

## Significant Reports

### ***Financial Statement Audit and Review of Information Systems***

The federal government has made the improvement of financial management a high priority for many years. The President's Management Agenda identified improved financial management as one of its top five government-wide initiatives, with the aim of producing accurate and timely information to support decisions affecting operations, budget, and policy.

The Chief Financial Officer's (CFO) Act of 1990, as amended, requires federal agencies to prepare annual financial statements and the agency OIG, or an independent public accounting firm selected by the OIG, to audit these statements. The Federal Information Security Management Act (FISMA) requires an independent evaluation of the agencies' information security controls. During this reporting period, we completed these two required audits for fiscal year (FY) 2005.

### **Fiscal Year 2005 Independent Auditors Issue Unqualified Opinion, Continue to Cite Need for Improved Award Oversight**

Under a contract with the OIG, KPMG LLP conducted an audit of NSF's financial statements for FY 2005 and issued another unqualified opinion to NSF. However, in its Report on Internal Controls Over Financial Reporting, KPMG identified two reportable conditions relating to NSF's post-award administration and contract monitoring.

At any point in time, NSF administers some 35,000 awards amounting to approximately \$23 billion in the agency's total portfolio to support basic science and engineering research and education. Assessing scientific progress and ensuring effective financial and administrative oversight of these funds are critical elements in managing NSF's award programs. In FY 2005, NSF made progress in addressing prior post-award monitoring recommendations by implementing a number of new procedures. However, the auditors reported that additional improvements are still needed. Specifically KPMG rec-

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ommended that NSF: (1) establish and implement a detailed strategic plan to monitor all institutions identified as having high risk awards; (2) clearly state how site visit selections are to be determined; and (3) ensure that both objective and subjective factors are applied during the risk assessment process to capture all high risk awards.

KPMG also identified problems with NSF's process of monitoring the financial performance of its largest contractors who receive advance payments. The auditors reported that NSF does not adequately review quarterly expenditure reports submitted by contractors receiving advance payments for 1) accuracy and propriety, 2) correct computations, and 3) authorized purpose under the contractual agreement. In addition, NSF's process for reviewing and approving expenditures does not include periodic testing. Without adequately performing such procedures, substantial misstatements and unauthorized expenditures may go undetected.

In February, NSF submitted its proposed action plans to address the recommendations related to these reportable conditions. The proposed corrective actions were reasonable and generally responsive to all but two recommendations. The OIG and the independent auditor will continue working with NSF management to ensure these issues are resolved in a timely manner.

### **FY 2005 FISMA Information Systems Reports**

The FY 2005 *Federal Information Security Management Act (FISMA) Independent Evaluation Report and the FY 2005 FISMA Evaluation Summary Report* state that NSF has an established information security program and has been proactive in reviewing security controls and identifying areas to strengthen this program. The report identified eight areas in which NSF can further improve its information system security program. Management agreed with the findings and recommendations in these reports and indicated that, in many instances, it has already initiated corrective action.

### ***Audits of Raytheon Polar Services Company Find Compliance and Control Problems***

At NSF's request, the OIG contracted with the Defense Contract Audit Agency (DCAA), to complete a series of audits of the financial reports and practices of Raytheon Polar Services Company (RPSC). RPSC provides science, operations and maintenance support to sustain year round research in NSF's United States Antarctic Program (USAP). In the March 2005 Semiannual<sup>2</sup>, 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. During this semiannual period, the OIG and DCAA completed three more reviews that assessed RPSC's compliance with its federally disclosed

<sup>2</sup> March 2005 Semiannual Report, p.15.

cost accounting practices and the adequacy of its financial business systems and controls to accurately account for and report its indirect and other direct costs in accordance with the NSF contract requirements.

The NSF USAP contract is of such a magnitude that the contractor must submit a written Cost Accounting Standards Board (CASB) disclosure statement to the government, which identifies the accounting policies and practices it will consistently follow for classifying costs as direct or indirect. RPSC, a subsidiary of the parent company, Raytheon Technical Services Company (RTSC), operated under RTSC's CASB disclosure statement between 2000 and 2004. The auditors found that RPSC improperly claimed \$ 21.1 million of indirect costs as direct costs for the contract period 2000 to 2002 contrary to its disclosure statement. As a result, the Department of Defense (DOD), which is responsible for overseeing RTSC's compliance with its CASB disclosure statement on all federal contracts, issued an initial determination of non-compliance to RTSC for RPSC, its subsidiary.



