Audits & Reviews

We are responsible for auditing grants, contracts, and cooperative agreements funded by NSF, and for reviewing agency operations to ensure that they are conducted effectively and efficiently. Financial and compliance audits determine (1) whether costs claimed by award recipients are allowable, reasonable, and allocated to the proper award, and (2) if awardees had adequate procedures and controls to ensure compliance with federal laws and regulations, NSF requirements, and the terms and conditions of the award. Performance audits and reviews evaluate the effectiveness and the efficiency of the administrative and programmatic aspects of NSF and awardee operations. In addition, by law we conduct the annual audit of NSF's fiscal year financial statements, including evaluations of internal controls and data processing systems.

Administration and Management

Improving financial management and information security has been an important priority of the Federal Government for many years. Their importance was reaffirmed in August 2001, when *The President's Management Agenda* identified improved financial management as one of five government-wide initiatives the new administration would undertake. The President's goal is to ensure that federal financial management systems produce accurate and timely information to support operating, budget, and policy decisions.

Since 1990, Congress has enacted several laws that are designed to improve federal financial management and information security. The Chief Financial Officer's Act of 1990 (CFO Act), as amended, established the legal framework for improving federal financial management. The CFO Act requires that federal agencies prepare financial statements and the agency's OIG, or an independent public accounting firm selected by the OIG, audit these statements. The Government Information Security Act (GISRA), enacted in October 2000, requires that agencies perform annual reviews and report on their information system security programs. In addition, Inspectors General are to provide independent evaluations of the information security program and practices of their agencies. On September 10, 2001, NSF and the OIG submitted the agency's first report under this Act.

HIGHLIGHTS

During this semiannual period the Office of Inspector General issued two reports that resulted from work performed in accordance with the CFO Act and GISRA. In addition, a report on the financial results of the Ocean Drilling Program was also issued at NSF's request.

Management Letter

We issued our *FY 2000 Management Letter Report* to NSF, containing details on internal control findings and recommendations identified during our FY 2000 financial statement audit and review of NSF's electronic data processing controls. The *Management Letter Report* made several recommendations to NSF management for improving financial reporting and electronic data processing including a recommendation that NSF develop performance measures and goals that can be linked to the budget, actual costs, and management challenges. In addition, it recommended that NSF incorporate a risk-based process for grant monitoring and oversight to ensure that NSF funds are spent only for the purposes intended by the grant. Management has prepared a response to the recommendations that is currently under review by our office.

GISRA Report

In accordance with procedures established by the Office of Management and Budget (OMB), NSF and the OIG provided to OMB an agency evaluation and an independent assessment of NSF's information security programs and practices. We reported that for several years the OIG has worked closely with NSF management to strengthen the agency's information security program. NSF continues to demonstrate its commitment to improve information security programs and processes and has made significant progress toward meeting GISRA requirements. However, the report noted that improvements to information security systems were needed to reduce the risk of (1) loss, misuse, and unauthorized access to and modification of information and (2) disruption of services. The OIG plans to review these areas in more detail during its audit of NSF's FY 2001 financial statements.

Review of Ocean Drilling Program Financial Reports

The Ocean Drilling Program (ODP) involves an exploration of the Earth's crust beneath the ocean to reveal the composition, structure, and history of the submerged portion of the Earth's surface. The program is being carried out by NSF in partnership with seven international members that represent over 20 countries. As prescribed in a Memorandum of Understanding, NSF and the international members jointly contribute approximately $46.5 million annually to support ODP science planning and operations. At NSF's request, we performed a review to verify that the amounts of contributions, receipts, and obligations were accurately reported in the ODP Financial Reports.

Award Administration

International Research Institute Invests Government Funds in Stock Market

In July, we reported on an audit of an international research institute that has received an annual grant from NSF of approximately $2.2 million to support its research programs since 1992. A U.S. honorary society has received a separate NSF grant to act as the U.S. member organization, which is responsible for overseeing U.S. interests at the institute.

Our audit found that the institute's management controls were inadequate to effectively safeguard NSF funds. In particular, the governing council failed to adequately oversee the director's management of the institute's finances. Acting within his authority granted under the institute's charter and council resolutions, the former director invested member funds in stocks, bonds, mutual funds, and cash through a margined investment account over which he had sole signature authority. The investments subjected member funds to an excessive level of risk and violated OMB Circular A-110, which limits investment of funds from a government award to short-term interest bearing accounts. The value of the investment account averaged almost $6.6 million from 1997 to 2000.

Several causes of weak financial controls and oversight were cited. A lack of clarity in NSF's award agreements with the institute and the U.S. member organization contributed to confusion about U.S. requirements for the award. Similarly, the U.S. member organization's oversight role was not clearly defined in its grant agreement with NSF, and communication between NSF and the U.S. member organization was incomplete, particularly regarding events and discussions occurring at the institute's council meetings. However, regardless of the lack of clarity as to its oversight role, we found that the institute's governing council, including the U.S. member organization which was representing U.S. interests, failed to exercise good judgement and did not effectively oversee the financial management of the institute.

We recommended that NSF undertake efforts through the U.S. member organization to strengthen the institute's financial controls and improve the governing council's oversight of the financial administration of the institute. We further recommended that NSF release additional funds to the institute only after verifying that internal controls are adequate to safeguard NSF funds. Finally, we recommended that NSF clarify in writing the responsibilities of the U.S. member organization, enhance associated communications, and develop improved administrative procedures to handle future grants for membership contribution.

The institute has begun taking steps to improve its internal controls and oversight by its governing council. NSF agreed with all recommendations, but the program office disagreed with our characterization of the funding as a "membership contribution" if that implied that continued funding would not be based on scientific quality as determined by a peer review. Therefore, future NSF funding for this institute is under review.

Education Related Audits

NSF makes awards in all areas of science, mathematics, and engineering. Many education programs in these areas are funded through NSF's Directorate for Education and Human Resources (EHR). For FY 2000, EHR Directorate's obligations for awards amounted to $683.5 million, or 17 percent of NSF's $3.9 billion total funding for awards. With the amount of individual awards often exceeding $500,000, much larger than the NSF average, we consider EHR awards to be inherently riskier than other NSF awards.

In addition, many of the awardees include school districts, small colleges and universities, for-profit entities, and non-profit organizations that have limited experience with NSF and the administrative and accounting requirements associated with its awards. In past audits of EHR awards, we have found that awardees experience problems with accounting for NSF funds in accordance with award and federal requirements. We believe our continued audit work serves to help awardees obtain a better understanding of the award requirements, while also providing a valuable tool to NSF in evaluating how to effectively manage these high risk awardees.

