Audits & Reviews

In this semiannual period we completed a required evaluation of NSF's information technology (IT) security program, two informational studies that we provided to NSF management, and audits of two NSF contractors and of several grants to a university. In addition, we completed a quality control review of a required annual audit of an NSF awardee and found deficiencies similar to those reported in a recently issued national sampling project on the quality of these annual audits. We also reviewed 151 annual audits of NSF awardees that reported a total of 203 findings. Finally, in the last six months we worked with NSF to resolve findings and recommendations in six audits completed in prior periods. We are continuing to work on several audits, including reviews of 1) the terms and conditions of NSF's cooperative agreements, 2) the agency's handling of personally identifiable information and 3) labor effort audits at select universities.

Significant Audits and Reviews

FY 2007 FISMA Evaluation Affirms NSF IT Security Program But Recommends Improvements

According to our FY 2007 Federal Information Security Management Act (FISMA) evaluation, NSF has an established information security program and has been proactive in reviewing security controls and identifying areas that should be strengthened. NSF also corrected four of the six findings in the prior year's FISMA Report. However, the auditors reported four new findings relating to system access controls, an off-site applications system, the return of NSF equipment by out-going contractors, and specific rules of behavior for one of NSF's systems. These findings do not individually or collectively rise to the level of "significant deficiency", but should be addressed promptly. NSF management concurred with the report and will provide a corrective action plan for the recommendations. FISMA requires agencies to adopt a risk-based approach to improving computer security that includes annual security program reviews and an independent evaluation by the Inspector General. Under a contract with the OIG, Clifton Gunderson LLP conducted this independent evaluation for FY 2007 and will review implementation of corrective actions as part of the FY 2008 independent evaluation.

HIGHLIGHTS

NSF's Administrative and Overhead Costs May Be Understated

In response to a Congressional request, OIG reviewed the portion of NSF's FY 2005 budget devoted to administrative and overhead costs. Our review identified $322,137,984 of NSF's FY 2005 administrative and overhead costs, which represented 5.8 percent of NSF's budget for that fiscal year. While this percentage is consistent with NSF's estimates that historically, 5 to 6 percent of its budget is spent on administrative and overhead expenses, the amount was 10.2 percent more than the $292,426,388 NSF reported in its FY 2005 financial statements.

The variance was primarily due to differences in interpretation of what constitutes an administrative and overhead cost. Our approach was to include all costs associated with NSF's award making and management processes, such as $23,001,112 to conduct panel and mail reviews of research proposals, $6,439,300 in estimated donated merit reviewer time, as well as $405,309 for information systems and personnel support contracts. In response, NSF stated that its current approach of classifying award making and management costs as direct costs to NSF programs is consistent with applicable federal guidance and that it does not plan to change its interpretation.

Sunrise over Kitt Peak National Observatory, part of the National Optical Astronomy Observatory (NOAO), an FFRDC supported by NSF.

Evaluation of Medical and Pension Benefits at NSF's FFRDCs Finds Unfunded Liability of Over $80 Million

The OIG engaged Aon Consulting, an expert in the field of global human capital and management consulting, to determine the unfunded current and future medical and pension liability for each of the five Federally Funded R&D Centers (FFRDC) that NSF supports. It was also asked to review the reasonableness of medical and pension benefits for active and retired personnel. The study found that as of September 30, 2004 the unfunded liability for post-retirement benefits at NSF's FFRDCs was over $80 million, and this liability was expected to increase by another $6.8 million in the following fiscal year. In 2006, NSF provided approximately $240 million to fund the operations of its five FFRDCs. This included about $21 million or 9 percent for medical and pension benefits.

In addition, the value of medical benefits varied significantly among the five FFRDCs, with two having a higher value than benefits provided by comparable groups, and two with much lower values. All of the FFRDCs were found to have very similar pension programs, which exceeded the value of those provided by most comparative groups.

