean, who was acting on behalf of the VP of the Office of Research at the time, did not know that proposal writing costs are supposed to be charged as indirect costs.  Additionally, the salaries of two faculty members were augmented with funds from an NSF grant without the required approval from NSF.

Recommendations:

4.  We recommend that the Division Director, Division of Grants and Agreements in conjunction with the Division Director, Division of Institution and Award Support direct that USD Office of Research personnel improve its written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles, and in coordination with the HHS Division of Cost Allocation, document which functions are overhead and which are direct and that this system be used when negotiating USD's next F&A rates.  Additionally, USD needs to ensure that its personnel are adequately trained in applying the applicable Federal cost principles.

### Auditee's Response

USD believes it has adequate procedures already in place "for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the Federal cost principles" for educational institutions.  USD's proposal routing system has processes in place to evaluate each proposal submitted for adherence to Federal cost principles.  Further, USD states it is in the process of renegotiating its F&A rates with HHS, which will determine which functions are direct.

### Auditor's Comments

USD does have some procedures in place for determining adherence to the Federal cost principles, but these procedures did not prevent the charging of indirect salary costs directly on an NSF award, claiming of already recovered costs as cost sharing on three NSF awards, charging proposal preparation costs to an NSF award, and augmenting faculty salary with NSF grant funds.  USD needs to ensure that its policies and procedures are in accordance with applicable Federal cost principles and that all personnel working on or administering Federal grants are following these policies and procedures.

5.  We recommend that the Division Director, Division of Grants and Agreements in conjunction with the Division Director, Division of Institution and Award Support recover the unallowable costs and cost sharing of $142,592.

### Auditee's Response

a.   *Questioned PI Salary of $105,125 on Council grant* – The auditee disputes that it claimed the salary costs directly and indirectly on the Council grant.  Specifically, USD lists several reasons why it was allowed to claim 50 percent of salary for the VP for the Office of Research:

- The indirect cost rate was based on the VP as a 50 percent position, thus the other 50 percent could be claimed as direct costs on Federal awards.

- Regarding the indirect cost rate agreement between HHS and USD, HHS required prior approval only for changes to the accounting system.  USD charging the VP directly on a Federal award was not an accounting change and HHS prior approval was not necessary.

- The support for USD's research infrastructure increased from 1998 to the present and "at no time during this period, including the 14 months in question, was the research infrastructure allowed to fall below that upon which the indirect cost agreement was based."

b. *Questioned proposal preparation and related travel costs of $13,516* – USD does not dispute the questioned costs of $9,905 related to paying a consultant for proposal preparation costs or the related travel costs of $3,611.

c. *Questioned cost sharing of $11,979 on award CPDI-9977752* - USD did not provide alternative cost sharing for this closed award because the OIG told them not to provide alternative cost sharing. .

d. *Augmented faculty salaries of $11,972* - USD does not dispute that it improperly augmented faculty members' salary, but it requests that actions taken to ensure this does not happen in the future be taken into account during the audit resolution process.

### Auditor's Comments

a. Questioned PI Salary of $105,125 on Council grant – The comments forwarded by USD do not effectively refute the fact that USD claimed the salary costs both directly and indirectly on the Council grant.  Specifically, the PI position included 50 percent of his time as the VP for the Office of Research and the other 50 percent of his time as the Dean of Graduate Education.  USD has not recognized that both of these positions are recovered as part of the HHS approved indirect cost rates.  Therefore, USD could not charge any of his salary directly to NSF awards during the 14 months

in question. The prior approval provision by HHS is not germane, as we are not questioning the indirect costs. In addition, USD claim that support for its research infrastructure increased over time is misleading. The actual support provided on individual research awards decreased over time because the amount of research grew significantly since 1998, without a proportional increase in the research infrastructure.

b. Questioned proposal preparation and related travel costs of $13,516 - We concur with USD in its decision to reimburse NSF for the unallowable proposal preparation costs including the related travel costs.

c. Questioned cost sharing of $11,979 on award EPS-9977752 – Our office recognizes that there was a misunderstanding regarding USD's need to respond to this issue, however USD still needs to reimburse NSF for this questioned cost sharing because the claimed cost sharing was the salary of the VP who could not be claimed as cost sharing.

d. Augmented faculty salaries of $11,972 – We concur with USD's response that it improperly augmented faculty members' salary.

5. We recommend that the Division Director, Division of Grants and Agreements in conjunction with the Division Director, Division of Institution and Award Support require USD to provide alternative plans to meet the $53,875 of cost sharing requirements on on-going NSF grants EHR-0125385 (the PFI grant) and EPS-0126795.

**Auditee's Response**

USD obtained a waiver from NSF for the costs sharing on EPS-0126795 and negotiated an alternative plan for the cost sharing on the PFI grant.

**Auditor's Comments**

Once implemented, we believe USD's actions addressing the cost sharing issue should adequately address the recommendation

# SCHEDULE OF QUESTIONED COSTS AND COST SHARING AT RISK

| NSF Award | Description | Questioned Direct Costs | Applicable Fringe | Applicable Indirect Costs | Total Questioned Costs | Notes |
|---|---|---|---|---|---|---|
| | | **QUESTIONED COSTS** | | | | |
| EPS-9871955 | 7/1/98 - 6/30/03 | | | | | |
| (Council grant) | PI Salary | $ 64,722 | $ 9,571 | $ 30,832 | $ 105,125 | 1 |
| | Consultant | $ 7,000 | N/a | $ 2,905 | $ 9,905 | 2 |
| | Associated Travel | $ 2,552 | N/a | $ 1,059 | $ 3,611 | 3 |
| | Total | $ 74,274 | $ 9,571 | $ 34,796 | $ 118,641 | |
| EPS-9977752 | 3/15/00 – 2/28/01 | | | | | |
| | Cost Sharing - PI Salary | $ 7,445 | $ 1,081 | $ 3,453 | $ 11,979 | 4 |
| EHR-0125385 | 1/01/02 - 12/31/04 | | | | | |
| (PFI grant) | Augmented Salaries | $ 7,500 | $ 1,021 | $ 3,451 | $ 11,972 | 5 |
| Total Questioned Costs | | $ 89,219 | $ 11,673 | $ 41,700 | $ 142,592 | |
| | | **AT RISK COST SHARING** | | | | |
| EHR-0125385 | 1/01/02 - 12/31/04 | | | | | |
| (PFI grant) | Co-PI Salary | $ 17,723 | $ 2,902 | $ 8,353 | $ 28,978 | 6 |
| EPS-0126795 | 11/15/01-10/31/04 | | | | | |
| | PI Salary | $ 14,768 | $ 2,952 | $ 7,177 | $ 24,897 | 7 |
| Total Cost Sharing at Risk | | | | | $ 53,875 | |

Notes

1.  USD claimed half of the VP's salary direct for 14 months (Jan - Jun 2001 @ $4,415.75 per month, and July 2001 - Feb 2002 @ $4,778.42 per month) even though his salary was recovered indirectly as part of the F&A rate.  Applicable indirect rate was 41.5 percent

2.  The consultant was paid $7,000 for writing a proposal for Math & Science Partnership grant.   The applicable indirect rate was 40.5 percent.