William Harrison, OIG audit manager, was recognized by the ECIE with an Award for Excellence

During this semiannual period, we completed five audits of EHR award recipients, involving $18.7 million in costs claimed over a five-year period. Three of the five audits disclosed questioned costs totaling over $3.9 million. For each of the five awardees, we found instances of material non-compliance and internal control weaknesses. Our findings suggest that it would be beneficial for NSF to develop procedures for identifying high risk awardees and ensuring that they comply with federal requirements and implement appropriate internal control systems. For awardees deemed to be high risk, the procedures might include: conducting a more rigorous analysis of awardees' systems prior to the start of an award; providing more detailed instruction to high risk awardees; and monitoring award activity more closely to assure financial and administrative compliance.

In each audit, we made recommendations to the awardees for improving their compliance with NSF and federal requirements and strengthening their internal control systems. A summary of the results of each of these audits is provided below. In addition, we have included a summary of three EHR awardee audits described in the last semiannual report that NSF management resolved during this semiannual period.

A Northeastern Local School District Did Not Provide Documentation For $2.9 Million of Claimed Costs

We conducted a financial and compliance audit of $8.9 million in costs claimed by a northeastern local school district. The school district received an EHR award of $10.4 million to stimulate improvement in the quality of science and mathematics education in grades K-12. Of the amount claimed, we questioned a total of $3,336,687.

We questioned $2,936,594 because the school district did not provide documentation to support costs claimed for the first two years of the award period. We also questioned $35,277 claimed for severance pay and $364,816 budgeted for participant support costs but expended for other purposes without NSF's prior approval. We recommended that the questioned costs be returned to NSF.

We also identified an instance of material non-compliance with federal regulations. We found that employees of the school district did not complete time sheets or sign semi-annual certifications to support salary and wage costs charged to the NSF award as required by federal regulations. Salary and wage costs represented $3.7 million or 40.9 percent of total costs claimed under this award. Because the employees were not required to complete time sheets or sign labor effort certifications, NSF had no assurance that salary and wage costs charged to NSF were for work related to the award. We did not question the related salary and wage costs because we determined that the charges appeared appropriate based on interviews with the school district's project director and employees, and a review of the award documentation. Nevertheless, we recommended that the awardee amend its policies and procedures to ensure that documentation for salary and wage costs is maintained to provide clear evidence that NSF funds are being used for the purposes intended under the award.

The school district disagreed with many of our findings, and we have sent our report to NSF's Division of Contracts, Policy and Oversight for resolution.

Increased Controls Needed at a Southern State University

We reviewed $2.6 million of costs claimed by a southern state university that received three EHR awards. The awards provided funding to the university to (a) participate in an alliance to encourage underrepresented students to select careers in science, engineering, and mathematics, (b) establish a research center with another southern state university for the purpose of integrating education with research in the areas of science, mathematics, engineering, and technology, and (c) participate in a state-wide initiative to improve the preparation of future K-12 teachers. The awardee promised to contribute a total of over $15 million in cost sharing on its three NSF awards. We questioned $387,471 of total costs claimed.

We found that the awardee overpaid $363,560 to one of its subcontractors on an NSF award. In later accounting periods, the awardee recovered its overpayment to the subcontractor and reduced the related claim to NSF.

We noted several instances of material non-compliance with NSF award and federal regulations. The awardee did not use award funds as required by NSF to interact with other NSF-funded centers and in NSF specified percentages on targeted disciplines. The awardee's noncompliance with these specific award requirements could impact NSF's attainment of overall program objectives. It also could impact the awardee's ability to complete the NSF project consistent with the award objectives. We recommended that the awardee establish policies and procedures to ensure that NSF funds are expended in conformance with award agreements.

Also, the awardee did not have a system for readily identifying cost sharing on its awards and did not submit cost-sharing certifications as required by NSF. This diminishes NSF's ability to monitor the awardee's cost sharing on the awards and the awardee's progress in meeting project objectives. It could also impact the awardee's ability to adequately support cost sharing at the completion of these projects. We recommended that the awardee strengthen its current policies and procedures to ensure adequate systems are in place for supporting cost sharing and submitting required cost sharing certification.

Additionally, the awardee did not provide documentation to show after-the-fact confirmation of work performed for employee time charged to the awards as required by federal regulations.

The university agreed with some of our findings. We have forwarded the report to NSF's Division of Contracts, Policy, and Oversight for resolution.

Northeast Nonprofit Entity Claimed $206,503 Provided by Another Funding Source

We audited a $2.5 million EHR award issued to a northeastern nonprofit entity to conduct workshops and provide teaching materials for teachers in three rural sites in Mississippi, Massachusetts, and New York. The overall project objective was to increase the proportion of students who complete algebra successfully in late middle school or high school and who enter college preparatory mathematics studies.

Of the $2,008,087 costs claimed by the entity, we questioned costs totaling $215,788. Consultant and participant support costs of $206,503 were questioned because these costs had been funded by another funding source. We also questioned $9,285 of consultant costs, which either exceeded the daily maximum rate allowed or could not be supported with appropriate documentation. We identified areas for improvement to ensure the entity's compliance with NSF and federal regulations. We also recommended that the questioned costs be returned to NSF.

We identified three material weaknesses in the entity's internal control structure that place NSF funds at risk: 1) the awardee's accounting system did not account for costs by source and the application of award funds; 2) the invoice authorization forms used by the awardee were not properly reviewed or approved prior to the expenditure of funds; 3) the subcontract agreements of the awardee did not include the clauses required by federal regulation. We recommended that the awardee improve its internal controls in these areas to ensure that expenditures are appropriately authorized and charged to the appropriate funding source and that federal requirements are complied with.

The awardee agreed with many of our findings. We have forwarded our report to NSF's Division of Contracts, Policy, and Oversight.

Midwestern Museum's Accounting System Did Not Identify Costs Charged to Awards

A midwestern museum received four EHR awards to foster awareness of science through exhibits, films, and web sites. The museum, a combination of a science center and a natural history museum, is dedicated to providing science-learning opportunities in the museum and to the science community at large.

Of the $3.3 million in claimed costs and $6.7 million claimed for cost sharing, we did not identify any questioned costs. However, we found that the museum's accounting system did not distinguish between direct award and cost-sharing costs in accordance with Federal requirements which require that costs be specifically identified with a funding source. When direct award costs are commingled with cost sharing, certain costs which are only allowable as cost sharing could be charged to the NSF award as direct costs and go undetected. In addition, commingled funds make it difficult to determine whether the awardee has met its proportionate share of the project costs. Accordingly, we recommended that the museum track cost sharing separately from NSF direct award costs. The museum disagreed with the finding because it believed that modifying its accounting procedures to record cost by funding source would not be cost effective.