The study made several recommendations. It suggested that NSF establish a formalized process for periodically reviewing and comparing the benefit plans of its FFRDCs to those of comparable organizations as a check on their reasonableness. It also suggested that NSF establish reasonable baseline parameters on expected medical and pension costs at the FFRDCs based on the best practices of similar organizations. In addition, the study provided specific ideas for economizing that have been used successfully by other employers to help control benefit costs. NSF could suggest these ideas to the managers of the FFRDCs to make their employee benefits plans more commensurate with those of comparable organizations.

Overall, NSF found the study helpful as baseline information, but that it would have been more valuable if it considered salaries and other benefits that comprise total compensation. Although NSF believes it cannot direct the FFRDCs to limit medical and pension benefits, the study may be useful in assessing the reasonableness of the amount that the FFRDC proposes to NSF for reimbursement of employee benefits in accordance with provisions of the awards, federal guidelines, and other legal and accounting requirements.

Contract Audits

Increase in Fee to be Paid to Arctic Contractor Should be Reversed

During the last six months, OIG completed two audits of VECO USA Inc. which provides logistics support to NSF's research activities in the Arctic and recommended that a $45,240 fee increase be reversed and those funds put to better use.[4]

We contracted with the Defense Contract Audit Agency (DCAA) to conduct the first audit of a revised Disclosure Statement and associated Cost Impact Proposal that VECO submitted in May 2006. The revised documents pertained to VECO's proposed change in its method of accounting used to calculate its indirect cost rates for government contracts. The DCAA auditors found that the change complied with applicable Cost Accounting Standards and the Federal Acquisition Regulations (FAR) and that VECO's revised Disclosure Statement was consistent with its actual practice. As such, the auditors did not object to the associated $1.5 million (or 3.3 percent) increase in total cost to the NSF contract that resulted from the accounting change.

Because the DCAA auditors did not express an opinion on $45,240 of increased profit that VECO proposed to charge NSF as a result of its accounting change, OIG reviewed the reasonableness of these charges and found that the proposed fee increase was not allowable under the FAR, which prohibits a cost-plus-a-percentage-of-cost system of contracting. Since it is not permissible to pay a contractor greater profit if it incurs additional costs as a result of an accounting change, we recommended that NSF negotiate with VECO to reverse the increased fee of $45,240. The NSF Contracting Officer agreed and indicated her intention to disallow the increase in fee. Although this VECO contract has

[1] In our September 2006 Semiannual Report, p. 20, we reported on an incurred cost audit for FYs 2001-2003 of a $46 million cost-plus-fixed-fee VECO contract, which expired in May 2005. In that audit auditors qualified their opinion on $2.6 million of direct labor costs charged to NSF because the contractor's time cards were not routinely signed by employees and supervisors to certify their accuracy. In addition, the auditors questioned $17,200 of unallowable employee bonus payments. During audit resolution NSF sustained all $17,200 of questioned costs and ensured that VECO implemented adequate timekeeping policies. NSF, in coordination with the Defense Contract Audit Agency, is currently reviewing VECO's revised bonus policy.

expired, our audits of this company have future implications, because NSF has a follow-on VECO contract with a potential value of $107 million through May 2012.

NSF Contractor Overcharges $22,716

Auditors found that Abt Associates included $2.2 million of unallowable indirect costs in calculating its indirect rates charged to its federal contracts, which resulted in Abt overcharging NSF $22,716. The OIG contracted with DCAA to perform an audit of costs Abt claimed on four NSF contracts, amounting to $1.64 million, to provide technical and evaluation support for NSF's Engineering and Education Directorates.

Of the $2.2 million of unallowable indirect costs, $1.07 million, or 49 percent, was for employee stock options that appeared to distribute profits, which are unallowable under federal regulations. Another $485,027, or 22 percent, was for a change in Abt's method of accounting for indirect costs. Abt had violated Cost Accounting Standards (CAS) because it had not informed the government or received its approval for the accounting change. Finally, the auditors found that $336,427 in fringe benefits, or 15 percent, of the $2.2 million, was for unallowable labor costs.