In addition, as of January 1, 2005, RPSC was removed from RTSC's disclosure statement, and was therefore operating without any disclosed practices, raising further questions as to the basis on which RPSC is billing NSF's USAP contract. RTSC only recently submitted a draft CASB disclosure statement to the government specifically for RPSC. Until RTSC makes an official disclosure statement submission, the basis on which RPSC is billing NSF's USAP contract remains unclear.

A second audit found that RPSC did not: 1) have adequate controls to properly identify allowable and allocable NSF costs; 2) perform internal compliance oversight reviews; and 3) provide staff with adequate training to properly classify costs for the NSF contract. These weaknesses, coupled with the lack of compliance with RTSC's disclosed accounting practices, caused RPSC to claim \$33.4 million in questionable indirect and other direct costs from 2000 to 2002 on its NSF contract. The third audit found that RPSC's accounting records did not reconcile with costs recorded in two major business systems that NSF uses for financial and project management of the USAP. As a result, RPSC overcharged NSF approximately \$206,000 for indirect costs and may be relying on inaccurate project cost information for project management decisions.

The audit report recommended that NSF coordinate with DCAA and DOD to have RPSC correct its cost accounting practices, recover all questioned costs plus interest, and audit future quarterly expenditure reports to identify and withhold payments to RPSC for incorrectly claimed indirect costs. It also recommended that NSF ensure that RPSC establish adequate policies and procedures, including an internal compliance oversight program and an employee-training program to ensure compliance with the NSF contract require-

Emperor penguins in Antarctica line up to dive for food as scientists study the birds for information pertinent to human physiology.

ments. Finally, the report recommended that NSF ensure that RPSC reconciles the costs recorded in the various accounting and project management systems to its official accounting records.

In the next semiannual period, we expect to provide NSF with the results of the audit of claimed costs for 2003 and 2004. In addition, we will report on assessments of controls over RPSC's billing process, New Zealand operations, and a major subcontractor.

### ***Major Internal Control Weaknesses Found at Three Academic Institutions***

In three separate audits, two school districts and a university were found to have serious deficiencies in the ability to track and report expenses claimed on NSF awards. All three institutions lacked adequate systems to track an aggregate total of \$42 million of claimed cost sharing. In addition, weak controls over accounting for salaries, wages, and associated fringe benefits resulted in nearly \$1.4 million of questioned costs.

#### **Two School Districts Share Similar Control Deficiencies**

The OIG audited cost reports submitted by Detroit City School District (DCSD) and San Francisco Unified School District (SFUSD), as part of our ongoing review of awardees under NSF's Urban Systemic Initiative (USI) and Urban Systemic Program (USP). Consistent with prior USI/USP audit findings, grant accounting control deficiencies were identified at these school districts in the areas of salaries, wages, fringe benefits, indirect costs and cost sharing.

The audits found that both school districts had a number of material control weaknesses that allowed the submission of inaccurate cost reports to NSF. Each district lacked the required employee certifications and personnel activity reports to support the claim that \$5.7 million in salary and fringe benefit costs was incurred and benefited NSF awards. In addition, both districts lacked an efficient system to properly identify and account for a total of \$29.6 million in cost sharing attributed to their NSF awards. Neither district had adequate policies and procedures for determining allowable indirect costs for their NSF grants. Finally, DCSD's accounting system did not separately track participant support costs incurred under the award, and SFUSD did not timely reconcile claimed costs with its accounting records to ensure the validity of its reports of claimed costs to NSF.

As a result, the auditors questioned approximately \$1.4 million of the \$10.9 million DCSD claimed as costs to NSF, including \$1.2 million of unallowable and unbudgeted salaries, wages and fringe benefits, and \$188,053 of costs unrelated to the NSF award. For SFUSD, the auditors identified \$712,620 in questioned costs of the \$9.2 million SFUSD claimed to NSF. Among the items questioned were \$427,844 of costs that were not recorded in SFUSD's

accounting records, \$215,445 for overcharges of indirect costs, and \$69,315 of salaries and associated fringe benefit costs that should have been charged to SFUSD's general fund.

Both DCSD and SFUSD agreed with most of the audit report findings and indicated they are working on corrective actions. The audit reports were forwarded to NSF's Division of Institution and Award Support for audit resolution.

