

THOMAS R. CARPER, DELAWARE, CHAIRMAN

CARL LEVIN, MICHIGAN
MARK L. PRYOR, ARKANSAS
MARY L. LANDRIEU, LOUISIANA
CLAIRE McCASKILL, MISSOURI
JON TESTER, MONTANA
MARK BEGICH, ALASKA
TAMMY BALDWIN, WISCONSIN
HEIDI HEITKAMP, NORTH DAKOTA

TOM COBURN, OKLAHOMA
JOHN MCCAIN, ARIZONA
RON JOHNSON, WISCONSIN
ROB PORTMAN, OHIO
RAND PAUL, KENTUCKY
MICHAEL B. ENZI, WYOMING
KELLY AYOTTE, NEW HAMPSHIRE

United States Senate

COMMITTEE ON
HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

WASHINGTON, DC 20510-6250

GABRIELLE A. BATKIN, STAFF DIRECTOR
KEITH B. ASHDOWN, MINORITY STAFF DIRECTOR

November 6, 2014

Allison C. Lerner
Inspector General
National Science Foundation
4201 Wilson Blvd.
Arlington, VA 22230

Dear Ms. Lerner:

I am writing to request that you review possible abuse of management fees provided by the National Science Foundation (NSF) to Federally Funded Research and Development Centers (FFRDCs).

I am aware that FFRDCs have long collected management fees from contracting agencies in order to cover ordinary and necessary operational costs and risks that would otherwise not be reimbursable. While the sorts of costs paid for with management fees are considered unallowable as they cannot be billed to a project, it is my understanding that they must nonetheless be covered in order for FFRDCs to remain financially viable. Examples of these sorts of costs would include working capital, interest payments, and employee termination costs.

However, there have been allegations that management fees have been used for expenditures of questionable legitimacy. A draft audit conducted by the Defense Contract Audit Agency found that in FY 2013, an FFRDC known as the National Ecological Observatory Network (NEON) used management fees for expenses that might be unreasonable. The fees funded a \$25,000 office Christmas party, \$11,000 for premium coffee services for NEON employees, \$3,000 for Board of Directors dinners that included alcohol, and \$3,000 for t-shirts and other apparel for NEON employees.¹ NEON also used \$112,000 in fees for "government outreach," an activity similar if not identical to lobbying.²

I understand that your office has considered the allegations specific to NEON previously to determine whether these expenses were fraudulent, and found no criminal or civil

¹ Defense Contract Audit Agency, *National Ecological Observatory Network, Inc. (NEON) Statement of Conditions and Recommendations (DRAFT)* (April 4, 2014).

² *Id.*

Allison C. Lerner
November 6, 2014
Page 2

wrongdoing.³ However, given the nature of some of the expenses, I also understand that your office is still concerned with whether management fees in FFRDCs are reasonable.⁴

If there is a widespread abuse of management fees by FFRDCs, it could raise serious concerns about whether management fees should continue to be used to pay for unallowable costs. However, my office does not have the resources to conduct an appropriate review at this time. As a result, I request that you review NSF's process and controls over awarding and monitoring management fees. As part of that review, I request that you evaluate the expenses of NSF's FFRDCs to determine whether they are abusive, illegitimate, or unreasonable.

Thank you for your attention to this matter. Please contact Jackson Eaton with the Subcommittee staff at (202) 224-7155 with any questions. Please send any official correspondence relating to this request to Kelsey_Stroud@hsgac.senate.gov.

Sincerely,



Claire McCaskill
Chairman
Subcommittee on Financial and Contracting
Oversight

cc: Ron Johnson
Ranking Member
Subcommittee on Financial and Contracting Oversight

³ Email from NSF OIG to Majority Staff, Subcommittee on Financial and Contracting Oversight (May 29, 2014).

⁴ Email from NSF OIG to Majority Staff, Subcommittee on Financial and Contracting Oversight (July 1, 2014).