

Audits & Reviews

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Significant Reports

Fiscal Year 2004 Management Letter Report Cites Need for Improved Financial Management Practices

The FY 2004 Management Letter issued in conjunction with NSF's financial statement audit recommends improvements to NSF's financial reporting controls and operations. The Letter states that NSF needs to refine its plan to satisfy the reporting requirements of the Improper Payments Information Act, develop outcome-oriented measures to assess and report on its internal organizational performance, and develop a plan to implement new federal requirements to evaluate NSF's financial reporting controls. NSF also needs to seek federal guidance on two separate accounting issues.

A management letter discusses findings identified during a financial statement audit that warrant management attention but are not material in relation to the financial statements. This year's Management Letter made 35 recommendations. OIG has accepted corrective action plans for 19, and is working with management to identify appropriate corrective actions for the remaining 16 recommendations. The FY 2005 financial statement audit currently underway, will verify the implementation of the agreed upon corrective actions.

The Management Letter identified weaknesses in NSF's process of estimating improper payments and recommended

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that NSF develop and utilize sampling techniques to provide information required by the *Improper Payments Information Act of 2002* (the Act). It further suggested that NSF should consult with a statistician to develop a multi-stage statistical sampling design to test grant expenditures for improper payments. The Act requires agencies to annually review each of their programs and activities and identify those that may be susceptible to significant improper payments. Dollar estimates of improper payments, as well as corrective action plans to curb them, must be included in their *Performance and Accountability Reports*. The initiative to reduce improper payments is a part of the President's Management Agenda.

For the fourth consecutive year, the Management Letter identified concerns relating to NSF's reporting of cost efficiency measures in its *Performance and Accountability Report*. NSF does not report basic outcome-oriented cost efficiency measures such as the cost of awarding or administering a grant, choosing instead to report on administrative cost savings resulting from the use of new and improved technology and/or changes to business processes. Reporting both outcome-oriented cost efficiency measures *and* cost savings measures, would provide more useful information to stakeholders about the efficiency of NSF's internal grant-making and administering process.

In addition, the Management Letter recommends that NSF prepare a detailed action plan to evaluate NSF's internal controls in order to comply with new federal requirements. The Office of Management and Budget (OMB) issued revisions to OMB Circular A-123, *Management's Responsibility for Internal Control*, effective for FY 2006, and requires agencies to document, test and separately report on the adequacy of their financial reporting controls.

The Letter also suggests that the agency should seek guidance from the Federal Accounting Standards Advisory Board (FASAB) on two accounting issues. The first issue pertains to whether or not NSF should report as a liability post-retirement benefit expenses for the employees of a Federally Funded Research and Development Centers (FFRDC) that it wholly supports. Currently neither NSF nor the FFRDC parent organization recognizes this liability. Second, NSF's accounting practices may not be consistent with the intent of applicable accounting standards for the recognition and reporting of environmental liabilities in the Antarctic because of the unique status of the treaty that governs NSF's activities there. Specific guidance is needed from FASAB for both of these unusual issues.

Audit Finds Weaknesses in Oversight of Subawardees

An audit of 27 awards made to the American Geophysical Union (AGU), a nonprofit scientific organization in Washington, DC found that AGU lacked adequate controls to oversee and monitor its 50 subawards amounting to \$1.5 million or 19 percent of NSF costs of \$8.1M. Specifically, AGU did not: 1) require its subawardees to follow the rules pertaining to allowable costs; 2) enforce its requirement that subawardees provide receipts to support costs; 3) adequately review the supporting documentation; 4) ensure that subawardees were trained in grants management; or 5) conduct any site visits to evaluate subawardees' abilities to manage federal funds.

In addition, AGU did not properly segregate duties. The human resources department performed both the personnel and payroll functions, thereby increasing the risk of improper and fraudulent payments. As a result of these and other control weaknesses, AGU claimed costs of \$198,548 which we questioned as unallowable. These problems occurred because AGU did not establish proper internal controls, or give priority to training its staff in federal administrative requirements and cost principles. AGU generally agreed with most recommendations, but did not agree that rent paid to a related party, as well as some participant support costs, were unallowable. We referred the audit report to NSF's Division of Institution and Award Support for resolution.