The auditors recommended that NSF require Abt to submit revised claimed cost billings that reflect the corrected indirect cost rates. Further they recommended that NSF coordinate with Abt's cognizant federal agency, US AID, to determine the effect of Abt's CAS noncompliance on any unallowable costs charged to NSF contracts. We have forwarded the audit report to NSF's Division of Acquisition and Cooperative Support to resolve any questioned costs and ensure corrective actions.

Grant Audit

Significant Control Weaknesses Identified at University Campus

An audit of three awards amounting to $9.4 million to the University of Maryland Baltimore County (UMBC) found serious internal control deficiencies, including inconsistent adherence with UMBC's established financial management practices. These internal control deficiencies resulted in $174,655 of erroneous costs claimed to NSF grants and if left uncorrected, could have a significant impact on UMBC's ability to administer future awards funds.

Auditors found as a material weakness that UMBC staff did not always follow the University's cost accounting procedures to ensure that costs charged to NSF awards were accurate, allowable, and allocable. UMBC's cost accounting procedures required the creation of separate accounts for each NSF award, monthly analysis of award costs to ensure that expenditures claimed to a particular NSF award were allowable and reasonable, and an electronic time and effort certification process to capture labor effort spent on NSF awards. However, because the procedures were not always followed, $358,203 of erroneous labor, fringe benefit, and participant support costs were charged to

NSF awards. Based on our audit, UMBC corrected all of the erroneous charges on its March 31, 2006 financial management report to NSF, except for $41,511, which the auditors subsequently questioned.

In addition, UMBC did not have adequate procedures to detect errors in the amount of indirect costs claimed to NSF. It relied on its accounting system to calculate the amount of indirect costs on NSF awards, and as a result, overstated its indirect costs by $131,510.

Also, contrary to its established procedures, UMBC did not always monitor the subaward costs and cost sharing it charged to its NSF awards. UMBC did not enforce its requirement to obtain supporting documentation from its subawardees as a basis to claim costs to NSF. As a result of these internal control weaknesses, UMBC could not be certain that the subawardee amounts it claimed to NSF were valid or correct. Only by auditing the subawardees directly were the auditors ultimately able to affirm that approximately $5.3 million of subawardee direct and indirect costs and claimed cost sharing were allowable, allocable, and sufficiently supported. UMBC will not be able to ensure the propriety of future subaward costs claimed to NSF until these weaknesses are corrected.

The auditors recommended that UMBC develop and implement a subawardee fiscal monitoring plan, policies and procedures to obtain and review cost sharing data and related supporting documentation from its subawardees, written policies and procedures to perform periodic compliance reviews with established cost control processes, and procedures to review indirect costs charged to NSF awards for allowability and allocability. UMBC concurred with all the report findings and indicated that it was taking corrective action.

Required Annual Single Audits

National Single Audit Sampling Project Indicates Improvements Are Needed

In June 2007 the Inspector General community issued its *Report on National Single Audit Sampling Project* on the quality of annual audits performed by state auditors or independent public accountants and required by the Single Audit Act of 1984. The IGs launched a government-wide initiative in November 2004 to assess the quality of these annual audits, which are also referred to as A-133 audits because OMB Circular A-133 provides guidance for them.[5] The National Single Audit Sampling Project randomly selected 208 A-133 audits for review covering $57 billion of government funds from a universe of over 38,000 audits. NSF OIG's AIG for Audits, Deborah Cureton, served on the Project Advisory Board, while Kathy Leone, Audit Manager, served as part of project management.

[5] Non-federal entities that expend $500,000 or more in a year in Federal awards are required, under the Single Audit Act of 1984, as amended, to have a Single Audit conducted for that year. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, provides the requirements under which these audits are conducted.