### **University Has Systemic Weaknesses Affecting Oversight of NSF Grant Funds**

An audit of Howard University found that the University lacks a system of internal controls that provides reasonable assurance that NSF grant funds were being used for the purpose they were provided, or spent for allowable expenses. While the University has made some progress in improving its grant operations, it needs to do more to correct longstanding systemic weaknesses that were also identified in prior internal and external audits. These weaknesses have persisted because Howard University did not have comprehensive financial management policies, procedures, and controls to effectively manage, account for, and monitor NSF grant funds. As of June 30, 2004, Howard had 35 active NSF grants worth approximately \$18.8 million.

The audit identified significant weaknesses in the University's internal controls over cost sharing, funds passed-through to subawardees, faculty salaries, and trainee stipends for the five NSF grants audited, which totaled \$10 million. The auditors could not determine whether the University actually provided \$12.3 million of cost sharing claimed because the University commingled the funds with other accounts and was unable to demonstrate that the costs actually supported NSF projects. The University also lacked comprehensive sub-award agreements that would have obligated its subrecipients to provide \$5.4 million of cost sharing and restricted \$2.3 million of funds to participant and/or trainee support. The auditors also questioned FY 2004 faculty salary costs of \$91,877 or 52 percent of the total faculty salaries claimed on the five audited awards because the University charged NSF for duplicate, unauthorized, and unsupported salaries. Given the pervasive nature of these weaknesses, we believe that other NSF funds amounting to \$8.8 million are at similar risk.

The report recommended that Howard University implement a program for monitoring and overseeing its grant management processes that includes improved controls and accountability over NSF cost sharing obligations, sub-awards, and faculty salary charges. Howard should also obtain an independent evaluation to verify that timely and appropriate corrective actions are implemented to address all audit report recommendations. If the evaluation continues to disclose grant management problems, we recommended that NSF withhold additional funding until appropriate corrective actions are implemented. Generally, Howard University agreed with the audit recommendations and indicated that they have initiated corrective actions. We have forwarded the audit report to NSF's Division of Institution and Award Support for

development of an appropriate corrective action plan in conjunction with the University and the cognizant audit agency, the Department of Education.

### ***Improvements Needed in Reporting and Disseminating Research Results***

This semiannual period, we completed the second in a series of audits aimed at assessing NSF's performance in reporting and disseminating the results of the research it funds. Effective communication of the results of scientific research advances knowledge, stimulates new research ideas, and helps train future scientists, engineers, and educators. Additionally, communicating research results assures taxpayers that they have received value for their investment and helps to increase the public's understanding and appreciation of science and technology.

In February 2006, OIG issued an audit report on NSF's policies and practices for publicly disseminating the results of NSF-funded research, including the information that it receives in the final project reports. A related audit is now underway examining whether NSF's dissemination policies and practices meet the needs of the research community and other NSF constituents and taxpayers. And NSF is taking corrective actions as a result of an audit report issued last year on NSF's performance in collecting research results through project reports. The status of each audit is discussed below.

#### **Public Access to Research Results Should Be Expanded**

Although NSF provides the public with information about *proposed* research selected for funding, it does little to publicize information about the *results* of that research. NSF historically has relied on the researchers to disseminate information about their NSF-funded work through peer-reviewed publications and professional conferences. However, these methods of communication may not reach other interested parties outside the scientific research community, such as students and educators.

In addition, NSF's dissemination policies and activities are much more limited than those of other federal agencies funding basic research, including the National Aeronautics Space Administration, the National Institutes of Health, and the Departments of Energy, Agriculture, and Defense. While NSF collects citations of journal articles resulting from its funded research, NSF is the only agency that does not provide this information to the public.

The audit report recommends that NSF make the publication citations more widely available by including them in the award abstracts database already publicly available through its website. Interested parties will be able to determine what publications resulted from NSF's investment in research. NSF agreed with the recommendation and is currently determining the actions necessary for implementation.

## **Audit To Further Examine NSF's Dissemination Policies**

We are continuing to explore issues surrounding NSF's policies for disseminating the results of its research. In particular, we are evaluating whether NSF should provide the public with direct access to other types of information containing research results, including project reports, research summaries, and abstracts of published journal articles. We are also assessing whether interest exists among NSF's various stakeholders for making more information available about the results of individual research projects on the agency's website.