NSF Has Improved Controls Over its Travel Card Program

A review of NSF's travel card program found that in general NSF has effective controls to ensure that its personnel properly use their government travel cards and pay their travel card accounts timely. Since our last audit in 2002, NSF has improved its monitoring and oversight procedures to detect and address both unauthorized use of travel cards and delinquent accounts.

However, OIG also found that NSF cardholders improperly used their travel cards in some instances to pay for items that were not pre-approved, or in situations when other procurement instruments would have been more appropriate. To address these issues, we recommended that NSF obtain automated software to improve its monitoring capabilities, clarify certain policies regarding the use of travel cards, and improve its employee separation procedures to ensure that all cardholders' travel card accounts are closed promptly. NSF concurred with the recommendations and has already implemented several improvements.

The Law Enforcement Program in Antarctica Ensures Security

An audit of the law enforcement program in Antarctica found that it effectively ensures the security of U.S. citizens and protects federal property. Although crime is rare in Antarctica, its harsh climate and isolated location

led NSF to enter into an agreement with the U.S. Department of Justice (DoJ) in 1992, to better address its unique security requirements. The agreement authorizes the limited appointment of NSF's station chief at McMurdo Station to serve as a Special Deputy U.S. Marshal, reporting to the U.S. Marshals Service in Hawaii. For the station chief to be eligible for appointment as Special Deputy, NSF must ensure that the person meets seven requirements, including completion of the Federal Law Enforcement Training Center's Basic Criminal Investigators course, and compliance with DoJ's policy on the use of deadly force. The audit found that NSF complied with all regulations governing Special Deputy appointments.



The United States maintains three research stations on Antarctica (shown on map) and all are operated by the National Science Foundation.

However, the audit found that the safety of U.S. citizens and federal property could be enhanced by properly equipping the Special Deputy to handle potentially dangerous law enforcement situations. While the Special Deputy must be firearms-qualified, NSF does not permit lethal weapons in Antarctica. Instead, when a crime is committed, NSF expects the Special Deputy (who has authority to arrest or detain an individual) to defuse the situation through verbal discourse. Since this is not always practical, the audit recommended that NSF coordinate with the U.S. Marshals Service to select an appropriate non-lethal weapon and issue and train the Special Deputy on the weapon selected. NSF concurred with the recommendations and after consulting with the U.S. Marshals Service, selected appropriate non-lethal weapons for use in Antarctica.

Audit of School District Finds Same Deficiencies Cited in Past Audits

OIG audited the financial reports submitted by the School District of Pittsburgh (SDP) for the seven-year period ending September 30, 2003, as

part of our ongoing review of awardees under NSF's Urban Systemic Program and Urban Systemic Initiative. The school district either could not provide or produced unreliable documentation to support approximately \$900,000, or 21 percent, of salaries and wages and related fringe benefit and indirect costs claimed under the award. We also questioned \$2.1 of the \$4.6 million of cost sharing claimed and identified another \$800,000 of cost sharing as "at risk" of not being met, primarily because SDP could not verify that the costs were incurred for the benefit of the NSF awards.

These problems occurred because SDP did not have a system to ensure accurate and timely completion of labor effort certifications and could not adequately account for cost sharing. Both of these material weaknesses were reported in a July 1997 OIG audit of two NSF awards to SDP. As in the prior audit, SDP officials represented that they had taken corrective actions to properly document and account for payroll costs and cost sharing. Because the problems identified in this audit have persisted over time, we recommended that NSF recognize SDP as a high-risk awardee and not grant it new awards until SDP has corrected the internal control deficiencies affecting its payroll and cost sharing activities. The audit report was forwarded to NSF's Division of Institution and Award Support for audit resolution.

Review of Thrift Savings Plan Catch-Up Contributions

At NSF's request, the OIG contracted with KPMG LLP to check for errors associated with the processing of Thrift Savings Plan (TSP) "catch-up" contributions made by NSF employees in 2003 and 2004. TSP is a retirement savings and investment plan for federal employees. Public Law 107-304 permits eligible TSP participants who are age 50 or older to make tax-deferred "catch-up" contributions to their TSP retirement accounts that do not count against the statutory contribution limitations that normally apply.