3.  The travel was for three people (two USD personnel and the consultant) to attend a Math and Science Partnership seminar to aid them in writing the grant proposal.

4. USD claimed salary costs of the VP of the Office of Research as cost sharing even though his salary was already recovered indirectly.  Award expired 2/28/01.

5.  Two faculty members were paid in excess of their base salaries.  One member had an 11 month employment contract and was paid $2,500 in July 2002 and $2,500 in December 2002.  The other faculty member had a nine-month contract and was paid $2,500 in December 2002.

6. The Co-PI is the VP of the Office of Research, but the VP's salary cannot be claimed as cost sharing as his salary is already recovered indirectly as part of the F&A rate.

7. The total proposed cost sharing on this award equals $128,374, $24,897 of which is salary costs for the VP.  The salary costs are already recovered indirectly and therefore could not be claimed as cost sharing.

the **u**niversity of south dakota. _____

November 29, 2004

National Science Foundation
4201 Wilson Boulevard
Arlington, VA 22230

Subject:  Response to Grant Audit of The University of South Dakota

Dear ███████████:

Enclosed is The University of South Dakota's response to the draft report, "Audit of Grants Management and Expenditures on Selected NSF Awards at The University of South Dakota."

The University of South Dakota accepts some of the report's findings and has already taken action to address the findings that are not disputed.  In several cases, we took action immediately, as recommended by the audit team during their visit.  We do not disagree that our grant activity has grown rapidly in recent years and that our research infrastructure did not grow proportionately.  As you will see in the report, we are in the process of rectifying that situation.  In addition to increasing staffing of the Office of Research, we are making sure that the proper tracking procedures are in place regarding our reporting obligations.

We also dispute a number of the findings, particularly those that allege improper reporting on the Rite Link project and those that relate to salary costs claimed on the "Council" grant.

We are, of course, interested in bringing this process to closure in a timely manner, and we are absolutely committed to abiding by the spirit and detail of our agreements with the National Science Foundation.  Please let us know of the next step in resolving this matter.

Very truly yours,

███████████████████

The University of South Dakota

DEC 1 2004

Enclosure

**UNIVERSITY OF SOUTH DAKOTA**
**Response to "Audit of Grants Management and Expenditures on Selected NSF**
**Awards at The University of South Dakota"**

This response is organized in the same manner as the Audit report. The response addresses each "Finding and Recommendation" presented in the Audit report.

1. **USD Needs to Improve its Annual Reporting Process and Management of Subawards and Subcontracts.**

The University of South Dakota agrees with the need to insure that annual reports are submitted on time, that subcontracts provide more detailed statements of work and clearly defined deliverables, and that the grants administration staffing should be increased to manage the increased level of grant and contract activity at the university. Several actions have already been taken to address these issues. These actions include:

**Annual Reporting:** The Office of Research has implemented a program in which principal investigators are notified 30 days prior to an annual report being due and follow up contacts are made to insure timely reporting. The notice includes a reminder not only of the date the report is due but also a reminder to verify the hours each project participant was paid to insure accuracy of the 160-hour reporting. The notice also offers assistance to the PI, if needed, to submit the report on time.

**Subcontracts:** The University of South Dakota has revised its subcontract documents to include more detailed statements of expected work and deliverables. As an example, in October 2004 the University of South Dakota entered into a contract with a private company, ███████████, that involved an NSF project. The Principal Investigator told the appropriate NSF project manager about the proposed contract and provided the manager with a copy of the contract, which was reviewed by NSF attorneys. Those attorneys suggested no changes to the contract, and, in fact, commended the University of South Dakota on preparing such an excellent contract. This example demonstrates how the University of South Dakota has already taken steps to address this issue. A copy of the email exchange with the NSF program officer is attached (Attachment A).

The University of South Dakota Office of Research also worked with the South Dakota Board of Regents to organize a grants management workshop in Pierre, South Dakota on October 29, 2004. Copies of the workshop announcement and schedule are attached (Attachment B). This was done to not only educate University of South Dakota staff but also other universities and organizations in the state and region. There were 70 people in attendance from a variety of organizations both in North and South Dakota. The University of South Dakota requested that NSF participate in a similar workshop, but NSF was not willing to participate while this audit was still underway.

**Grants Administration Staffing:** The University of South Dakota has increased the position of Vice President of Research (VPR) to a 100 percent position, and separated the

1

duties of Graduate Dean into a separate position. Organizationally, the Graduate School has been separated from the Office of Research. The University of South Dakota is currently interviewing candidates for the fulltime position VPR. As part of the reorganization additional personnel in several other areas, including grants accounting, research compliance and grants administration, are being added. Again, this demonstrates that the University of South Dakota has taken actions to address findings in the report.

**Inaccurate Annual Reporting on the Rite Link Grant:** The University of South Dakota is not disputing the conclusion that the Rite-Link grant was not as successful as both the PI and NSF would have liked. However, The University of South Dakota is disputing the auditor's claim that inaccurate annual reports were filed and NSF was not notified of problems on the "RITE Link Grant". To the contrary, USD was in frequent contact with the program officers responsible for the project through the following mechanisms: the "Rite Link Grant" annual report included accurate information on project difficulties created by the downturn in the economy and specifically the IT economy; the project personnel kept the NSF program managers informed not only through annual reports, but also by attending Principal Investigator meetings, transferring of the grant from Dakota State University to the University of South Dakota; an NSF site visit in January of 2001, and a NSF ITR Evaluation team site visit involving two NSF program officers and three external reviewers on November 12-14, 2002 (see below). Attached are the agendas for the two NSF site visits (Attachments C and D).