## **Update on Improvements in Project Reporting**

An audit report issued last year stated that from 1999 to 2004, over 42 percent of the 108,000 required *annual* project reports due to NSF were never submitted, and 53 percent of the 43,000 *final* project reports were submitted, on average, 5 months late.<sup>3</sup> The report contained a series of recommendations to NSF on how it could improve responsibility and oversight to ensure the timely submission of these reports. In response to our audit recommendations, NSF initiated policy changes and is in the process of designing a more comprehensive project report tracking system that will calculate reporting milestones and notify principal investigators as deadlines approach. NSF expects to implement this new tracking system in fall 2006.

## ***Challenges with Sunshine Act Compliance Persist***

At the request of Congress, OIG conducts an annual review of the NSB's compliance with the Sunshine Act. During 2005, the National Science Board continued to encounter challenges in meeting each of the procedural requirements of the Act. The audit report indicates that the Board still lacks a structure and protocol for handling the many Sunshine Act issues that arise in the daily conduct of Board operations. Without this structure and protocol, the Board will continue to experience procedural inconsistencies such as inadequate documentation of votes to close meetings and failure to submit required reports.

In addition, the report discusses how the Board makes its decisions to close some of its meetings. The Sunshine Act presumes that meetings will be open to the public unless the Board plans to discuss a topic that may disclose material that falls under one of ten narrow exemptions. However, at the time the Board set its meeting agendas, it appears to have included open agenda items in its closed meetings. This occurred because the decision to include agenda items in open or closed sessions necessarily is made in advance of the actual meeting. Because the Board does not document the discussion,

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<sup>3</sup>March 2005 Semiannual Report, p.16-17.

the auditors were unable to determine whether the Board properly applied the Sunshine Act's standard when it decided on closed meeting agenda items. Consequently, the public may not receive all the benefits of open government promised by the Sunshine Act.

Based on these findings, the report reiterates our previous recommendations that the Board develop, implement, and provide training to its members and staff on policies and procedures for addressing the procedural requirements of the Sunshine Act. In addition, it recommends that the Board develop, implement, and provide training on a process for documenting the reason for placing each agenda item in a closed meeting rather than an open meeting. The Board has generally agreed with our findings and is planning appropriate action.

## **Audit Resolution**

### ***NSF Secures Matching Contributions and Improved Controls at Two Foreign Institutions***

Prior audits of awards to the United States-Mexico Foundation for Science in Mexico<sup>4</sup> and the Inter-American Institute for Global Change Research in Brazil<sup>5</sup> have resulted in the establishment of controls to improve accountability of federal grant funds at both foreign awardee institutions and NSF. Pursuant to the OIG audit recommendations, NSF has amended its grant agreements with both foreign grantees to include special award conditions to ensure financial and administrative integrity over its award funds. Also, NSF has conducted site visits to both awardee organizations to provide technical assistance to aid the awardees' understanding of NSF grant requirements and to verify corrective actions addressing the audit recommendations.

#### **United States-Mexico Foundation for Science (USMFS)**

Our audit of \$11 million of awards made by NSF and three other federal agencies to establish an endowment fund for USMFS found that conditions for the funding stipulated by Congress were not included in the grant agreements. Consequently, USMSF did not obtain \$5 million or 45 percent of matching contributions from Mexico, or implement adequate financial controls to account for and administer the US endowment. Pursuant to the audit recommendation, NSF amended the award agreement governing its \$4 million share of endowment contributions to comply with the Congressionally-mandated requirements.

Also, as a result of the coordinated efforts of our office, the Office of Science and Technology Policy, and the OIGs of the three other federal funding agen-

<sup>4</sup> March 2005, Semiannual Report, p.17.

<sup>5</sup> September 2004, Semiannual Report, p.17



cies, USMFS has recently executed an agreement with the Mexican Government to obtain the remaining \$5 million of matching endowment contributions. NSF recently conducted a site visit to ensure that USMSF has implemented adequate financial controls to account for and administer the US endowment funds. We are currently reviewing the site visit report.

### **Inter-American Institute for Global Change Research (IAI)**

A prior audit of NSF awards worth over \$16 million to IAI disclosed that NSF, on behalf of the United States, was funding a disproportionate share of the organization's total research costs, and that the organization had not properly monitored 14 subawards, valued at over \$10 million. Following our audit recommendations, NSF has worked closely with IAI to establish a project management manual providing written subaward policies and procedures for administering and monitoring NSF research funds passed-through to other institutions. As a result of NSF's technical assistance and two on-site visits to IAI's offices in Brazil, the Institute is better able to manage its new NSF research grant for \$10.4 million, awarded on September 30, 2005.