We also noted that there were conflicting provisions in the award documents for reimbursing indirect costs. Inconsistencies or unclear provisions in awards for reimbursement of indirect costs can lead to misunderstandings between NSF and award recipients and result in questioned indirect costs. We recommended that NSF's Division of Grants and Agreements ensure that grant officials review proposal award budgets and indirect cost rates with their applicable direct cost bases to ensure mathematical accuracy and consistency with provisions in award letters and negotiated rate agreements.

We have forwarded the report to NSF's Division of Contracts, Policy, and Oversight for audit resolution.

Northeastern Museum Needs To Improve Documentation to Support Labor and Fringe Benefit Costs

We conducted an audit of two NSF awards issued to a northeastern museum dedicated to education, conservation and research of water. Through exhibits of aquatic life, the museum expands public understanding, appreciation, and stewardship of the marine environment. The EHR made awards to develop traveling exhibits related to acoustic oceanography, and scientific and environmental issues facing Lake Victoria and North American fisheries.

Our audit did not question any of the $1.9 million in total direct award costs or $1.2 million of cost sharing claimed by the museum. However, we found that the museum did not complete the required time and effort reports to support $709,991 in claimed labor and related fringe benefit costs. Instead, the museum allocated labor costs of salaried employees to the awards based on budgeted percentages or a flat amount allocated for each employee assigned to the NSF projects. We were satisfied that the budgeted and fixed labor allocations approximated actual labor costs incurred based on interviews with the employees whose salaries were charged to the awards. Nevertheless, we recommended that NSF management ensure that the museum establish a system to properly document labor costs charged to NSF-funded projects as well as other activities in a manner to comply with federal requirements. This documentation is important to ensure that charges to NSF for salaries and related expenses are appropriate.

During the audit resolution process, the museum affirmed to NSF that it had developed new timecards, established new procedures to record time worked on projects, and trained its employees to properly implement these procedures. As a result, the museum can record actual time worked to support labor costs and the related fringe benefit costs assigned to all museum activities, including federally funded projects.

Audit Resolutions of Education Awards

NSF Recovers $421,852 from a Northwest Tribal Federation

In our *March 2001 Semiannual Report* (p. 15), we reported the results of an audit of a northwest tribal federation that received an NSF *Rural Systemic Initiative* award to improve the scientific and mathematical literacy of students. We questioned $421,852 or 4.7 percent of the $8.9 million in claimed costs as unallowable and unsupported. Specifically, we questioned $264,830 because the federation charged salaries and related fringe benefits to the award based on budgeted amounts rather than on actual and documented payroll costs and $88,505 because the federation claimed amounts in excess of actual incurred costs. We identified an additional $54,442 of questioned costs because travel, materials and supplies, and subaward costs were either not related to the award or not adequately supported by source documentation. In addition, we found $14,075 in interest income earned on NSF advanced funds that the federation should have returned to the U.S. Department of Health and Human Services (DHHS).

As a result of the audit resolution process, NSF sustained the full $421,852 of costs questioned in the audit report. The federation agreed to adjust or offset unbilled NSF award costs for the sustained amount. In addition, the federation agreed to remit the $14,075 in interest income to the DHHS and has assured NSF that actual and not budgeted payroll costs will be used to determine claimed costs for future NSF awards. Also, it was reported that an additional $3,632 in interest income was remitted to DHHS by the Federation, as a result of its improved internal controls.

Eastern Non-Profit Consortium Agrees to Repay $84,576

In our *March 2001 Semiannual Report* (pp. 13-14), we reported on an audit of an eastern non-profit consortium that received a $4.3 million award to enhance teaching. Of almost $3.1 million in costs claimed by the consortium, we questioned $84,576 primarily due to improper salary and fringe benefits charged to the award and claimed costs not reflected in the accounting records.

NSF sustained the full $84,576 of questioned costs. The consortium agreed to adjust its accounting records to reflect the questioned costs, and take action to address the underlying compliance issues and internal control weaknesses identified in the audit report.

Midwestern School District Agrees to Document Labor and Participant Stipend Costs

In our March 2001 Semiannual Report (pp. 14-15), we reported on an NSF cooperative agreement to assist a Midwestern school district in reforming its K-12 mathematics and science education programs. Of the $11 million in costs claimed by the school district, our audit did not identify any questioned costs. However, we found that the school district was not in full compliance with federal cost principles because it did not have completed time sheets or signed certifications to support labor and participant stipend costs charged to the cooperative agreement.

During the audit resolution process, the school district assured NSF that it had instituted new procedures that require supporting documentation for all salary and related expenditures charged to individual awards. NSF required the school district to ensure that changes made as a result of these new procedures comply with federal requirements.

Contract Related Audits

In our fiscal year 2001 audit plan, we identified procurement as an area of strategic focus. While the majority of NSF's awards are either grants or cooperative agreements, the role of procurement is not insignificant. In FY 2000, NSF procured $336.9 million in goods and services, which represents 8.5 percent of NSF's FY 2000 budget authority. During this period, we completed several contract audits requested by the NSF Office of Contracts, Policy and Oversight to determine whether costs claimed were reasonable, allocable, and allowable.

Our audits of five contractors identified over $1.2 million of questioned costs, 4.6 percent of the $25.7 million claimed by the contractors over a seven-year period. The majority of the questioned costs related to indirect and consultant costs. Four of the five contractors claimed indirect costs of $594,677 that exceeded the amounts allowable based on negotiated or audited rates. Two contractors claimed $293,077 of consultant costs that exceeded the maximum allowable amounts.

We further identified an additional $1.4 million of costs claimed by three contractors as unresolved costs, which are costs for which we could not make a determination as to their reasonableness, allowability, and allocability at the time of our audit. We classified the $1.4 million as unresolved costs because actual indirect cost rates or other standard billing rates for certain years had not been determined by the cognizant federal agency at the time of our audit. Therefore, we could not determine whether the three contractors had over-billed NSF for indirect and other costs for those years.

We also found that some contractors needed to improve their compliance with NSF award conditions and federal regulations and strengthen internal controls. Specifically, we found that three of the five contractors had instances of material non-compliance with federal regulations and internal control weaknesses.

The complex nature of government procurement in general suggests that it is an administrative risk for the agency. The results of our current contract audits and the three audits we completed during the last semiannual period indicate that NSF needs to maintain a continuing focus on overseeing its contract awards.

A summary of the results of each of the five contract audits is provided below. In addition, we have included a summary of two contract audits that we reported on in our last semiannual report that NSF management resolved during this semiannual period.