After comparing NSF's payroll withholding records with the contribution data reflected in TSP records, KPMG identified a significant number of differences that will require NSF to make corrections to the TSP accounts of many employees. The OIG assisted NSF in reviewing the differences identified by KPMG and determining the required corrections. NSF currently plans to submit the corrections to TSP in the first quarter of FY 2006.

Audit Resolution

University Agrees to Improve Administration Over its Research Program

Earlier this year, we reported on an audit of the University of South Dakota (USD) that found it had overstated technical progress and accomplishments on a project and understated the difficulties the project faced in meeting its intended objectives.¹ In light of these problems, NSF declined to continue the project, allowing \$620,020 of NSF funds to be redirected to other research programs. Our audit also found that USD inadequately managed subawards and subcontracts and questioned as unallowable \$142,593 of costs charged to NSF awards. Many of the problems occurred because the University did not allocate enough resources for grant administration to keep pace with the growth of its research program. In addition, USD did not have an adequate understanding of its indirect cost rate structure, and did not have a formal policy or process to determine and classify direct and indirect costs, especially salary and wages.

In response to the audit recommendations, USD hired a full-time research director to oversee its sponsored research program, agreed to revise its subcontracts to include more detailed statements of work and deliverables, and held workshops to educate University staff and potential contractors on subawardee responsibilities. In addition, USD agreed to revise its policies and procedures concerning allowable costs, repay \$25,488 of the questioned costs, and contacted its cognizant federal agency, the Department of Health and Human Services (HHS), to negotiate a new indirect cost rate. NSF agreed with most of the proposed corrective actions and is following up to verify their implementation. While NSF did not sustain the remaining questioned salary amounts, it required the University to implement policies and procedures to ensure that future salary amounts, whether direct or indirect costs, are properly charged in accordance with federal requirements. Furthermore, NSF discussed with HHS our concerns about how the University allocates salary costs in its new indirect cost rate.

Two Community College Audits Resolved

During this reporting period, NSF resolved two community college audits that were previously reported in March.² An audit of Texas State Technical

¹ March 2005 OIG Semiannual Report, p.18

² March 2005 OIG Semiannual Report, pp.19-20

College – West Texas (TSTC) questioned \$24,745 in salaries and related fringe benefits for work that had not been performed, and found that TSTC was missing many of its employee activity reports used to support approximately \$650,000 in costs or over 50 percent of the total \$1.25 million costs TSTC claimed on its NSF award. OIG also found that TSTC: lacked a system to track, record, and monitor cost sharing; did not obtain financial disclosure statements from its investigators; and did not prepare contractual agreements with all of its consultants. NSF sustained the \$24,745 in questioned salaries and related fringe benefits, agreed with all of the compliance and internal control recommendations, and verified that TSTC had adequately revised its internal policies and procedures to correct these control deficiencies.

In the case of Springfield Technical Community College (STCC), NSF sustained \$35,000 in questioned consultant costs, but allowed \$195,133 of questioned cost sharing because STCC provided labor effort certifications and documentation that were not available during the audit. STCC also revised its Grants Manual to include additional controls over the processing and documenting of cost-shared expenses and consultant costs.



OIG Audit Manager Kathleen Leone, a Naval Reserve officer, poses with daughters Cecilia and Gemma before being assigned to serve in Kuwait last summer.