The IGs' report established that improvements in performance of these single audits are needed. Quality control reviews of the 208 audits found that 115 were of acceptable quality, but that 30 or 16 percent[6] had significant deficiencies and were therefore of limited reliability, and 63 or 35.5 percent[7] were unacceptable and could not be relied upon. The most prevalent deficiencies were insufficient documentation of the understanding of internal controls over compliance and inadequate compliance testing of OMB A-133 compliance requirements.

The project report directed its recommendations to enhance and clarify Single Audit guidance and requirements, require auditor training on Single Audits as a prerequisite for conducting such audits, and address sanctions for substandard Single Audits to OMB, various federal agencies, and the American Institute of Certified Public Accountants. Implementation of the recommendations in this report is expected to have a significant impact on future performance of these audits and enhance the enforcement process when they are substandard.

Single Audit of NSF Awardee Found to Be Insufficient

During this semiannual period we completed a quality control review of an annual audit performed at Barrow Arctic Science Consortium (Consortium) by a public accounting firm and found deficiencies and causes for the deficiencies similar to those found in the national sampling project report (see sidebar). Our review found that the auditor did not adequately perform the required tests of controls over federal grant compliance requirements. The auditor's workpapers contained assessments of certain controls they deemed to be low risk but did not contain any evidence of testing to support the low risk level assessments. In addition, the auditor did not report on instances of noncompliance that were identified during the audit, such as the lack of: 1) appropriate records of equipment purchased with federal funds, 2) a bi-annual inventory of such equipment, and 3) a formal vendor approval process.

As a result, we were unable to determine whether the auditor identified all instances of material non-compliance with federal grant compliance requirements. While the auditor did qualify its opinion on compliance, it is possible that additional audit work may have resulted in additional findings and a more serious adverse or disclaimer of opinion on the Consortium's compliance controls. We recommended that the auditor obtain additional training on the planning and performance of A-133 audits; improve its processes for planning and performing A-133 audits; and conduct additional testing at the Consortium to ensure that certain capital assets were procured in accordance with OMB requirements and equipment purchased with federal funds were properly inventoried and safeguarded.

The auditor responded that it had complied with federal audit requirements but agreed with the findings and recommendations. In addition, the auditor stated that is has already begun implementing corrective actions to improve the quality of OMB Circular A-133 audits and is in the process of conducting additional testing on equipment and procurement. We plan to follow up on the status of corrective actions taken within six months.

---

[6] The 16 % is based on point estimates. See *Report on National Single Audit Sampling Project*, p. 10.
[7] The 35.5 % is based on point estimates. See *Report on National Single Audit Sampling Project*, p. 10.

203 Findings Reported in A-133 Audit Reports

In the last six months we reviewed 151 audit reports, covering NSF expenditures of more than $8 billion from fiscal year 2002 through 2006 to determine questioned costs related to NSF awards and whether the reports comply with the requirements of OMB Circular A-133. Among the findings were compliance deficiencies and internal control weaknesses resulting in $380,690 of questioned costs. The findings in A-133 reports help to identify potential risks to NSF awards and are useful to both NSF and the OIG in planning site visits, post-award monitoring, or future audits. Because of the importance of A-133 reports in monitoring awardees, the OIG returns reports that are judged inadequate to the awardees to work with the audit firms to take corrective action.

