NATIONAL SCIENCE FOUNDATION
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November 18, 2016

Maria T. Zuber, Ph.D.
Chairperson, National Science Board
Massachusetts Institute of Technology, Rm 3-234
77 Massachusetts Avenue
Cambridge, MA 02139-4307

Dear Dr. Zuber:

The National Science Foundation herewith transmits its response to the Inspector General's Semiannual Report, which covers the period April 1, 2016 through September 30, 2016. Also included for the same time period is the management report on final actions on audits with disallowed costs.

Our response focuses on three areas: (1) NSF's commitment to meeting its federal financial reporting obligations, notwithstanding the delayed start of the FY 2016 financial statement audit due to a bid protest on the OIG audit contract; (2) additional information about the OIG management fee audit products; and (3) the audit report for Florida State University and excess salary interpretation.

Our response also acknowledges the OIG's independence from the Agency, recognizing that, while the Agency and the OIG may not always agree, constructive dialogue with the OIG is beneficial to the Agency. NSF remains committed to working with the OIG toward our shared goal of stewardship.

Sincerely,

Martha A Rubenstein

Martha A. Rubenstein
Chief Financial Officer

Enclosures

cc: Dr. France Córdova

Agency Response to the Office of Inspector General's Semiannual Report to Congress

NSF appreciates the opportunity to provide its response to the Office of Inspector General's (OIG) Semiannual Report, covering the period from April 1, 2016, through September 30, 2016. Our response focuses on three areas: (1) NSF's commitment to meeting its federal financial reporting obligations, notwithstanding the delayed start of the FY 2016 financial statement audit due to a bid protest on the OIG audit contract; (2) additional context to, and clarification of, the OIG management fee audit products; and (3) the audit report for Florida State University and excess salary interpretation.

I. Financial Statement Audit

The start of the FY 2016 financial statement audit was significantly delayed due to a bid protest on the OIG's financial statement contract. As a result of the delay, the audit will not meet the government-wide due date of November 15, 2016, and NSF is working closely with the OIG to manage the risk to NSF's audit opinion. NSF's Office of Information and Resource Management (OIRM) and Office of Budget, Finance, and Award Management (BFA) recently completed NSF's Federal Information Security Management Act (FISMA) report and an unaudited Agency Financial Report (AFR). The Office of Management and Budget (OMB) requires both reports and the due dates were November 10th and 15th, 2016, respectively. BFA has also been meeting all other applicable financial reporting deadlines to support the Department of Treasury's government-wide financial statements.

The OIG's new contract auditor, Kearney & Company (Kearney) has committed to completing an audit report with a final audit opinion by January 13, 2017, or sooner. The Government Accountability Office (GAO) requires a management representation letter from OMB and Treasury by January 9, 2017. As a result, NSF's opinion in the government-wide audit report to be issued on January 12, 2017, is still to be determined. On October 14, 2016, the NSF Chief Financial Officer and the OIG formally requested an audit extension from OMB, which has been approved, and began periodic progress reports to OMB. At this stage, the audit continues to progress slowly but steadily, and NSF continues to work with Kearney to ensure timely responses to audit data requests and to minimize delays.

II. Management Fee for NEON, Inc., and Association of Universities for Research in Astronomy (AURA)

The OIG Semiannual Report summarizes three management fee audit products, comprising performance audits of NEON, Inc., and AURA and a letter of observations to NSF about its oversight of management fees for the two awardees. The Agency provides additional context and clarification by noting that the OIG audit products assessed a period of time prior to changes in NSF's policy on use of management fee. It is also notable that the awardees' use of management fee in those instances was not in violation of law or policy, notwithstanding the government's preference that it be expended differently.

More specifically, the Agency issued a new policy on management fee in 2015, around the time the OIG commenced its audit activities. The periods that the auditors examined preceded implementation of NSF's new policy. While the Agency appreciates the OIG audit activities in the management fee area, safeguards to prevent management fees from being used for inappropriate purposes have already been implemented by the Agency, and all NSF awardees receiving management fees are now complying with these requirements. NSF also continues to review information arising from its implementation of the new policy as it considers the fee policy going forward.

III. OIG Audit Report for Florida State University and Excess Salary Interpretation

As the OIG noted in its report, the Agency and the OIG fundamentally disagree about the underlying policy related to "excess salary." This disagreement has manifested in five "escalations" or challenges to NSF's resolutions of questioned salary costs. Most recently, the OIG advised the Audit Follow-up Official (AFO) that its sixth escalation for excess salary was based on different findings arising from the audit of Florida State University (FSU): FSU's inconsistent treatment of senior personnel exceeding the two-month salary, resulting from alleged failure by FSU to comply with its internal policies and procedures.

The OIG escalation asserted that FSU failed to follow its own policies for determining allowability of senior personnel salary expenditures that exceeded two months and treated twelve (12) cases of questioned senior salaries inconsistently with other cases identified by its effort tracking system by not flagging and removing the costs from the NSF awards. FSU's effort policy requires review and removal of excess salary for senior personnel with teaching or other administrative responsibilities while allowing for adjustments to administrative duties of senior personnel (within sponsor terms and conditions) when additional effort is needed.

As detailed in the AFO decision, information obtained by BFA and available during the audit indicated that the individuals associated with the escalated instances were research faculty. While listed as senior personnel on the escalated NSF awards, they did not normally serve as senior personnel and did not have teaching or other administrative responsibilities as part of their university appointments. As such, the escalated instances were not intended to be identified by FSU's tracking system for further review nor did the FSU policy so require.

The OIG has indicated that it will not be referring similar findings to the AFO in the future. Our hope is that future disagreements on policy interpretation can be resolved with constructive dialogue and without repeated escalation of AFO decisions.

The Management Report on Final Actions of Audits

The "Management Report on Final Actions Taken on Audits with Disallowed Costs" (also known as Final Action Tables) are appended to this report. The Final Action Tables are developed parallel to the OIG Semiannual Reports and provide information on all resolved audit

reports requiring recovery of disallowed costs (collections, offsets, write-offs, demands for payment and other monetary benefits resulting from audits). These tables are submitted to the Agency Head semi-annually, as required by OMB Circular No. A-50, Revised, Section 8.a.(8), who provides them to the OIG to be submitted to Congress in conjunction with the OIG's Semiannual Report to Congress.

Conclusion

The Agency affirms our commitment to meeting our federal financial reporting obligations. Correspondingly, we also affirm the OIG's role in advancing NSF's effective stewardship of taxpayer dollars. We acknowledge the OIG's independence from the Agency, recognizing that, while the Agency and the OIG may not always agree, constructive dialogue with the OIG is beneficial to the Agency. We also note that, with respect to the OIG management fee audit products, the OIG assessed a timeframe before the current policy went into effect. NSF remains committed to working with the OIG toward our shared goal of stewardship.