Furthermore, NSF has continued to work with IAI's governing body to promote and oversee its fundraising efforts. IAI's new Executive Director, hired in August 2005, has already undertaken positive steps in preparation for obtaining additional funds. He obtained a declaration of support from the Organization of American States and an agreement from the Brazilian Embassy to issue demarches on IAI's behalf for unpaid member contributions. The IAI Director is also continuing to develop fundraising strategies to increase the number of research projects involving global change in the Americas. We are awaiting receipt of the Director's final strategies, expected after a May 2006 Conference of the Parties, which are intended to guide IAI efforts of funding a greater proportion of the organization's total research costs with non-US funds.

### ***Company Specializing in Science and Technology Content Agrees to Improve Accountability***

Last year, we reported on our audit of ScienCentral, Inc. (SCI) and Center for Science in the Media, Inc. (CSMI)<sup>6</sup>. SCI, a for profit company, is closely related to CSMI, a non-profit company that conducts research and develops mass media approaches that bring science and technology news and information into mainstream communications. The audit found that SCI/CSMI did not have adequate financial management, cost sharing, or other systems to provide for segregation of key accounting duties, adequate documentation of award costs, cost segregation, or compliance with other award terms and conditions. In addition, CSMI did not have the required OMB Circular A-133 audits

<sup>6</sup> March 2005 Semiannual Report, pp.18-19.

for its fiscal years 2000 and 2001. The audit report questioned \$921,489, or 34 percent of total claimed costs.

In response to the report's compliance and internal control recommendations, SCI stated that it: (1) implemented a new accounting system that allows segregation of grants by account, direct, indirect, and production cost pools and made other improvements to its internal controls; (2) hired an accounting firm to review its accounting and reporting systems, suggest improvements, and perform future OMB Circular A-133 audits; and (3) provided training to staff on all changes and new written procedures to ensure future compliance. NSF agreed with the awardees' corrective actions and sustained \$517,973, or 56 percent, of the amount questioned in the audit.

### ***Actions to Implement Visiting Personnel Recommendations Remain Incomplete***

In September 2004, we reported on our audit of the costs associated with NSF's use of visiting personnel,<sup>7</sup> or "rotators," in place of permanent staff. While NSF has implemented new policies and procedures for documenting lost consulting income for which it reimburses the rotators, NSF has not completed implementing the remaining two recommendations. Although funding constraints have delayed NSF's plans for developing a program to automate its IPA salary and benefit computation process, it expects to conduct a requirements determination and develop a cost estimate for the system during this fiscal year. As recommended, NSF is currently developing an alternative methodology for calculating Visiting Scientists' salaries to prevent duplicate payments. NSF expects to have its new methodology implemented by July 2006.

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<sup>7</sup> Visiting personnel are temporary professional staff appointed under the Intergovernmental Personnel Act (IPAs) or NSF's Visiting Scientists, Engineers, and Educators (VSEEs) program. The article on visiting personnel appeared in the September 2004 Semiannual Report at pages 14-15.

## Work In Progress

### *Labor Effort at Universities*

As stated in our last semiannual report,<sup>8</sup> OIG has undertaken an initiative to assess the adequacy of accounting and reporting processes for labor costs at a representative sample of NSF's top-funded institutions. Approximately one third of all NSF award funds to universities are for salary and wages, amounting to \$1.3 billion annually. Recent legal actions involving overcharges of staff time amounting to millions of dollars at several major universities, including some funded by NSF, have raised public awareness of the potential for abuse in reporting labor efforts. As the first in this series of audits, we issued a draft report on the labor effort practices at the University of Pennsylvania in February 2006 and expect to issue the final report in the next semiannual reporting period. In addition, we plan to initiate similar audits at another five universities this summer.

### *A-133 Audit Reports*

OMB Circular A-133 provides audit requirements for state and local governments, colleges and universities, and non-profit organizations receiving federal awards. Under this Circular, entities that expend \$500,000 or more a year in federal awards are required to have an annual organization-wide audit that includes the entity's financial statements and compliance with federal award requirements. Non-federal auditors, such as public accounting firms and state auditors, conduct these audits. OIG reviews these reports for any findings and questioned costs related to NSF awards, and to ensure that the reports themselves comply with the requirements of OMB Circular A-133.