Findings Related to NSF Awards

Category of Finding	**Type of Finding**			
	Compliance	Internal Controls	Monetary	Total
Financial and Award Management	53	24	3	80
Salary/Wages	24	7	9	40
Subawards	15	5	1	21
Procurement System	13	6	2	21
Equipment	14	3	1	18
Cost-Sharing	4	1	2	7
Indirect Costs	2		2	4
Property Management System	3			3
Other Direct Costs	2		1	3
Travel		2		2
Materials and Supplies	1			1
Program Income	1			1
Participant Support Costs			1	1
Consultant Services			1	1
TOTAL	132	48	23	203

In the 151 reports we reviewed, the auditors issued 5 qualified or adverse opinions on the financial statements and 22 qualified or adverse opinions on the entity's compliance with federal award requirements. These modified opinions reflect serious internal control and compliance issues. The reports revealed 132 instances where awardees failed to comply with federal requirements and 48 instances where weaknesses in awardees' internal controls could lead to future violations. The auditors also identified 23 instances of non-compliance with federal requirements that caused them to question a total of $380,690 costs claimed by recipients of NSF awards. As detailed in the above table, the most common violations were related to financial and award management and salary/wages.

We also examined management letters accompanying the A-133 audit reports. Auditors use these letters to identify 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. Auditors issued management letters to 111 entities in this reporting period. The letters we examined disclosed deficiencies that could affect NSF awards in areas such as (1) tracking, managing, and accounting for NSF costs, and (2) policies and procedures related to financial and award management.

Findings Related to Timeliness and Quality of Audit Reports

Of the 151 audit reports we reviewed in which NSF was the cognizant or oversight agency, we found that 38, or 26 percent of the total, had been submitted late or the audit reporting package was incomplete. OMB Circular A-133 requires audits to be completed and reports submitted by the awardee to the Federal Audit Clearinghouse within the earlier of 30 days after the awardee's receipt of the auditors' 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 auditee 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 matter.

OIG staff consider the leadership skills and sacrifice of those who fought at Gettysburg at a recent retreat.

The A-133 reports we reviewed also revealed problems with audit quality. For example, 16 reports (42 percent) either did not include a Corrective Action Plan or the plan was incomplete. OMB Circular A-133 states that, at the completion of the audit, the auditee shall prepare a corrective action plan to address each audit finding included in the current year auditor's reports. In addition, auditors are required to follow the Circular's guidelines regarding the presentation of the audit findings. However, we found that 14 reports (37 percent) did not present the findings in sufficient detail. Generally, the auditors did not adequately identify (1) the federal award to which the findings applied, (2) the criteria or regulatory requirement upon which the findings were based, and/or (3) the cause and effect of the findings. Finally, we found that 15 reports (39 percent) did not present the Schedule of Expenditures of Federal Awards (SEFA) in accordance with A-133 requirements. In most instances, the SEFA did not provide sufficient information to allow for identification of awards received from non-federal "pass-through" entities.

The OIG identified each of the potential errors and contacted the auditors and awardees, as appropriate, for explanations. In each case, the auditors and awardees 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 and awardees generally acknowledged that the errors reduced the reliability of the reports. We issued a letter to each awardee to inform them of the results of our review and the specific issues on which to work with the auditors during future audits to improve the quality and reliability of the report.

Audit Resolution

DOD Withdraws Prior Finding of Non-compliance Affecting Millions in Payments to Polar Support Contractor

Beginning with our September 2004 Semiannual Report,[8] we have reported on a number of audits of Raytheon Polar Services Corporation's (RPSC) financial records and its compliance with its Cost Accounting Standards (CAS) disclosure statement. Among the findings contained in these audits, the auditors questioned about $56 million of claimed costs for the five-year period 2000 through 2004 and identified $26.6 million of potential increased contract costs for years 2005 through 2010, due to a change in RPSC's disclosed accounting practices. These audits cited RPSC's parent, Raytheon Technical Services Company (RTSC), for failing to comply with its federally disclosed accounting practices in its CAS disclosure statement. As a result, DOD, which is responsible for overseeing RTSC's compliance with its accounting disclosure statement, cited RTSC with a final determination of noncompliance for 2000-2002, and an initial determination of non-compliance for 2003-2004.