The co-principal investigators and other personnel drafted the elements of the annual report related to their activities. The PIs did not verify the exact number of hours worked by each individual with accounting records but estimated whether or not the individual had worked 160 hours. The University of South Dakota includes in its notice to PIs 30 days prior to the annual report due date a reminder to verify the number of hours each person worked to insure accuracy.

The three statements that the audit report states as inaccurate are each taken out of context in the draft report. Each statement is clarified by providing the context of the statement and supporting information.

On page 5 of the audit report, bullet 2, the PI is criticized for not following through on expanding the program to other states. The statement, "The project personnel have plans to expand outreach to North Dakota, Nebraska, Arizona and other rural states in year 3," is an accurate statement. The sentence before the quote from the PI's report adds context: "The project personnel have conducted local community meetings in more than 25 communities, and a regional conference targeting participants in the IT training program and community leaders throughout South Dakota and northeastern Nebraska will be conducted in the fall of 2002." The conference referenced in the sentence before the report's quote was, in fact, conducted in Vermillion on September 29, 2002 and included participants from North Dakota and Nebraska, demonstrating that the project was reaching out to other states. The original proposal clearly states in several sections the intention to expand the project to other rural states, and the community schedule in the

2

proposal stated this would occur in Year 5. The fact that several of the training participants did not live in the six communities within the Dakota Digital Network system and yet successfully completed the training as a "remote participant" using only the Internet demonstrates the ability to deliver the training beyond South Dakota. Dakota State University and the University of South Dakota also both have interactive video capabilities that allow them to deliver and receive programming with sites in other states.

On page 5, bullet 3, the PI is being accused of misrepresenting the contribution of the project. The quote "The primary contribution of the project to date has been its impact on rural economic development" is taken out of context in the draft audit report. Including several sentences from the actual progress report illustrates the inaccuracy of the audit report finding. The full quote is:

> The primary contribution of the project to date has been its impact on rural economic development. Traditionally rural communities have placed their limited financial resources in buildings and trying to attract manufacturing firms to their community. The development of the RITE Link model is resulting in the rural communities rethinking this strategy and placing a greater emphasis on the human resources in the community and marketing those skills rather than physical resources. The RITE Team Association has found many rural communities very receptive to the idea of developing IT skills of residents and marketing those skills to foster economic development. This statement is supported by the fact that more than 702 rural residents in nineteen rural communities attended two RITE Link community meetings, 112 completed the pre-module, 96 started the training program and 75 completed the first year's training. Several of the participating community rural communities economic development organization's also financially supported the RITE Team Association.

On page 5, bullet 4, the final annual report quote claimed to be inaccurate is also taken out of context. Again, reading the sentence in context of the paragraph it actually came from shows that the statement was reporting problems recruiting business partners in the depressed IT economy rather than making false claims about jobs created as claimed in the draft report. The full quote is:

> The most difficult element of the project has turned out to be the recruitment of IT business partners. One company, &#9608;&#9608;&#9608;&#9608;&#9608;&#9608; agreed to establish a satellite facility in Howard, Miner County, South Dakota. The company rented a building and remodeled it. Unfortunately, the company has not been able to employ as many participants as originally anticipated and the IT skill level is not as high as desired. The project team is working to identify IT business partners for the project. The downturn in the economy and specifically the technology sector has made this task much more difficult. Two of the original business partners are currently not hiring new people and the third partner is hiring very few. The project team has met with company officials with several large IT companies such as &#9608;&#9608;&#9608; and &#9608;&#9608;&#9608;&#9608; to discuss the project. While the companies are very supportive of the concept they are currently not looking to

3

hire. As a result the project team is focusing efforts on smaller IT companies and trying to develop IT entrepreneurs in the participating communities."

In this paragraph, the PIs clearly informed NSF that the decline in the IT economy during the project was having an adverse impact on the project. The audit report also does not include the fact that the project had four different NSF program managers assigned to the project during the time period discussed in the audit report. The draft report inaccurately states, "the award was made in October 2000" when in fact the project started September 1, 2000.

The audit report also fails to mention the fact that a NSF review team consisting of two NSF program managers and three external university reviewers conducted a site visit November 12-14, 2002, two months after the report was submitted, four months before the audit team's visit March 24, 2003, and two months before the IG requested any information on the project from the University of South Dakota, January 13, 2003. In November 2002, the NSF review team met with participants in Howard, SD, consisting of RITE Team Association members and other project participants. A copy of the visit schedule is included in the appendix. The NSF project manager and review team were aware of the difficult IT job situation nationally and the inability of the project to gain employment for participants. At that time, several months before the audit team's involvement, the review team recommended that the project focus on the successful K-12 activities and the NSF project manager indicated at that time it was unlikely that the project would be extended into the fourth and fifth year. The fact that the responsible program manager and review team conducted a two day site review November 12-14, 2002 and were well aware of the project's inability to gain employment for participants contradicts the draft audit report claim, "The responsible NSF program officers were not aware of the lack of business partner involvement or trainee hiring until we brought it to their attention." There is certainly no evidence presented by the auditors to substantiate that statement.

Again, we are not denying the fact that this project was not as successful as we would have liked. The unfortunate overlap in timing with this project and the IT economy in the United States was an unforeseen circumstance beyond our control. Nonetheless, the research team did the work that was proposed, the Co-Principal investigators submitted accurate annual reports, they participated in annual NSF ITR Principal Investigator meetings, they interacted with the four different NSF project managers throughout the project, and they participated in the NSF site review. They were open and honest with the project managers at NSF.

**Recommendations on Page 10 of the Audit Report:**

1. The University of South Dakota has already addressed the first two recommendations and the actions already taken by the University of South Dakota in these areas should be taken into account and these recommendations revised. The University of South Dakota, as of July 1, 2004, split the Office of Research and the Graduate School. As part of this change the position of Vice President for Research was increased to 100 percent. The

4

search process was begun for a permanent Vice President for Research is nearing the on-campus interviewing stage. A copy of the position advertisement is attached (Attachment E). The University of South Dakota is also in the process of reviewing the Office of Research and grants administration staffing levels and increased support for these functions will be included in the 2006 budget process.

2. The University of South Dakota has also implemented policies to remind principal investigators when annual reports are due as well as the need to verify the level of effort of participants. Changes have been made in sub-awards contracts to include clear statements of work, definition of deliverables or milestones and payment schedules tied to deliverables. Since July 1, 2004, USD has adopted usage of the FDP model subaward contract for non-FDP institutions for all subawards on federal grants to USD, with incorporation of the relevant agency terms and conditions. Examples of the subaward as well as the Attachment 2 Terms and Conditions are found at http://infoserv.rttonet.psu.edu/spa/subawards/subdemo.htm. As stated previously, the NSF legal council recently reviewed a USD subcontract with a private sector software company, ███████████ and the contract was not only approved by NSF but USD was commended for preparing an excellent contract.