Mid-Atlantic For-Profit Contractor Has $187,278 of Questioned Costs and Material Deficiencies

At the request of the NSF Division of Contracts, Policy and Oversight, we audited 10 task orders of a $6.2 million NSF contract issued to a mid-atlantic for-profit company, which provided support services to various NSF programs and divisions. Of the $2.1 million total costs claimed under these task orders, we questioned $187,278 consisting of the following: $60,127 for unaccounted for equipment and software; $30,548 for temporary staff, printing, and training costs which were not authorized by the task orders; $41,802 for unsupported costs; $4,907 for consultant and travel costs in excess of federal maximum rates; and, $49,894 for indirect costs, including $24,639 for fringe benefits and indirect costs that were in excess of allowable amounts and $25,255 for general and administrative costs related to the questioned direct costs.

We believe material weaknesses in the contractor's controls for administering its NSF awards and ensuring compliance with federal regulation contributed to the questioned cost findings. In general, we found a lack of overall contract management and compliance with contract reporting requirements. Specifically, we found that the contractor: failed to obtain written modifications for task order changes; billed NSF for amounts that were not reported in the general ledger; did not reconcile its accounts receivable history with vouchers it submitted to NSF for payment; did not completely document its voucher file; did not maintain records identifying all government-acquired equipment and software purchased under the task orders and therefore could not support the physical existence of assets; and failed to maintain adequate accounting records to support the costs claimed for proposal processing. Without good contractor management controls, NSF has limited assurances that it is getting the goods and services it contracts for and that it is not paying costs that are unallowable based on the contract provisions.

In addition to the questioned costs, we found that actual costs incurred on nine of the ten task orders exceeded budgeted amounts by $122,713. Although these costs were not charged to the NSF contract, it is in the best interest of the contractor, as a for-profit entity, to have adequate systems to prevent the occurrence of such cost overruns.

The contractor did not agree with many of our findings. We made specific recommendations to NSF requiring the contractor to address each of the questioned cost items, instances of non-compliance, and internal control weaknesses. We forwarded this report to NSF's Division of Contracts, Policy and Oversight for resolution.

Mid-Atlantic Education-Consulting Firm Claimed $677,556 of Questioned Costs

We audited three NSF contracts awarded to a mid-Atlantic education-consulting firm that provides technical assistance and consultation to school systems, education associations, governmental agencies, and institutions of higher education. The contracts provided technical assistance to institutions in planning and implementing NSF's Model Institutions for Excellence program and technical support related to the rural and urban systemic initiatives funded by NSF's Directorate for Education and Human Resources.

The contractor claimed direct costs and fees totaling $6,403,808, of which we questioned 11 percent or $677,556. Included in the questioned costs were claimed indirect costs of $305,208 in excess of the actual allowable incurred costs, consultant costs of $276,926 that were not approved by NSF's Contracting Officer, and labor costs of $41,741 that were not based on actual hourly rates. We also found that the contractor claimed other direct costs of $5,905 that were not supported by its accounting records.

We attributed most of these questioned costs to material deficiencies in the contractor's procedures for administering its NSF awards. The contractor failed to submit proposed final indirect cost rates to NSF for fiscal years 1994, 1996, 1997, and 1998 as required by federal regulations and the contract provisions. In addition, the contractor lacked adequate procedures to ensure that unallowable indirect expenses are not included in its indirect cost rate charges. As a result, our review of the contractor's pools of indirect costs for those four fiscal years identified numerous unallowable costs in the pools. After eliminating the unallowable costs from the pools and calculating the actual indirect cost rates, we found that the contractor had claimed $305,208 in excess indirect costs. We also classified $191,484 of costs claimed under one contract as unresolved, because at the time of our audit the contractor had not submitted its FY 1999 proposed indirect cost rates to NSF and was unable to make the indirect cost data available for our review.

The contractor lacked procedures for preparing invoices directly from its accounting system, resulting in it claiming $5,905 of other direct costs that could not be traced to its accounting records. The contractor also did not have adequate timekeeping procedures in place. Timesheets sometimes lacked the appropriate authorizing signatures and changes were not initialed. Although this deficiency did not result in questioned costs, sound internal controls dictate that timesheets be properly signed and changes initialed given the significant labor effort amounts claimed under its contracts.

We recommended that NSF direct the contractor to submit its proposed indirect cost rates for FY 1999 and future years, and limit claimed costs to costs allowable under the federal regulations and the contracts' provisions. We also recommended that NSF direct the contractor to institute policies and procedures to identify unallowable indirect costs in the accounting system, prepare invoices directly from the accounting system, and require employees and supervisors to sign all timesheets and initial all timesheet changes.

The contractor disagreed with some of our findings. We have forwarded this report to NSF's Division of Contracts, Policy, and Oversight for resolution.

Midwestern For-Profit Contractor Claims Excessive Indirect Costs

We audited three NSF contracts issued to a midwestern for-profit corporation to conduct surveys of scientific and engineering research facilities for NSF's Division of Science Resources Studies. Of $3.3 million in costs claimed under the contracts, we questioned $337,589 or approximately ten percent of the audited costs. We found a material instance of noncompliance with federal regulations and material deficiencies in the contractor's internal control structure to have caused the questioned costs: the contractor did not maintain invoices and other detailed receipts to adequately explain and support expenses in its indirect cost pools for such costs as accounting, consulting, meals, entertainment, and lodging expenses as required by federal regulations. Consequently, we eliminated $357,673 of unsupported expenses from indirect cost pools, which had the effect of reducing the indirect cost rates. These lower indirect cost rates, coupled with our finding that the contractor also claimed costs using rates which exceeded the maximum indirect cost rates allowed in the contracts, resulted in questioned indirect costs and related fixed fees of $279,942.

We also found that the contractor's accounting system did not record all costs that were applicable to the NSF contracts and that the amount of costs recorded did not always agree with costs reported to NSF. In addition, the contractor did not monitor subcontract costs to ensure that award limits were not exceeded and did not require detailed receipts and invoices prior to the payment of expenses. As a result of these deficiencies in internal controls, we questioned $51,849 in costs claimed for labor, subcontract, other, and related indirect costs in excess of actual costs recorded in the accounting records. Also, $5,798 of subcontract and related indirect costs were questioned because the costs exceeded the amount of the subcontract award.

We recommended that NSF require the contractor to: (1) return $337,589 of questioned costs, (2) review expenditures included in the indirect cost pools for allowability under federal regulations, (3) institute a procedure to maintain required detailed receipts and invoices to support costs incurred, and (4) exercise greater care in the recording, reporting, and reconciling costs related to NSF contracts, which includes tracking subcontract costs so that award amounts are not exceeded.