As of the end of this reporting period none of the $56 million in claimed costs or the $26.6 million of potential increased costs has been resolved. However, during the last six months the DOD contracting officer responsible for Raytheon withdrew his determinations of noncompliance as it affects $21.3 million of questioned costs and the $26.6 million of projected increased costs for the Centennial, Colorado RPSC office operations. The NSF contracting officer concurred with the change in the DOD position and in turn has proposed to allow the associated $21.3 million of costs questioned by the auditors. As a corollary, the $26.6 million of projected increased costs would also be considered allowable. Given the infrequent nature of such reversals of a determination of noncompliance and the large sum of money involved, we requested and are currently reviewing information provided by DOD and NSF to support their recent actions. Additionally, the DOD OIG has initiated a separate review to assess the reasonableness of the DOD contracting officer's decision.

Of the remaining $34.7 million of questioned costs,[9] NSF addressed $6.9 million of the $7.6 million in direct costs and fringe benefits for FYs 2000 though 2004 that were questioned because RPSC did not have documentation to show how

[8] September 2004 Semiannual Report, pp. 15-16.

[9] $56 million - $21.3 million = $34.7 million.

the costs were allowable under Federal Acquisition Regulation or related to the NSF contract, or because RPSC charged estimated rather than actual fringe benefit costs to the NSF contract. NSF has proposed the recovery of $3.05 million or 40 percent of the $7.6 million in questioned direct costs; NSF did not sustain $3.86 million because RPSC was subsequently able to support these costs. The remaining $0.7 million of questioned direct and fringe benefit costs, an additional $12.2 million in questioned over-ceiling indirect costs, and $14.9 million in questioned Corporate and RTSC management costs will be resolved in future semiannual periods.

NSF to Clarify in Contracts When the Purchase of Alcohol is an Allowable Cost

An audit of a $7 million NSF contract with Mayatech, which provides technical support for NSF's "Presidential Awards for Excellence in Mathematics and Science Teaching," questioned $14,089 in claimed costs related to alcoholic beverages, because NSF's contract was not clear about its intent and legal basis to fund alcohol. During this semiannual period NSF resolved this audit report by allowing the questioned costs on its Mayatech contract and accepting the recommendation that NSF clarify in its future contracts when alcohol will be an allowable cost.

School District Must Repay $91,191

An audit of two NSF awards to the Dallas Independent School District (DISD) totaling $26.5 million found inadequate internal controls over record retention, cost sharing, participant support costs, and expenditure reporting, causing auditors to question $91,216 of DISD claimed costs. DISD concurred with the auditors' findings and reported that it has taken steps to implement all of the report recommendations. During audit resolution, NSF reviewed the documentation submitted by DISD in support of its corrective actions and sustained $91,191 of the questioned costs.

University Revises Policies and Procedures for Labor Costs and Subrecipient Monitoring

Auditors of a $9.8 million award to the University of Hawaii (UH) found that over the five-year period of the award UH used budgeted percentages to charge time and effort cost sharing without making any adjustments to reflect changes in actual workload, and that UH could not locate some documentation to support subcontract costs. The audit resulted in a qualified opinion and identified approximately $1.7 million in unverifiable labor cost sharing, approximately

$265,449 of undocumented subcontract costs, and $305,706 of undocumented subcontractor cost sharing. UH generally agreed with the findings and recommendations in the report and revised its policies and procedures to account for

labor costs and to monitor subrecipients. During audit resolution, NSF reviewed additional documentation that UH submitted in support of its questioned claimed costs and sustained $22,202, or 8 percent, of the $265,449 questioned subcontract costs.