The University of South Dakota disputes the draft audit report's contention that inaccurate annual reports were filed and provided detailed information supporting the accuracy of the annual report in question and demonstrating that the draft audit report based this finding and recommendation on sentences and parts of sentences clearly taken out of context. The Rite Link Association 2003 and 2004 continued to work to market participants IT skills but in August 2004 the Board of Directors voted to terminate the efforts and return any remaining funds to the rural communities that had financially contributed to support other economic development efforts. At the time there was less than $2,000 in the account and there were still some outstanding bills to be paid.

3. Since the audit report's claim of inaccurate annual reporting has no substantive basis and the University of South Dakota has already taken steps to increase the grants administration office, recruiting a full-time Vice President for Research and implemented policies related to annual reporting and subcontract administration as recommended the recommendation to designate USD as a high risk awardee under it's risk management program is not justified.

## 2. Unallowable Costs Claimed

The University of South Dakota disputes the claim that "USD lacked understanding of indirect costs and did not assign an individual the responsibility of determining whether a cost is direct or indirect." The University of South Dakota has an established external grant and contract process in which each proposal is checked to determine that the budget and budget justifications are done correctly. Under this process the principal investigator must have the appropriate department chair and the dean of the applicable school or college review the proposal and budget to insure that it is accurate. Both Department Chair and Dean sign off on the application. The final application and signed routing

form, which includes questions and information on the appropriate indirect costs, cost sharing and other issues, is then brought to the Office of Research where █████████, Coordinator of Sponsored Programs, and █████████ Grants Senior Accountant, both review the routing form and application to insure its accuracy and to insure that all costs (direct, indirect, cost sharing, and other items) are charged appropriately. Once █████ █████ and █████████ have reviewed and signed off on the proposal, the Vice President for Research reviews the proposal and, if everything is acceptable, signs the proposal for submission. A copy of the University of South Dakota proposal routing form is included in the appendix (Attachment F). The Vice President for Research is the person assigned the ultimate responsibility of determining that direct, indirect costs and cost sharing are appropriate. The University of South Dakota has a defined process to determine that costs are correctly allocated.

The University of South Dakota disputes the claim that salary costs were claimed directly and indirectly on the "council grant." The Department of Health and Human Services established the University of South Dakota's predetermined indirect cost rates 1993. The 1998 letter extending the agreement states, "This agreement reflects an understanding reached between your organization (University of South Dakota) and a member of my staff (Department of Health and Human Services) concerning the rates(s) that may be used to support your claim for indirect costs on grants and contracts with the Federal Government". Section B of the agreement regarding accounting changes states, "This agreement is based on the accounting system purported by the organization to be in effect during the agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this agreement require prior approval." The University did not make any changes in its accounting for costs so prior approval was not required. The University of South Dakota made management decisions by assigning the Vice President for Research to work directly on a research project and add two Associate Deans of Research. These management decisions did not change the probable level of costs or accuracy of costs established in the predetermined indirect cost agreement.

As a result of these management decisions the research support infrastructure upon which the predetermined indirect rate is based, was not only maintained throughout the entire period from 1998 to the present, but was undergoing substantial increases during that time period. At no time during this period, including the 14 months in question, was the research infrastructure allowed to fall below that upon which the indirect cost agreement was based. Specifically, the total amount of time of the highest research administration positions (Dean/VP and Associate Deans) never fell below 50%. As can be seen in the attached spreadsheet (Attachment G), all of the university contributions to the salaries of the Office of Research are tabulated. That table shows that both the spirit and the letter of the indirect cost agreement have been maintained.

The indirect cost rate agreement was based on a 50 percent time Director of Research (later changed to Vice President of Research). As a result the Director or Vice President of Research could charge 50 percent of their time as a direct cost. During the 14 months in question, the Vice President of Research was appointed by the Governor of South

Dakota to direct the South Dakota Math, Science and Technology Council as a 50 percent position, which was charged as a direct cost to the "council" grant. Since only 50 percent of the Vice President for Research's salary was being recovered as indirect costs through the HHS approved indirect cost rate agreement, the University of South Dakota was allowed to recover 50 percent of ███████████ salary as a direct cost.

The University of South Dakota disputes the finding that the VP for Research salary was incorrectly claimed as cost sharing. The draft audit report does not include the fact that on October 1, 2003, when the cost sharing issues were raised by the auditors, the practice was immediately stopped and an alternative cost sharing plan for the remainder of the PFI grant was submitted to NSF. In addition, the NSF approved elimination of the third year of the *voluntary* cost sharing in the CDI grant. When the audit team questioned the cost sharing, the University of South Dakota Office of Research personnel specifically asked ███████████ if they should go back before October 1, 2003 and provide alternative cost sharing to replace the salary cost sharing. ███████████ stated that if the practice was stopped and alternative cost sharing provided for the future commitments, there would be no need to go back and provide alternative cost sharing for the three grants in which cost sharing was questioned. The year 3 PFI project ██████ salary cost sharing replaced was $9,947 and the year 3 CDI project ██████ salary cost sharing should be reduced $8,545. The draft audit report not only does not adjust the cost-sharing figure to reflect corrective actions already taken by the University of South Dakota, but also is contrary to the directions given by the audit team during their second visit to USD.

The University of South Dakota does not dispute the unallocable proposal preparation cost charged to the council grant and is willing to return the $13,516 associated with this expenditure.

The University of South Dakota does not dispute the unapproved augmented faculty salaries on the PFI grant. We have taken measures to insure that it does not happen again. The University of South Dakota has implemented a change in its payroll software to automatically notify the grants accounting office and Office of Research if an overload pay request is processed for anyone receiving external salary support. Before the overload pay is approved the principal investigator will have to provide documentation that the federal agency project manager has approved the augmented salary.

**Recommendations on Page 13 of the Audit Report:**

4. As stated above, The University of South Dakota disputes the claim that it does not have procedures in place for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the Federal cost principles for educational institutions. The University of South Dakota's proposal routing process was detailed earlier and illustrates that the University of South Dakota has processes in place to determine reasonableness, allocability and allowability proposed in each proposal submitted to external funding sources. The University of South Dakota is beginning the process of renegotiating its F&A rate with the HHS' Division of Cost Allocation which will determine the approved F&R rates and which functions are direct.