The contractor agreed with most of our findings and recommendations. We have forwarded this report to NSF's Division of Contracts, Policy, and Oversight for audit resolution.

Mid-Atlantic Contractor Had $862,318 of Unresolved Costs

We conducted an audit of a three-year NSF contract awarded in 1996 to a mid-atlantic employee-owned research firm. The contractor provided technical assistance and communications support to several program offices in NSF's Directorate for Education and Human Resources.

Of the $8.4 million costs claimed by the contractor, we classified $611,460 of indirect costs and $250,858 of computing and copying charges as unresolved costs. We found at the time of our audit that the contractor's cognizant federal audit agency, Defense Contract Audit Agency (DCAA), had not negotiated either final indirect cost rates for fiscal years 1997 through 1999 or standard billing rates for computing and copying charges for fiscal years 1996 through 1999.

We also questioned $22,240 of costs claimed by the contractor which were unallowable based on applicable federal cost principles; $15,267 of indirect costs claimed which were in excess of allowable amounts; $608 of direct costs claimed for alcohol and bartender services; and, $6,365 of direct costs claimed by the contractor for unallowable subcontract costs.

We referred the audit findings to NSF's Division of Contracts, Policy, and Oversight for resolution.

Mid-Atlantic Contractor Did Not Comply With Federal Regulations

We conducted an audit of two contracts awarded to a mid-atlantic firm – the first to operate NSF's central computer facility, and the second to provide software support, system management and administration, and user support for NSF's electronic mail and UNIX operating systems. We examined $5.4 million of costs claimed under these two contracts. We also audited the indirect cost rates for the NSF contracts for fiscal years 1993, 1994, and 1996.

We found that the contractor's cognizant federal agency, DCAA, had not yet negotiated the contractor's final indirect cost rates for fiscal years 1998 through 2000. As a result, we reported $418,588 of claimed indirect costs for those years as unresolved costs.

We questioned $4,774 claimed for consultant costs because the contractor did not provide supporting documentation. We recommended that NSF disallow these costs. We also recommended that NSF ensure that the contractor has appropriate policies and procedures for accounting for costs and that it maintains adequate documentation to support claimed costs.

The contractor did not respond to our findings. We have forwarded these matters to NSF's Division of Contracts, Policy, and Oversight for resolution.

Audit Resolutions of Contract Awards

An Eastern For-Profit Corporation Must Repay NSF $5,382

In our *March 2001 Semiannual Report* (pp. 18-19), we reported the results of an audit of two contracts awarded to an eastern for-profit corporation to conduct data processing services and database maintenance for NSF. Out of a total of $2.9 million costs claimed by the contractor, we questioned $54,478. The questioned costs included $40,791 in direct labor and related indirect costs, $8,603 of other costs claimed for which the contractor could not provide supporting documentation and $5,084 in claimed general and administrative costs which were in excess of the contractor's actual costs. To improve its compliance with the provisions of federal contract awards and internal controls, we recommended that the contractor improve its accounting and internal controls related to classifying and recording costs in correct expense categories.

In resolution of the reported $54,478 questioned cost findings, NSF allowed $49,096 and sustained only $5,382 of questioned costs. NSF allowed $40,791 in direct labor and related indirect costs based on an affidavit signed by the company's president affirming the correctness of the labor charges that the contractor was unable to support with adequate payroll documentation. NSF also allowed $7,004 of the $8,603 other direct costs questioned based on supporting documentation provided by the contractor during the audit resolution process, but sustained the remaining $1,301 which was not supported by adequate documentation. Of the $5,084 excess general and administrative claimed by the contractor, the contractor provided closeout invoices supporting only $1,301 of the questioned amount and therefore the remaining $3,783 was sustained.

NSF indicated that the few isolated cases of misclassified costs in reporting expenses did not indicate systemic problems in the contractor's internal controls as we had determined.

NSF Software Support Service Contractor Addressed Audit Findings

In our *March 2001 Semiannual Report* (pp. 17-18), we reported the results of an audit on three task orders issued to a midwestern for-profit corporation that provided for systems development and computer support services to NSF. Of $8.2 million in claimed costs, we questioned $14,242 because the contractor was not able to provide supporting documentation for labor costs charged to NSF. In addition, we reported that the contractor did not submit to DCAA indirect cost rate proposals for fiscal years 1997 through 2000. These audits and negotiations of the indirect cost rate proposals by DCAA could change the approximately $2 million of indirect costs that the contractor claimed on the NSF task orders. Accordingly, we recommended that the contractor submit indirect cost rate proposals to DCAA for audit and negotiation and adjust its claims to NSF if the actual rates are less than the provisional rates the contractor used to bill indirect costs to the task orders.

During NSF's resolution of the audit findings, the contractor located and provided to NSF the missing time records to support $14,242 of the questioned labor costs. Also, it was determined that DCAA was not negotiating indirect cost rates for the contractor's location where the NSF work was being performed since NSF was the only federally funded activity at this location. Therefore, at NSF's request the contractor submitted its indirect cost proposals for fiscal years 1997 to 2000 to the NSF Cost Analysis and Audit Resolution Branch for its review and negotiation of final indirect cost rates. Upon completion of NSF's negotiation of final indirect cost rates, any indirect costs charged to the contract in excess of the amount determined to be allowable will be collected from the contractor.

Cost Sharing

Audits Find Recurring Internal Control Weaknesses In Accounting for and Reporting on Cost Sharing

In our March 2001 Semiannual Report, we identified cost-sharing as one of NSF's top ten management challenges for NSF (p. 5), and discussed our continuing efforts to monitor awardees' ability to meet their cost-sharing requirements (pp. 7-10). During this reporting period, we completed, or NSF resolved, additional audits at seven institutions involving $12.9 million in cost sharing. We also completed an audit of an Engineering Research Center (ERC) in which we found that the Center claimed $9.9 million of cash and in-kind support from industry sources. Although the contributions to the Center did not meet the technical definition of cost-sharing, they raised some of the same accounting, monitoring, and reporting issues.

The audits of cost sharing at the seven institutions again identified recurring cost-sharing, compliance, and internal control weaknesses. At three of the institutions that promised to provide $4,239,560 million in cost-sharing, the accounting system did not identify cost-sharing contributions. In addition, six of the institutions, representing $11 million in cost sharing obligations, lacked written policies and procedures for certifications, did not submit annual cost-sharing certifications required by NSF, and/or based the certifications on budgeted rather than actual, amounts. Two institutions lacked procedures for valuing in-kind cost sharing or claimed costs that were not allowable. Finally, at three institutions some or all of NSF research and development (R&D) awards were not audited in an annual federal audit, required under the Single Audit Act (the OMB Circular A-133 Audit) in part because awardees had not identified the NSF awards as R&D awards.