Work In Progress

Continuing Audit of NSF's Raytheon Contract

At NSF's request, the OIG contracted with the Defense Contract Audit Agency (DCAA), to complete a series of audits of Raytheon Polar Services Company (RPSC). RPSC provides science, operations and maintenance support to sustain year round research programs in Antarctica. In our prior Semiannual Report,³ we reported that the auditors questioned \$33.4 million, or 9.2 percent, of the \$363 million costs claimed by RPSC for the three-year period ended December 31, 2002. The OIG continues to work with DCAA to complete an audit of an additional \$200 million claimed by RPSC for the two-

³ March 2005 Semiannual Report to Congress, p. 15

year period ended December 31, 2004, and to assess the adequacy of the internal controls over RPSC's financial, accounting, billing and reporting systems. The review will also determine whether Raytheon complied with its federally disclosed cost accounting practices. Additionally, OIG supports NSF's efforts to require that RPSC implement an action plan that will prevent RPSC from claiming prohibited costs for payment, in accordance with its contract terms. We expect to provide NSF with the results of the internal control reviews and the incurred cost audits in the next semiannual period.

Labor Effort at Universities

OIG has initiated a review of labor effort reporting at NSF's largest funded universities to assess the adequacy of their accounting and reporting processes. Approximately one third of all NSF award costs are for salaries and wages, amounting to \$1.2 billion annually at universities. Recent settlements of civil cases involving the improper billing of staff time worth large dollar amounts by several major universities has raised the profile of these types of abuses. The Department of Health and Human Services is the cognizant federal agency, which made the settlements with universities involved in clinical research. We are coordinating our reviews with the cognizant federal agencies.

Dissemination of Research Findings and Results

OIG is conducting audit work to assess NSF's policies and practices for publicly disseminating the results of the research it funds. As part of this audit, we are examining how other federal agencies that fund basic research disseminate the results of their research. We also plan to seek input from NSF's research community on their level of satisfaction with NSF's current dissemination practices, and potential improvements.

A-133 Audit Reports

The Single Audit Act of 1984 (Public Law 98-502) and the Single Audit Act amendments of 1996 (Public Law 104-156) requires non-federal entities that expend \$500,000 or more a year in federal awards to have an organization-wide audit, known as the A-133 audit⁴, that evaluates both the entity's financial statements and compliance with federal award requirements. According to the Federal Audit Clearinghouse (FAC), which collects A-133 audit reports, it

⁴ OMB Circular A-133 provides guidelines for the performance of these audits.

processed 1,013 A-133 audit reports with \$4.9 billion of NSF funding during the last six months. Of this total, 375 reports included findings and reported \$3.7 billion in NSF funding.

Desk Reviews

After A-133 audit reports are submitted to the FAC, we conduct desk reviews of audits where either a) NSF is the cognizant or oversight agency, or b) the audit report identifies findings specific to NSF awards. In this reporting period, we conducted desk reviews of 99 audit reports that covered NSF expenditures totaling \$1.7 billion from fiscal years 2002 through 2005. Seventy-eight of these reports contained a total of 109 compliance and internal control findings pertaining directly to NSF awards, and an additional 138 findings that could potentially impact NSF awards.⁵ Among these reports, the auditors issued 7 qualified, adverse or disclaimer of opinions on the financial statements and 21 qualified, adverse or disclaimer of opinions on the entity’s compliance with federal award requirements.

Findings Related to NSF Awards by Category

Name	NSF Findings	Other Agency Findings	Management Letter Findings	Total
Financial Management	12	28	16	56
Salary/Wages	18	19	13	50
Subawards	16	3	4	23
Procurement System	11	7	5	23
Cost-Sharing	6	14	2	22
Equipment	8	4	9	21
Award Management Requirement	8	7	4	19
Indirect Costs	4	12	1	17
Other Direct Costs	2	12	0	14
Other	24	32	30	86
Total	109	138	84	331

⁵ For the first time, we reviewed A-133 findings related to awards made by other federal agencies for indications of systemic internal control weaknesses. We provided this information to NSF to assist in identifying high-risk audit areas and institutions.

We also examined 47 management letters that detail less significant internal control deficiencies than those described in audit reports. Thirty of the management letters contained a total of 84 deficiencies that could impact NSF awards. Examples include inadequate segregation of duties, lack of formal policies and procedures, and failure to check federal debarred vendor listings. Auditors questioned \$882,731 of NSF award costs claimed by award recipients, including one institution that claimed \$106,280 in unsupported payroll expense. As indicated by the preceding chart, the most common findings were related to deficiencies in financial management, salary and wages, subawards, and procurement.