5. The University of South Dakota does not dispute the recovery of the $13,516 dollars paid to a consultant and travel associated with preparation of a grant proposal. The University of South Dakota does not dispute that two faculty members' salaries exceeded their normal monthly salary but ask that the actions taken by the University of South Dakota to coordinate overload teaching salary and externally funded payroll activities to insure that this will not occur in the future be considered during the audit resolution process. The University of South Dakota does dispute the finding that the Vice President of Research's salary was collected both as a direct cost and an indirect cost.

6. In 2003 in response to the auditor's verbal direction the University of South Dakota of South Dakota obtained NSF waiver of the voluntary cost sharing on NSF grant EPS-0126795 and provided alternative cost sharing for EHR-0125385. The University of South Dakota also offered to provide alternative cost sharing for those grants as well as the CPDI-9977752 but were told by ███████ that would not be necessary. This recommended action has already been completed by USD as demonstrated by the email documentation in the appendix (Attachments H and I).

**From:**
**Sent:**
**To:**
**Cc:**
**Subject:**

# NIH GRANTS ADMINISTRATION WORKSHOP

Friday, October 29, 2004
9:00 am—2:00 pm
(coffee beginning at 8:30 )

Best Western Ramkota
920 West Sioux Avenue
Pierre, South Dakota

Welcome and Introduction:
* Daniel Farrington, System Vice President of Research, South Dakota Board of Regents
Presenters:
* Joseph Ellis, Acting Director, NIH Office of Policy for Extramural Research Administration (OPERA)
* Irene Grissom, Chief Grants Management Officer, NIH National Center for Research Resources (NCRR)
Topics to be Discussed:
* NIH Primer:  Overview of NIH and Support Programs
* NIH Update:  Review of Current Developments and Policy
* Funding Opportunities
* Specific Policies:  time and effort reporting, A-133 audits, subrecipient monitoring, salary limitations, expanded authority, carryover of funds
Opportunity for Questions

This workshop will be of special interest to college and university grants administrators.  There will be no charge and a working lunch will be served.  Please register in advance, by providing your name, title, institution, address, telephone number, and email address to: Jan Small, The University of South Dakota, (605) 677-5370; email: jsmall@usd.edu.  The presenters would appreciate questions in advance so that they can be better prepared to spend more time on items of particular interest to the group.  Please email your questions to Jan Small.

Sponsored by :
South Dakota Board of Regents,
System Vice President of Research

REGISTRATION DEADLINE:  OCTOBER 22, 2004

# NIH GRANTS ADMINISTRATION WORKSHOP
## OCTOBER 29, 2004
## BEST WESTERN RAMKOTA, PIERRE, SOUTH DAKOTA

9:00        Welcome and Introductions
                 Daniel Farrington, System Vice President of Research,
                 South Dakota Board of Regents

9:15        NIH Primer
                 Joseph Ellis, Acting Director, NIH Office of Policy for
                 Extramural Research Administration (OPERA)

                 Irene Grissom, Chief Grants Management Officer,
                 NIH National Center for Research Resources (NCRR)

10:30       Break

10:45       NIH Update

12:00       Working Lunch/Q&A Session

1:00        Overview of Various Policy Issues such as Time and Effort
                 Reporting and A-133 Requirements

                 Funding Opportunities

2:00        Wrap-up and Final Questions

2:15        Adjourn

**RITE-Link**
**Meeting Agenda**
**January 17, 2001**

| | |
|---|---|
| 2:00-2:30 | Introductions & Project Roles |
| 2:15-2:30 | Project Over (Mel Ustad) |
| 2:30-2:40 | Community Assessments Process & Results of Howard Meeting (Mel) |
| 2:40-2:50 | ITR Training (Tom) |
| 2:50-3:00 | Business Survey Process & Partners (Mel Ustad) |
| 3:00-3:20 | DIAL Consortium Overview & Involvement (Russ) |
| 3:20-3:35 | K-12 Module Development (Karen Korth) |
| 3:35-3:50 | Evaluation Plans (Diane Kango-Male, Karen Korth, Mel Ustad) |
| 3:50-4:00 | Wrap-up |
| 4:00-5:00 | Campus Tour—Rick Christoph |

**Participants**

John Cherniavsky –NSF Project Manager
Mel Ustad – Principal Investigator
Tom Halverson – Co-Project Director
Diane Kango-Male—Evaluator—Socialogy SDSU
Russ Martin & Karen Korth---DIAL Consortium
Ruth Peters –Business & Education Institute, DSU
Ronghua Shan – DSU
Haomin Wang—DSU
Minhua Wang—DSU
Students—  Josh Pauli
           Jeremy Pauli
           Jeff Wehrman
           Jon Florey
           Melissa Wulf
           Jordon Hofer

# NSF - ITR Evaluation Team Schedule
## Tuesday, November 12, 2002
## Wednesday, November 13, 2002

*Tuesday, November 12, 2002*
Arrive in Sioux Falls.
Room reservations have been made at the Sheraton in Sioux Falls. A hotel shuttle is available at the airport.

Sheraton:
1211 N. West Ave
Sioux Falls, SD 57104
605-331-0100

*Wednesday, November, 13, 2002*

| | |
|---|---|
| 8:30-9:00 | Project Overview, Sheraton--Mel Ustad, PI, Acting Vice President of Research, University of South Dakota |
| 9:00-10:00 | Travel to Mt. Vernon via suburban<br>Project overview questions & discussion |
| 10:15-10:45 | Meet with CyberSpace Camp Middle School Participants, Jackie Wentworth, Mt. Vernon teacher<br>Lindsey Jennewein, USD Computer Science Grad Student |
| 11:00-11:30 | Observe TechTown classroom activities<br>Brian O'Connor--DIAL Consortium<br>Brad Seamer, Technology Teacher at Mt. Vernon |
| 11:30-12:00 | Discussion with DIAL Project Collaborators,<br>Dan Guericke, DIAL President<br>Burrell Johnson, White Lake Superintendent<br>Doreen Gosmire, Executive Director<br>Brian O'Connor, Project Coordinator |
| 12:00-1:15 | Lunch with RITE Team Board Members, Mt. Vernon Steak House<br>Dwaine Umberger, President<br>Other members who desire to attend |
| 1:15-1:45 | Committee Discussions |
| 1:45-2:45 | Travel from Mt. Vernon to Howard by van |

*Wednesday, November 13, 2002 (Cont'd)*

3:00-4:00        Miner County Revitalization representatives & participants
Mike Knutson, Community coordinator
Jim Beddow, Rural Education Center
Melissa Palmquist, RITE Link Participant
MCCR Office Conference Room

4:00-4:30        Travel from Howard to Madison

4:30-6:00        Check into Super-8
Hwy 34 & 81
Madison SD 57042
605-256-6931

6:00-7:00        Tom Halverson, overview of IT Training (RITE Link) program, Diane
Kayongo-Male, Sociology Evaluation summary, Interaction with adult IT
training participants
All the participants, first and second year, at the rural sites will be invited to
participate in the session.
Kennedy Center, DDN Room

7:00-9:00        RITE Link IT Training Session,
Tom Halverson & other instructors will conduct the weekly session with the
participants.