Common Cost Sharing Problems in Seven Audits

Awardee	Promised Cost Sharing	Accounting System Did Not Identify Cost-Sharing Contributions	Questioned Costs	Cost-Sharing Certification Problems	Valuation of In-Kind Cost-Sharing Issue	NSF Awards Not in Federal R&D Cluster For A-133 Audit
University Foundation	$5,532,778		X	X		X
University Foundation	2,532,580	X	X	X		X
University	1,902,040		X			
State government	1,134,648	X		X		
University	1,124,379		X	X	X	
University	572,332	X	X	X		
University Foundation	112,141			X	X	X
Total	$12,910,898	3	5	6	2	3

Since cost-sharing often represents significant contributions to awards, the failure to keep proper accounts can have serious consequences. In these cases, the lack of identification of cost-sharing contributions in the accounting system, which is required by federal and NSF guidelines, impeded the institution's ability to ensure that it was meeting its cost-sharing obligation, and decreased NSF's ability to monitor claimed cost-sharing. The failure to certify actual cost-sharing expenses in annual progress reports, as required by NSF, meant that NSF did not know the actual amount of cost-sharing that had been provided and could not administer those awards effectively. Finally, the exclusion of NSF's awards from the federal R&D cluster in federal audits (the A-133 audits) meant that NSF's affected awards were less likely to be audited. It also indicated that NSF could not rely on the A-133 audits, which are intended to obviate the need for individual agencies to audit award recipients separately, for relevant and reliable information about cost-sharing problems on NSF awards.

These problems not only undermine NSF's ability to oversee an award, but to the extent that NSF overpays its share of funding because of inaccurate accounting, opportunities for the agency to fund other awards are curtailed. For example, valuation of in-kind cost-sharing that is not consistent with federal cost principles and results in disallowed cost-sharing, overstates the actual amount of cost-sharing provided by the awardee and understates NSF's percentage contribution to the award. In such cases, the agency pays more than its fair share for research. Ultimately, this represents an opportunity cost to NSF since the money could have been used to fund more awards.

Based on the findings contained in the seven audits, we recommended that awardees improve their internal controls for valuing, recording, documenting, and monitoring cost-sharing to ensure that any future contributions comply with award terms and conditions. In addition, we recommended that award recipients establish written policies and procedures for submitting annual and final cost-sharing certifications to NSF. We also recommended that award recipients correctly identify any NSF R&D award so that its chances of being audited as part of a federal R&D cluster are improved.

In our next semiannual reporting period, we plan to complete audits of cost sharing at six more institutions. We anticipate also preparing a summary of the overall results of those cost sharing reviews as a basis to assess the implications for NSF's cost-sharing policies. In addition, we plan to include an evaluation of cost sharing, as applicable, in all of our future audits of grantee institutions.

Cost-Sharing at Three Campuses in a Western University System Reveal Internal Control and Compliance Findings

As we noted in our *March 2001 Semiannual Report* (p. 8), we initiated an overall survey at the university level, and individual audits of cost sharing at several campuses of a western state university. We discuss below the results of three of the five cost-sharing audits we completed during this reporting period at campuses in this university system.

The university's foundation at one campus met its $112,141 cost-sharing obligation, but needed to update its cost-sharing policies and procedures to comply with federal requirements. Given its limited federal awards, the Foundation believed that its cost-sharing policies and procedures were adequate. However, anticipating an increase in federal awards, it recognized a need to improve its policies and procedures. We also found that, contrary to NSF requirements, the foundation delegated responsibility for monitoring awards to Principal Investigators, who did not always have the time or knowledge of the complicated management and accounting requirements for federal grants. As a result NSF had less assurance that its awards were being administered in accordance with grant conditions. We recommended that the university foundation update its cost-sharing policies and procedures, and assume primary responsibility for monitoring all federal awards. The foundation agreed with our recommendations.

At the second campus, NSF provided $1.3 million for the second phase of a high-performance network and required the campus to provide $2.5 million of cost sharing. We questioned $1,264,361 of that cost-sharing because the campus incurred $1,132,446 after the expiration date of the award and could not provide time and effort reports in compliance with federal requirements to support $131,915 in claimed faculty release time. As a result of these unallowable and unsupported cost-sharing expenses, we recommended the campus reimburse NSF $90,602, for the amount of funds NSF contributed to the project above its pro-rata share. We also found weaknesses in the campus's systems for monitoring, tracking, and accounting for its cost-sharing obligation. Specifically, because of a misunderstanding of federal cost-sharing requirements, the campus did not segregate NSF-funded costs from cost-sharing or non-federal costs and, therefore, could not easily or readily determine the actual amount of cost-sharing it had or needed to provide under the award agreement.

The second campus also did not monitor cost sharing promised by three other campuses, because it believed that cost sharing provided by other sources would be sufficient to meets its obligation. As a result, one campus did not provide any support for promised cost sharing, which potentially impacted the scope of work that NSF intended with this award. In addition, the campus was unaware of NSF's requirements to provide final cost-sharing reports, certified by the authorizing official. Consequently, NSF did not know that there was a cost-sharing shortfall. We recommended that prior to any new award, NSF should ensure that the campus establishes written policies and procedures for its financial accounting system, monitoring of subrecipients, and for submitting annual and final cost-sharing certifications to NSF. The campus agreed with some but not all of our findings, and we have forwarded these matters to NSF's Division of Contracts, Policy and Oversight for resolution.

At a third campus NSF funded 32 awards totaling $11.3 million and required the campus provide $5.5 million of cost sharing. We questioned $6,759 of cost sharing on four awards because the institution incurred the cost sharing after the award's expiration date without obtaining the required no-cost extension from NSF. Also, while the university foundation did submit annual reports to NSF, the information in the reports was either incomplete or not certified by the institution's authorizing official. Without this information, NSF could not determine whether the institution was making satisfactory progress in meeting its cost-sharing obligations. We recommended that the institution monitor required cost-sharing under its NSF awards, immediately notify NSF of any shortfalls, and certify actual cost-sharing expenditures annually to NSF. The foundation concurred with these recommendations. We have forwarded the audit report to NSF's Division of Contracts, Policy and Oversight for resolution.

Cost-Sharing Audits at Four Geographically Diverse Colleges and Universities Indicate Procedural and Policy Weaknesses

We stated in the *March 2001 Semiannual Report* that in order to assess the risk of cost-sharing nationwide, we had selected for audit eight educational institutions that varied in size, were geographically diverse, and had received NSF awards requiring cost sharing of $500,000 or more. We reported on two of those audits in that semiannual report (p. 9), and can now report on two more.