During this reporting period, the A-133 audits of NSF grantees found compliance deficiencies and internal control weaknesses, resulting in nearly \$1 million of questioned costs. The findings contained in A-133 reports help to identify potential risks to NSF awards and are useful to both the agency and OIG in planning site visits, post-award monitoring, and future audits. Our reviews also revealed problems with the quality and timeliness of the A-133 reports that were similar to findings identified in a Quality Control Review we completed during this reporting period. Because of the importance of A-133s in monitoring grantees, the OIG returns reports that are judged inadequate to the firms that prepared them.

### *Findings Related to NSF Awards*

In this reporting period, we reviewed 89 audit reports covering NSF expenditures of \$812 million from fiscal year 2002 through 2005. These reports revealed 182 instances in which grantees failed to comply with federal requirements, and

<sup>8</sup> September 2005 Semiannual Report, p.20

45 instances in which weaknesses in grantees' internal controls could lead to future violations. The auditors questioned a total of \$868,337 of costs claimed by recipients of NSF awards. The most common violations were related to financial and award management and salaries and wages, as detailed in the table below:

### Findings Related to NSF Awards by Category

Category of Finding	Type of Finding			
	Compliance	Internal Controls	Monetary	Total
Financial and Award Management	61	32		93
Salary/Wages	22	4	5	31
Other	20	5	3	28
Subawards	18			18
Procurement System	13		1	14
Equipment	11	1	1	13
Indirect Costs	9	1	2	12
Other Direct Costs	7		1	8
Travel	6		2	8
Cost-Sharing	4			4
Fringe Benefits	3		1	4
Consultant Services	3			3
Property Management System		2		2
<b>Total</b>	<b>177</b>	<b>45</b>	<b>16</b>	<b>238</b>

We also examined Management Letters accompanying the A-133 audit reports. Auditors use these letters to report internal control deficiencies that are not significant enough to include in the audit report, but which could become more serious over time if not addressed. The letters we examined disclosed a total of 96 deficiencies that could affect NSF awards, in areas such as salaries and wages, and financial management.

### ***Findings Related to Quality and Timeliness***

For 25 of the 89 audit reports we reviewed in which NSF was the cognizant or oversight agency, we found that 40 percent had been submitted late or the audit reporting package was incomplete. OMB Circular A-133 requires audits to be completed and reports submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency

for audit. In each case, we informed the audited organization that the late submission of a complete reporting package could affect the organization's risk profile and suggested that all future A-133 audits be performed and submitted in a timely manner.

The A-133 reports we reviewed also revealed problems with audit quality. Auditors are required to follow OMB Circular A-133 guidelines to calculate dollar-value thresholds for classifying and selecting federal programs to recommend in the audit. However, the Federal Audit Clearinghouse (FAC) identified potential errors affecting 14 NSF awardees. The OIG reviewed each of the potential errors and contacted the respective auditors for explanations. In each case, the auditors either provided adequate explanations, or additional information to demonstrate compliance with the Circular, or the error did not affect the results of the audit. While some of the errors were clearly immaterial, the auditors generally acknowledged the errors allowing for improved compliance in future audits.

### **A-133 Audit Quality Control Review**

During this reporting period, we completed a Quality Control Review (QCR) of an A-133 audit conducted by a public accounting firm at Michigan State University. This was one of 208 QCRs conducted as part of the *National Single Audit Quality Project*, a government-wide undertaking by the Inspector General community to assess and provide a baseline measurement of A-133 audit quality. The project began in November 2004, and a final report is expected late this year.

Our review found that the external auditor did not sufficiently document significant conclusions and judgments involving work performed or omitted as required by Government Auditing Standards. Specifically, there was inadequate justification to support the auditor's decision to exclude 5 of 14 compliance areas from the audit scope. Further, the auditor did not review the University's risk assessment process to ensure it met compliance requirements for managing major federal grant programs, one of five key components of an effective internal control system. Finally, the auditor did not clearly document the details of its work related to the schedule of federal expenditures including tests of labor, fringe benefits, procurement, and subrecipient costs.

Although the auditors did not agree with all of the eleven findings cited, they agreed to improve workpaper documentation to ensure compliance with Government Auditing Standards. We submitted the results of our review to the *National Single Audit Quality Project* management staff to be incorporated with those being reported government-wide. Given the importance of A 133 audit quality to NSF's post-award administration, our office will continue to be involved in overseeing and reporting on the results of this government-wide project.