8:00        Return to Super-8

# NSF - ITR Evaluation Team Schedule
## Thursday, November 14, 2002

*Thursday, November 14, 2002*
All meetings in Regents Room, Trojan Center

| | |
|---|---|
| 8:00-9:00 | Tom Halverson, IT Training Co-PI<br>Ruth Peters, Director, Business & Education Institute, DSU<br>Wayne Pauli, BIS Faculty<br>DSU Students |
| 9:00-10:00 | Jerald Tunheim, President Dakota State University<br>Rick Christoph, Dean Business Information Systems, DSU |
| 10:00-10:30 | Mark Hawkes, School of Education (DSU), project evaluation<br>Regents Conference Room, Trojan Center |
| 10:30-12:00 | Committee Discussion |
| 12:00-1:30 | Lunch & Exit Interview<br>Mel Ustad, Tom Halverson, Ruth Peters, Wayne Pauli |
| 1:30-2:30 | Travel from Madison to Sioux Falls Airport |

*Visitors:*
Harriet Taylor, NSF ITR Program
Rita Rodriguez, NSF EIA Division
Don Coleman, Dept. of Systems and Computer Science, Howard University (Washington DC)
Oscar Garcia, Dept. of Computer Science and Engineering, Wright State University (Dayton Ohio)
Gina Mounfield, Vice President for Career Programs, Midlands Technical College (South Carolina)

**U.** the **u**niversity of south dakota.

## UNIVERSITY OF SOUTH DAKOTA
## VICE PRESIDENT FOR RESEARCH

The Vice President for Research (VPR) will serve as the chief research officer for The University of South Dakota (USD), a doctoral/research intensive university with colleges or schools of arts and sciences, medicine, business, law, education, and fine arts. The university is a multi-campus institution, with the main campus in Vermillion, off-campus work at a variety of locations around the state, and medical school campuses in Vermillion (basic sciences) and Sioux Falls (main clinical site). The university is committed to strengthening its competitive research, technology-transfer, and student research involvement. Within the state of South Dakota and at the university, research has taken on an unprecedented level of priority, due in part to the Governor's 2010 Initiative, which has research as one of five major state goals. South Dakota is an EPSCoR/IdEA state and plays a national leadership role in those programs.

The VPR will oversee all matters related to research and creative scholarship at the university, including sponsored projects administration (preaward), internal research incentive programming, development of research-related policy and budgeting, federal and state relations, undergraduate and graduate student research programming, intellectual property and technology transfer, and research compliance. The VPR reports to the Vice President for Academic Affairs, and is a member of both the President's Executive Committee and the Academic Affairs Working Group. As such the VPR interacts regularly with campus leadership at all levels. The VPR also represents the university on the Research Affairs Council of the Board of Regents, along with the other chief research officers of the system and a newly created system vice president for research. The VPR serves as the principal contact with federal funding agencies and other sources of research funding.

The VPR is a full-time position with a competitive salary based upon experience and potential for taking the university to a new level of research leadership and performance. The successful candidate will be a dynamic leader with intimate knowledge of research from the perspective of a successful, competitively funded researcher as well as a research administrator. An earned doctorate is necessary, preferably a Ph.D., along with a portfolio that demonstrates knowledge of research, leadership skills, creativity, and a high level of productivity.

Send letter of application, resume, names and contact information for three references to:
VPR Search Committee
ATTN: Emery Wasley, Human Resources
University of South Dakota
414 East Clark Street
Vermillion, SD 57069

Applications will be reviewed beginning September 15, 2004 and continue until the position is filled. USD is an Equal Opportunity/Affirmative Action employer.

# USD PROPOSAL ROUTING & APPROVAL FORM

**Submit this fully-signed form with all applications for support from external sources to the Office of Research and Graduate Education (107 Slagle).**

RECEIVED - OFFICE OF RESEARCH & GRADUATE EDUCATION: ___/___/___ STATE ID#: _____

**(revised July 2002)**

**PROPOSAL DUE DATE:** _____

1. PROJECT DIRECTOR: _____ PHONE NO: _____
   DEPARTMENT: _____ COLLEGE/SCHOOL: _____

2. CO-DIRECTOR: _____ PHONE NO: _____
   DEPARTMENT: _____ COLLEGE/SCHOOL: _____

3. TYPE OF APPLICATION: ☐ NEW    ☐ RENEWAL    ☐ CONTINUATION

4. TYPE OF AWARD CONTEMPLATED:    ☐ GRANT    ☐ CONTRACT

5. TYPE OF PROJECT:
   - ☐ 1. INSTRUCTION
   - ☐ 2. RESEARCH
   - ☐ 3. PUBLIC SERVICE
   - ☐ 4. ACADEMIC SUPPORT
   - ☐ 5. STUDENT SERVICES
   - ☐ 6. INSTITUTIONAL SERVICES
   - ☐ 7. O&M FACILITIES MANAGEMENT
   - ☐ 8. SCHOLARSHIPS/FELLOWSHIPS

6. SUPPORTING AGENCY: _____

7. PROJECT TITLE: _____

8. PROJECT ABSTRACT: Provide a concise abstract of project in the space below:

9. TOTAL PROJECT PERIOD: _____ Months    FROM:    TO:

10. PROPOSED BUDGET PERIOD: _____ Months    FROM:    TO:

11. DIRECT COSTS FOR PROPOSED BUDGET PERIOD:

| | | | |
|---|---|---|---|
| Salaries & Wages | $ _____ | Fringe Benefits | $ _____ |
| Equipment | $ _____ | Travel | $ _____ |
| Supplies | $ _____ | Consultants | $ _____ |
| Stipends | $ _____ | Tuition & Fees | $ _____ |
| Subcontracts | $ _____ | Other | $ _____ |

Total Direct Costs for Proposed Budget Period:                     $ _____

12. INDIRECT COSTS FOR PROPOSED BUDGET PERIOD:          $ _____

> ***Written documentation from the agency is required if the requested rate is different from those listed below.***
>           (Please circle percentage used.)