NSF funded two awards totaling $1.2 million to a large southern university, which promised $1.1 million of cost-sharing. The university is meeting its cost-sharing commitment, although it claimed $17,029 of unallowable cost-sharing costs. We also found that the university did not comply with NSF requirements to certify annually cost-sharing amounts greater than $500,000, because its staff was unaware of the requirement or did not receive information in time to submit the certifications. We recommended that the university strengthen its policies and procedures to ensure that all awards requiring cost-sharing certifications are identified, that required cost-sharing certifications are submitted to NSF, and that only allowable costs are claimed. The university agreed with these recommendations.

In the second cost-sharing audit of another large university, NSF awarded $3.1 million for three awards and required $1.9 million of promised cost-sharing. We found that the university is meeting its cost-sharing commitment on two of the three awards. However, while the university had an adequate system of controls for accounting for and reporting on cost-sharing obligations, we identified two areas needing improvement. First, the university did not adequately oversee or review cost-sharing information provided by the department level staff. As a result, one of the departments claimed cost-sharing expenditures of $442,895 which included unallowable labor and other direct costs of $331,329.

We also found that the university purged supporting cost-sharing documentation for one award before the end of the required retention period. As a result, it is difficult to ensure that the award funds were being consumed at a rate commensurate with the accomplishment of programmatic goals of the award. We recommended that NSF direct the university to improve its procedures for monitoring department-level grant administration to ensure that cost-sharing expenses are supported and in accordance with federal cost principles, and to revise its record retention policies to ensure that the university maintains original source documentation in compliance with federal and NSF requirements. The university did not respond to these recommendations, and we have forwarded the audit report to NSF's Division of Contracts, Policy and Oversight for resolution.

Resolution of Two Cost-Sharing Audits

During this reporting period NSF management resolved two audits involving cost sharing reported in our *March 2001 Semiannual Report* (p. 9). In the first audit, at a western state college, we identified $603,714 of unallowable cost-sharing claims because of inadequate controls to manage, account for and report cost-sharing obligations. We recommended that the college reimburse NSF $20,423 for the costs that NSF incurred above its pro-rata share when the college failed to meet its cost-sharing requirement. During the resolution of the audit, NSF learned that although the original technology funded by the college and claimed as cost sharing failed to operate, the college substituted another technology that was equally satisfactory to NSF. Accordingly, NSF management determined that the college met its cost-sharing requirement.

In a second audit of a northeast state education department, we identified several instances of non-compliance with federal and NSF award requirements. In reaching resolution on this audit, the department stated that it has developed policies and procedures to address weaknesses in its systems for budgeting, tracking, and reporting of cost-sharing amounts as well as to verify that employee time claimed as cost sharing was actually for work done on NSF awards. Because the department has historically promised to make changes that subsequent audits determined were not implemented, NSF recommended a follow-up audit within six months and planned to monitor the department's compliance with federal and NSF award requirements.

Northeast Engineering Research Center (ERC) Overstated Industry Support by $6 Million

NSF established the ERC program in 1985 to address engineering systems issues and to educate students using a cross-disciplinary, team approach. NSF requires centers to obtain substantial financial support from industry, including cash and in-kind donations to support their research programs. The centers use industrial membership programs as the primary mechanism for obtaining this support. NSF also requires that centers submit an annual report describing the status of their research and financial activities, including industrial support. Beginning in 1998, to clarify industrial membership reporting, NSF required that ERC institutions verify in annual reports that the industrial member firms are current members, as defined by a membership agreement. We conducted an audit of industrial support claimed by one northeastern university ERC. The audit resulted in reports identifying concerns at both the university and at NSF.

Our review found that for the four-year period ending August 31, 1998, the center's annual reports to NSF significantly overstated the amount of direct cash and in-kind support it had received from industry sources. Of the $9.9 million of direct cash and in-kind support reported, we accepted $3.8 million, or 38 percent. Of the remaining $6 million, the center was unable to provide supporting documentation, counted the same support twice, or claimed support, such as bench fees and fellowships paid directly to students rather than to the center, which could not otherwise be defined as direct cash or in-kind support. Additionally, of the 32 reported member firms, we were only able to verify membership agreements with nine (28 percent). Finally, the center did not report to NSF the existence of a $1.9 million cash surplus it had accumulated from unspent industrial member contributions and the investment income earned on the surplus.

NSF utilizes data about the level of industrial support and the active participation of industrial scientists in the ERC's planning, education, and research activities in its annual performance review of center operations. Based on this data along with an annual site visit, NSF determines the level of future NSF support it will provide to the center. In particular, NSF scrutinizes direct cash support to the center, because the program's objective is for the center to become self-sufficient after NSF funding expires. Because the center overstated its industrial memberships and funding amounts in the annual reports, NSF did not have accurate information when it was making its annual funding decision. Despite the importance of this information to NSF's annual performance review process, the university did not independently verify the validity, accuracy, or completeness of the annual reports before providing them to NSF.

We recommended that the university (1) develop policies for adequately accounting for and documenting in-kind donations made directly to the center, (2) independently verify that the annual report is valid, accurate, and complete in accordance with NSF's award and annual reporting requirements, (3) independently verify that all reported industrial members are members as defined by written membership agreements, and (4) report annually to NSF the dollar amount of any cash surplus accumulated from unspent industrial funds.

The university stated in its response to our draft report that it has implemented the recommendation to independently verify that the annual report is valid, accurate, and complete, and agreed in principle to the other recommendations, if these requirements are applied by NSF to all ERC institutions. However, the university did not agree that most of the specific industrial amounts it reported to us during the audit were not in compliance with NSF's reporting guidelines. Further, the university believes that it is appropriate to continue to report the $6 million in questioned industrial support to NSF. We disagreed with most of the university's responses to the claimed amounts for cash or in-kind support, and we have forwarded these matters to NSF's Division of Contracts, Policy, and Oversight for resolution.

In addition to findings and recommendations specific to the Center, we found that NSF needs to improve its annual site review process and its data reporting guidelines to help prevent such reporting problems by other ERCs in the future.

We recommended that NSF develop a written protocol to use in reviewing performance data during site visits, including reported industrial financial support, and that it include a member with business management experience on the site teams. Further, we recommended that NSF revise its data reporting guidelines to limit industrial financial reporting to only those funds that either are specifically identifiable with an ERC or that can be assigned to an ERC with a high degree of accuracy.

