

Audits & Reviews

Significant Reports

Financial Statement Audit Recommends Increased NSF Award Oversight and Information Security

During this semiannual period we issued the Fiscal Year 2002 Independent Auditor's Report, which includes the results of the information security review. NSF received its fifth consecutive unqualified opinion on the financial statements. However, it is important to note that the audit report identified two reportable conditions in its Report on Internal Control over Financial Reporting. They relate to (1) post-award procedures for monitoring awardees' administrative and financial management and tracking of NSF-owned property, plant and equipment in the custody of awardees, and (2) entity-wide information security. Both of these findings were also identified as reportable conditions in the Fiscal Year 2001 Report on Internal Control over Financial Reporting and have been reported as management and performance challenges for the past two years.

Improving financial management and information security has been an important priority of the Federal Government for many years. Since 1990, Congress has enacted several laws aimed at improving Federal financial management and information systems security. The Chief Financial Officer's Act of 1990, as amended, 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 annually. The Government Information Security Reform Act of 2000 (GISRA) requires agencies to perform annual reviews and report to the Office of Management and Budget on their information systems security programs. In addition, Inspectors General are to provide independent evaluations of the information security programs and practices of their agencies. We contracted with the auditing firm KPMG, LLP to perform these reviews

The FY 2001 audit report stated that NSF did not have a comprehensive and systematic risk-based process for monitoring its grants once they have been awarded. The auditors found that while NSF's award management system includes financial and administrative

HIGHLIGHTS

<i>Significant Reports</i>	17
<i>Corrective Actions Prompted by Previous Audit Findings</i>	25
<i>Work in Progress</i>	28
<i>A-133 Audit Reports</i>	29

monitoring such as requiring the regular submission of federal cash transaction reports, its post-award monitoring is not systematic, risk-based, documented, or consistently applied. As a result, the risk of waste fraud and mismanagement, non-compliance with laws and regulations, and inaccurate reporting is increased. The risk grows larger as NSF's awards become more costly and complex in nature.

NSF made progress in FY 2002 toward improving its post-award monitoring activities. The agency developed a draft policy for conducting post-award oversight of NSF's high-risk awardees and invited comments from OIG. We anticipate that our suggestions will be incorporated in the final version and look forward to the implementation of the policy.

The report also states that NSF needs to further improve its process for monitoring and reporting on at least \$200 million of assets owned by NSF but held by awardees. Since the finding was first reported in the FY 2001 audit, NSF has developed procedures to periodically confirm the existence of these assets. However, the procedures have not yet been implemented and do not go far enough. The auditors recommend that NSF should also periodically assess the condition of these assets as well as ensure the adequacy of the awardee's systems for providing their oversight and safekeeping.

Finally, the report also identifies specific areas of vulnerability in NSF's electronic data information systems that increase the risk of unauthorized access to, and modification of financial, programmatic, and other sensitive information. Three of these vulnerabilities were considered significant. They include the need for NSF to (1) improve access controls, (2) strengthen its security management structure, and (3) fully implement its certification and accreditation process. NSF has recently undertaken corrective actions such as filling key management positions responsible for NSF's information system security program, and accrediting 6 of its 20 major systems. However, NSF still needs to ensure that: networked resources and critical production systems are securely configured and security controls are periodically reviewed to prevent unauthorized access to these resources; security responsibilities and related authorities are adequately assigned and delegated; and all major systems are certified and accredited.

NSF management generally concurred with the findings regarding each of the reportable conditions. However, they do not believe that the problems cited constitute significant deficiencies that rise to the level of reportable conditions. We will continue to report on the status of NSF's corrective actions in the next Semiannual Report. In the next reporting period, we will also issue our FY 2002 Management Letter, which will address other matters involving NSF's internal control over financial reporting.

Improvements Needed in Antarctic Infrastructure Planning

In March, we issued our report on the results of our audit of the medical and the occupational health and safety programs instituted by Raytheon Polar Services Company. Raytheon is the primary support contractor for the United States Antarctic Program (USAP)². We found that these programs generally protect the overall health and safety of USAP participants. Raytheon's medical program has effective policies and procedures in place to provide oversight and guidance for healthcare delivery to a medically screened population in Antarctica. These guidelines are effective in screening and qualifying candidates for participation in the USAP, and for delivering routine and emergency healthcare in this remote environment.

Similarly, the occupational health and safety program ensures a generally safe and healthful work environment free of recognized hazards. Raytheon has demonstrated a strong commitment to improving and maintaining the health and safety and medical programs, and NSF's review and oversight help to ensure the continuing quality of these programs.

However, the review identified health and safety issues related to aging facilities and infrastructure in Antarctica. NSF's Office of Polar Programs Committee of Visitors has raised similar concerns. Because the USAP staff depends on the facilities for protection from the harsh elements, ongoing maintenance and upgrades are necessary to prevent health and safety crises from occurring. Therefore we have recommended that NSF develop life cycle planning for the USAP assets that will serve as a basis for a capital asset management plan. In addition, in order to assure that the plan is funded, we recommended that NSF establish a separate line item within its budget so that it does not have to compete with day-to-day USAP operations or scientific research for its funding. NSF disagreed with this recommendation, noting the importance of retaining the flexibility to respond to emerging situations.