☐ Federal On-Campus (figured on modified total direct costs, MTDC: total direct less equipment):
    Research <u>40.5</u>% Instruction <u>46.0</u>% Other Sponsored <u>25.8</u>%
☐ Federal Off-Campus (figured on MTDC):
    Research <u>23.7</u>% Instruction <u>26.0</u>% Other Sponsored <u>19.7</u>%
☐ For-profit Corp (figured on MTDC):
    Research <u>40.5</u>% Instruction <u>46.0</u>% Other Sponsored <u>25.8</u>%
☐ Federal Training <u>8</u>% MTDC
☐ State Agency or Nonprofit Corporation <u>10</u>% total direct costs
☐ Other Miscellaneous Indirect Cost Rate; indicate % _____

13. TOTAL OUTSIDE SUPPORT REQUESTED FOR PROPOSED BUDGET PERIOD:   $ _____
                          *(line 11 + line 12)*
14. TOTAL OUTSIDE SUPPORT REQUESTED (if multiple budget periods):   $ _____

15. COST SHARING :
      ***Complete this section if cost sharing is claimed and also fill out the following section.***

      Percent of Cost Sharing Required: _____ %
               Total USD Cost Sharing:        $ _____
               Total Third-Party Cost Sharing:  $ _____

*************************************************************************************

# COST SHARING INFORMATION
## *** This section is to be completed if cost sharing is involved.***

A. CASH CONTRIBUTIONS  (List item, $ amount, and funding source.)      Total   $ _____



B. IN-KIND CONTRIBUTIONS  (List item, $ amount, and funding source.)   Total   $ _____



C. INDIRECT COST CONTRIBUTIONS                                          Total   $ _____
   Indirect Costs on University Contributions listed in A and B
   ( _____ % use appropriate rate from line #12)            $ _____

   Indirect Costs Waived on Externally Funded
   Portion of Grant                                         $ _____
        (difference of allowable indirect costs
        less amount claimed on line #12)

TOTAL USD COST SHARING FOR PROPOSED BUDGET PERIOD:
(A + B + C)                                                           $ _____

TOTAL USD COST SHARING FOR ENTIRE PROJECT:                          $ _____

D.  THIRD PARTY COST SHARING
    (List item, $ amount, and funding source.)          Total       $ _____




*******************************************************************************
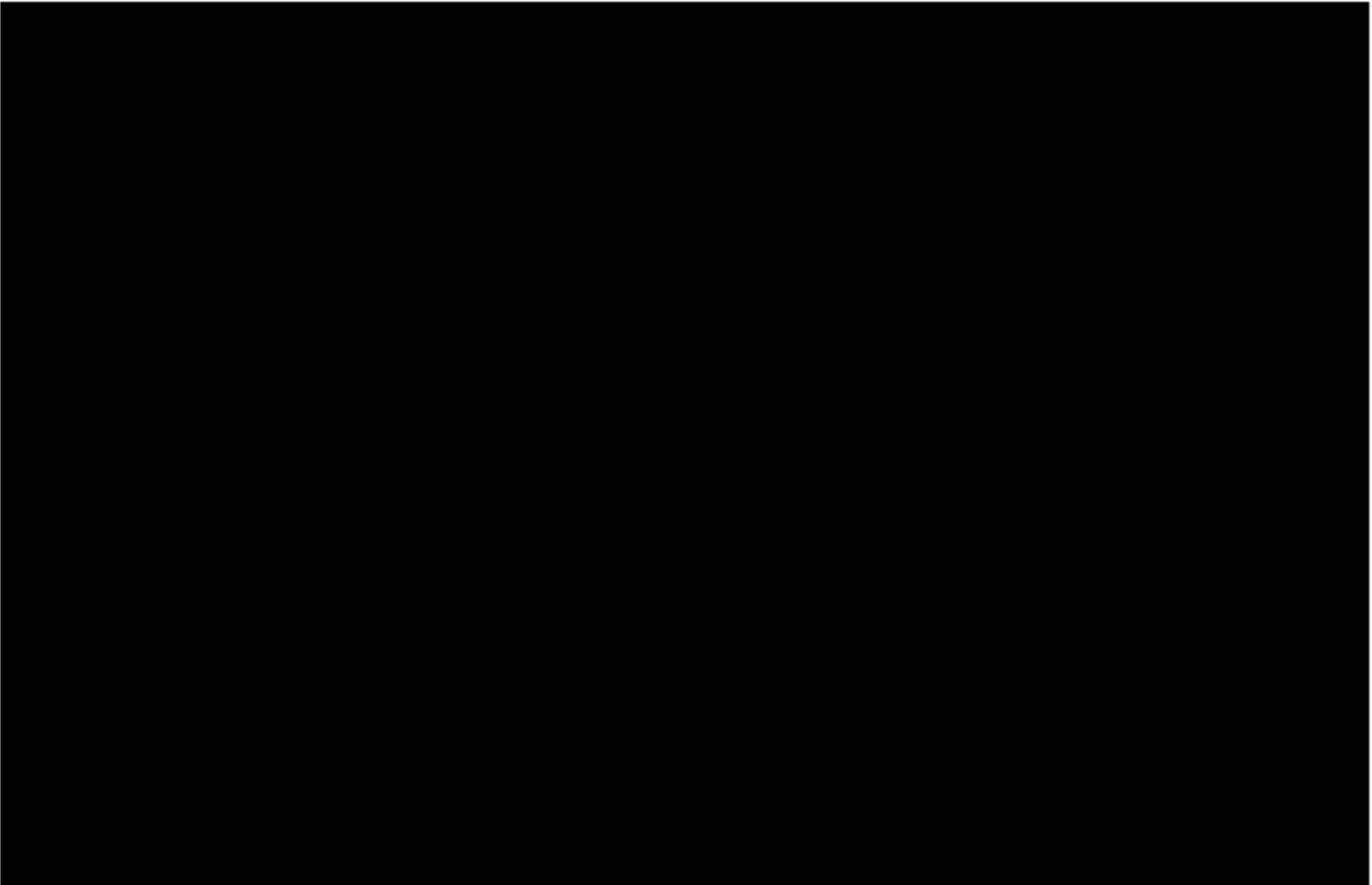
16.  Will USD **FACILITIES** be modified?                          ☐ Yes          ☐ No
     If 'yes', Facilities Management Director initial here.    _____

17.  Will the project involve **HUMAN SUBJECTS**?                  ☐ Yes          ☐ No
     If 'yes', Human Subjects Approval is required before project begins.
     NOTE:  Fees for IRB review must be included as a direct cost item as specified
     by the policy to be found at www.usd.edu/oorsch/humansubjects/IRB_fees.html

18.  Does the project involve the use of **RADIOACTIVE MATERIALS**?  ☐ Yes          ☐ No
     If 'yes', proper licensing and approval procedures are required.