NSF agreed with our recommendations. The agency will assist ERCs in preparing the annual reports and associated performance data, and will conduct education sessions and review annual performance data before each annual site visit. NSF will also facilitate ERC directors' understanding of NSF reporting requirements for grants and contracts and require that ERCs report only research projects specifically cited in an annual report, in which the logical connection to a strategic plan is explained.

Polar Program Reviews

The Office of Polar Programs oversees the U.S. Polar Research Programs, as well as the U.S. Antarctic Logistical Support Activities. Its activities support multidisciplinary research in the Arctic and Antarctic regions. During the past six months, an audit report was issued on Antarctic logistical support and a prior audit was resolved.

Systems for Monitoring Antarctic Flight Support Costs Are Effective

An audit of several specific operational issues related to the contracting of flight support for the U. S. Antarctic Program (USAP) indicates that the systems are functioning effectively. A primary focus was the adequacy of systems, policies and procedures used to track and report the usage of aircraft supply and the allocation of charges for contractor-performed aircraft maintenance, the cost of which is shared between NSF's Office of Polar Programs and other organizations. The report states that there is substantial compliance with the systems in place, but makes a number of recommendations aimed at better safeguarding the inventory and improving the accuracy with which aircraft supply expenses are allocated.

In addition, the report examines the USAP's agreement with Air Mobility Command to transport passengers and cargo between Christchurch, New Zealand, and McMurdo for a fixed hourly charge intended to cover all costs associated with operating the aircraft. We found that OPP is being charged separately for some services, such as landing and departure fees, that should be covered by the hourly charge it already pays. We estimate that the overcharges total approximately $50,000 per year. OPP agreed with most recommendations.

Western For-Profit Entity Must Adjust NSF Award by $171,792

In our *March 2001 Semiannual Report* (p. 11), we reported that a western for-profit contractor had been succeeded by another contractor to provide logistics, operations, engineering, and construction support for the USAP. Our audit of the former contractor disclosed that it had charged NSF for fringe benefits that were in excess of actual costs. In addition, problems were found with the contractor's accounting for commitments and obligations at the close of the contract period. Finally, the contractor had not resolved issues with NSF concerning payments of interest and penalty on unreported state sales tax and underspent funds for information infrastructure.

During the audit resolution process, the contractor provided evidence that it had credited the NSF contract for $79,467 in overcharges for fringe benefit costs.

Another $92,325 was credited to the contract for legal costs that NSF disallowed. In total, $171,792 in credit adjustments were made to the NSF contract as a result of this audit. The contractor satisfied NSF that the system it and its successor used to transfer commitments and obligations at the close of the contract was adequate. The contractor also provided evidence that it had settled a liability with the state resulting from interest and penalty on unreported sales tax liabilities. In addition, the contractor returned unspent funds intended for the development of information infrastructure to NSF.

Other Audit Activities

The OIG was involved in several other audit-related activities during this semiannual period:

Peer Review

In July and August, we conducted a peer review of the National Railroad Passenger Corporation (Amtrak), another Designated Federal Entity OIG. The Inspector General Act of 1978, as amended, requires that the audit function of each OIG must receive an independent review by another OIG every three years. Such peer reviews help ensure that OIGs are in compliance with auditing standards established by the Comptroller General of the United States. A primary objective of the peer review is to ensure that audit organizations establish an appropriate system of internal quality control over its audits.

We found that the system of quality control for the audit function of the Amtrak OIG, in effect for the year ended March 31, 2001, was designed in accordance with the quality standards established by the PCIE. The system of quality control was functioning effectively to provide the OIG with reasonable assurance of conforming with professional standards in the conduct of its audits. Our letter of comments recommended two minor improvements.

Certificate of Excellence in Accountability Reporting

Our audit staff participated in a joint project between the Association of Government Accountants (AGA) and the Chief Financial Officers Council to recognize federal entities that produce exceptional accountability reports. These reports are prepared by federal agencies and include the agency financial statements, auditors' reports, and other financial reports required by statute. The Certificate of Excellence in Accountability Reporting Program is open to all federal departments and agencies as well as any organizational unit that resides within a department or agency. As part of this effort, we evaluated an agency accountability report using criteria prepared by AGA.

A-133 Related Reviews

OMB Circular A-133, issued pursuant to the Single Audit Act of 1984, as amended, sets forth standards for attaining consistency and uniformity among federal agencies for the audit of state and local governments, educational institutions, and nonprofit organizations that receive federal awards. Reports prepared by independent auditors in accordance with this circular are referred to as A-133 audits.

Our office receives and reviews A-133 audit reports through the Federal Audit Clearinghouse for institutions expending NSF funds. During this reporting period, we reviewed 130 A-133 reports accounting for NSF expenditures approximating $1.2 billion for fiscal years 1997 through 2000. After our review, 80 reports involving questioned costs, internal control weaknesses, and/or non-compliance with federal laws and regulations were forwarded to NSF's Division of Contracts, Policy, and Oversight to either resolve audit findings involving agency funds or inform them of internal control weaknesses among NSF awardees.

In three reports, the auditors questioned $236,471 of NSF-funded costs related to employee fringe benefits, as well as indirect and other types of costs. In addition, 67 institutions had internal control and compliance findings related to reporting, cash management, allowable costs, equipment, inventory, sub-recipient monitoring, procurement, suspension and debarment.

Our office also continued to examine Management Letters, which report internal control weaknesses that are generally less significant than those reported in the A-133 report, but require management's attention. Our review of 36 Management Letters this reporting period found that the auditors identified issues related to the awardee institutions' business continuity plans, information technology, and policies and procedures.

Solicitation of CPA Contracts

As noted in previous semiannual reports, the OIG relies on independent public accounting firms to assist in carrying out our audit responsibilities. During this reporting period, we awarded eight task order contracts under the General Services

Administration's Federal Supply Schedule. These contracts will enable us to meet the requirement of the Chief Financial Officers Act for an annual audit of NSF's financial statements, as well as provide audits of grants, contracts, and cooperative agreements awarded by NSF to various research and educational institutions and organizations. Purchasing agreements were awarded to seven firms for audits of NSF's financial statements and awards for up to a five year period.

Internal and External Requests for OIG Comments

During the last six months, the OIG responded to various inquiries and requests from external organizations, including the Congress, General Accounting Office, Financial Accounting Standards Advisory Board, and Office of Management and Budget. Examples include: questions from congressional committees and GAO concerning NSF's efforts to manage improper payments; a request from the Congress to identify NSF's top 10 performance measures; comments on an exposure draft to the GAO Government Auditing Standards or other guidance provided by OMB, Treasury, the Joint Financial Management Improvement Program, or the President's Council on Integrity and Efficiency.