Identification of Voluntary Faculty Effort Provided on Sponsored Projects Reduces Indirect Cost

A recent audit to assess the adequacy of accounting and reporting processes for labor costs charged to NSF grants at the California Institute of Technology (Caltech) found that the university needed to develop a system to provide accurate reporting of voluntary cost sharing by faculty members.[10] Caltech generally agreed with the audit finding and recommendations. As such, it developed a new methodology to estimate the amount of voluntary faculty labor effort for projects, with no faculty salary reimbursements, to include in the organized research base used for negotiating its indirect cost rate. During the audit resolution, NSF worked with the cognizant audit agency to review the reasonableness of the new methodology. Using the new methodology, Caltech estimated that $1.6 million of such voluntary labor effort was provided by faculty members on federally sponsored projects in FY 2005. Including the previously unreported amount in the organized research base lowered Caltech's indirect cost rate by one-half percentage point and resulted in the federal government reducing its reimbursement of FY 2005 indirect costs by approximately $600,000.

NSF Continues to Improve Large Facility Management

In FY 2002, we issued an audit report on NSF's funding for major research equipment and facilities that recommended that NSF identify, record, and track the total cost of these large facility projects throughout the entire project lifecycle.[11] Based on NSF's recent development and update of a cost-tracking system for large facility projects, we have closed this recommendation. Once staff involved with tracking and overseeing these projects are trained on the use of the cost-tracking system, we will be able to close the last remaining recommendation from this audit.

This step represents further progress by NSF to fully respond to OIG recommendations regarding large facility management that began in FY 2001 with our Audit of the Financial Management of the Gemini Project.[12] Recommendations from this audit relating to the development of policies and procedures for the management of large facility projects remain open. We will continue to monitor NSF's efforts in this area to ensure that it adequately addresses the outstanding findings and recommendations related to large facility management.

---

[10] March 2007 Semiannual Report, pp.18-19.
[11] September 2002 Semiannual Report, pp. 18-19.
[12] March 2001 Semiannual Report, pp. 6-7.

Work in Progress

Sufficiency of NSF's Cooperative Agreements for Large Facility Projects

As reported in our March 2007 Semiannual Report,[13] the OIG has initiated an audit to determine whether the terms and conditions included in NSF's cooperative agreements for the management and operation of its large facilities projects are sufficient for NSF to provide stewardship over its programs and assets. We have chosen a representative sample of six facilities, currently in the operations phase, which together contain characteristics common to all of NSF's currently operating large facilities. Using these six facilities, we are conducting a series of four in-depth audits to determine the sufficiency of NSF's cooperative agreements to ensure: 1) accomplishment of programmatic goals; 2) financial and administrative accountability; 3) protection of NSF assets; and 4) compliance with laws and regulations. The first of these audits is underway with a report to be issued during the next semiannual period.

Audit of NSF Controls over the Collection, Storage, Access and Use of Personally Identifiable Information

The OIG has initiated an audit of the adequacy of NSF controls for electronic and paper forms of personally identifiable information. In response to recent breaches and data losses at federal agencies, both the Office of Management and Budget and Office of Personnel Management have issued directives to strengthen the protection of personal information from theft or loss. We will be reviewing NSF's processes and procedures to identify potential risks and assessing the adequacy of its controls to protect the personal information of its employees, visitors, principal investigators and reviewers.

Labor Effort at Universities

As first reported in our September 2005 Semiannual Report,[14] the OIG is conducting a series of reviews to assess the adequacy of accounting and reporting processes for labor costs at NSF's top-funded universities. Approximately, one-third of all NSF award costs provided to universities are for salaries and wages, amounting to $1.2 billion annually. Reviews performed to date at the University of Pennsylvania and the California Institute of Technology found systemic weaknesses in those universities' effort reporting systems raising concerns about the reasonableness of the labor effort charges and whether the level of effort promised was actually performed.

Additional audits of labor effort practices are being completed at the University of Illinois at Urbana-Champaign, the University of Utah, the University of California – Berkeley, the University of California - San Diego, and Vanderbilt University. These reviews are being performed by independent public accounting firms under contract to our office. We anticipate awarding contracts for audits of labor effort practices at another five universities in October 2007 and performing an audit at a sixth university ourselves.

---

[13] March 2007 Semiannual Report, p. 25.
[14] September 2005 Semiannual Report, p. 20.