19.  Does the project involve the use of **LABORATORY ANIMALS**?    ☐ Yes          ☐ No
     If 'yes', Animal Care Approval is required before project begins.

20.  Does the project involve the use of **RECOMBINANT DNA**?       ☐ Yes          ☐ No
     If 'yes', proper approval procedures must be followed before project begins.

21.  Does the project involve any **CURRICULUM CHANGES**?           ☐ Yes          ☐ No
     If 'yes', approval of the Vice President for Academic Affairs must be obtained.
        VPAA initial here _____

22.  Does this project involve a **CONFLICT OF INTEREST**?          ☐ Yes          ☐ No
     (Refer to Faculty Handbook for details.)


**AUTHORIZING SIGNATURES:**   The signatures certify that the proposal has been reviewed and
approved and that University policies and procedures will be followed.

PROJECT DIRECTOR: _____      Date: _____

DEPARTMENT CHAIR: _____       Date: _____

DEAN: _____        Date: _____

**From:** ██████████████████
**Sent:**
**To:**
**Cc:**
**Subject:**

Award Date:                                         February 24, 2004
Award No.                                           EPS-0126795
Amendment No.                                       003

██████████████████████

University of South Dakota
414 East Clark Street
Vermillion, SD  57069

Dear ██████████:

By letter dated November 28, 2001 , as amended the sum of $1,713,836 was awarded to University of South Dakota under the direction of ████████████, ████████████ for support of the project entitled:

"EPSCoR Centers Development Initiative (CDI)."

Effective with this amendment, the total cost sharing for this award is reduced from $128,374 to $119,829, as requested in your email dated January 23, 2004. No Federal funds may be used to meet the grantee's cost-sharing obligation for this project.

Except as modified by this amendment, the grant conditions remain unchanged.

The cognizant NSF program official for this grant is ████████████████.
The cognizant NSF grants official contact is ████████████████.

Sincerely,


██████████████

Grants and Agreements Officer


██████████████

███████████

**From:** ████████████████████
**Sent:** ███████████████
**To:** ████████
**Cc:** ████████
**Subject:** ████████████████

████████ - this action is in our Division of Grants and Agreements now.  They'll issue an amendment to the award...

Have a good weekend -

████████

**From:** ████████████
**Sent:** ████████████
**To:** ████████████
**Subject:** ████████████████

███████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████████

████████████

**From:**
**Sent:**
**To:**
**Cc:**
**Subject:** Year 3 CDI Cost Match- EPS - 0126795

████████████

**From:** ████████
**Sent:**
**To:** ████████
**Cc:** █████████████████████████████████
**Subject:** USD PFI Project Cost Sharing

████████████

I submitted the year 2 annual report this morning and was going to include the following cost sharing change request as part of the report but I did not see any place to include. So I am sending an email notifying you of the request. Please let me know if there is a formal process where I should submit this request.

Thanks for your help. Please contact me if you have questions on the cost sharing request or annual report.

████████████████

University of South Dakota
Vermillion, SD 57069
███████████████

PFI Cost Sharing Change Request

The University of South Dakota Partnership for Innovation (PFI) project's cost sharing has consisted of a percentage, ████████████████████████████████████████. NSF has requested that USD no longer use ████████████████████ for cost sharing match so as of October 1, 2003 this was stopped. The remaining cost share commitment is $25,657, from October 1, 2003 until December 31, 2004. To meet the cost share obligation for the project the University of South Dakota proposes the following:

| Item | Amount |
|---|---|
| Graduate Research Assistant ██████████ | ████████ |
| Travel to attend Tech Transfer, Entrepreneurship & Commercialization conferences by project personnel. | ████████ |
| Technology Transfer/IP management resources | ████████ |
| Indirect on USD expenses listed above | ████████ |
| Enterprise Institute Support for Kaufman Foundation Angel Investment Forums | ████████ |
| Total Cost Share | $26,049.14 |

COPY
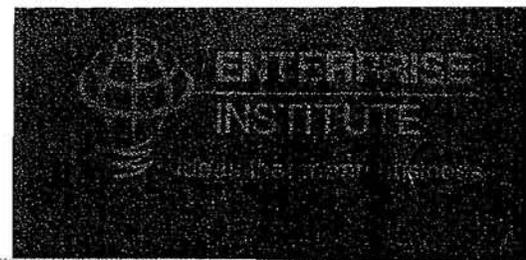
December 22, 2003

████████
██████████████████
University of South Dakota
414 East Clark Street
Vermillion, SD 57069-2390

Dear ███

The Enterprise Institute, a privately funded non-profit foundation, has become a primary partner in the National Science Foundation Partnership for Innovation Statewide Partnership to Support Technology Innovation and Entrepreneurship in South Dakota project. The mission of the Enterprise Institute is to assist inventors and entrepreneurs in South Dakota and at South Dakota Universities to more effectively develop and commercialize their innovations and technologies. In conjunction with the PFI project the Enterprise Institute has sponsored two angel investing forums during 2003 and is working to create several angel investment networks in South Dakota.

The Enterprise Institute contracted with the Kauffman Foundation to conduct a workshop in Sioux Falls in April 2003 and Brookings in October 2003. The cost of each workshop was $7,500 and the Institute agrees to allow $13,000 of those funds to be used to meet the University of South Dakota's cost match requirement for the project. If needed the Enterprise Institute will be happy to provide documentation of payments to the Kaufman Foundation.

Thank you for involving the Enterprise Institute in the Partnership for Innovation Project that has helped to create the charged entrepreneurship and commercialization environment in South Dakota.

Sincerely,

████████████████████
████████████████████
████████████