In addition, we recommended that NSF: develop and implement a formal work center assessment program to identify hazards and conditions that contribute to musculoskeletal injuries at specific work centers; develop procedures for overseeing the shipboard medical programs on the R/V Nathaniel B. Palmer and the R/V Laurence M. Gould, as well as ensure Raytheon's compliance with its contractual responsibility to provide emergency medical technicians (EMT) on board these ships. NSF generally agreed with these recommendations.

Although the Antarctic continent offers compelling scientific opportunities, its extreme and isolated environment presents many challenges in protecting the overall

²Raytheon Polar Services Company (Raytheon), the USAP's primary support contractor, is responsible for maintaining a medical program, which includes medical screening of personnel deploying to Antarctica, and the staffing and operation of medical clinics at the three U.S. research bases on the Antarctic continent and aboard the two research vessels that support the USAP. Raytheon is also responsible for providing an occupational health and safety program in Antarctica.

health and safety of the many employees, contractors, and researchers who participate in the USAP. Temperatures at the USAP's three year-round research stations range from an average high of 2° Centigrade at Palmer Station to an average low of minus 28° Centigrade at South Pole Station.



A McMurdo Station worker inspects two older D-8 Caterpillar bulldozers in front of the Chalet administration building. The D-8s have not been built since 1963 and have been working in Antarctica for 50 years.

Indirect Cost Audits Indicate Rates Are Overstated

In FY 2001, NSF funded over \$1.2 billion in indirect costs. Indirect costs are expenses that pertain to common administrative support activities, such as operation and maintenance of buildings, rent, payroll and accounting functions, and information technology services. Unlike direct costs, which are charged in their entirety to awards, indirect costs are *allocated* based on an indirect cost rate that the awardee negotiates with the Federal Government.

NSF negotiates indirect cost rates for 112 awardees that are primarily non-profit organizations. They receive approximately \$585 million of Federal funding annually, \$375 million of which is from NSF. Since most of these organizations are relatively small and unfamiliar with Federal award requirements, particularly the complexities of developing an indirect cost rate proposal, they pose a risk for improper indirect cost charges to NSF and other Federal agencies. Accordingly, on the basis of our risk analysis and in consultation with the NSF office that negotiates indirect cost rates, we selected ten organizations for audits of indirect cost rate proposals. In FY 2001, these ten organizations received nearly \$40 million in Federal awards, of which approximately \$12 million was for indirect costs.

In this reporting period we completed four of these audits and resolved outstanding issues for one other. Overall, we found that the organizations did not correctly calculate their proposed indirect cost rates and, on average overstated their indirect cost rates by 8 percentage points. All of the organizations we audited misstated the indirect cost pool and the direct cost base, the two components of the indirect cost rate. Four of the grantees could not support direct or indirect costs claimed because of either a lack of documentation or inadequate systems for tracking labor costs. In addition, two awardees did not submit annual indirect cost proposals to NSF as required. Although we do not know if the findings in our sample of these five high-risk institutions are representative of potential findings within the population of 112 awardees, the findings suggest that the negotiation of indirect cost rates may need increased scrutiny by NSF. The table below summarizes the common problems we found in the five audits.

Indirect Cost Issues

Type of Non-Profit Institution	Incorrect I/C Pool	Incorrect Direct Cost Base	Lack of Supporting Documentation	Inadequate Labor Cost Tracking	Proposals Not Annual
Natural History Museum	X	X	X	X	
Scientific and Professional Society	X	X	X	X	X
Science Educators' Association	X	X	X	X	X
Biological Laboratory	X	X			
Mathematics Educators' Association	X	X		X	

Indirect Cost Pool and Direct Cost Base Miscalculations

A high indirect cost rate benefits awardees since it enables them to claim more costs for reimbursement. Therefore, to produce an advantageous indirect cost rate, awardees have an interest in *increasing* the indirect cost pool and *decreasing* the direct cost base. We found that all the awardees included unallowable costs in the indirect

cost pool and incorrectly excluded costs that should have been included in the direct cost base. Federal cost principles prohibit certain costs from being charged to Federal awards or included in the indirect cost pool. The direct cost base must include all costs that directly fund the organizations' primary research and educational missions. In addition, costs that may "distort" the base, such as equipment, subcontracts, and participant support costs, typically should be excluded.

Indirect Cost Pools. The awardees included \$208,525 of costs that Federal cost principles explicitly state are unallowable in their indirect cost pools:

- An association of mathematics educators included \$148,407 of bad debt expense.
- An association of science educators included \$25,739 of investment losses.
- Two associations of educators and one biological laboratory included a total of \$16,725 of questioned travel costs.
- A biological laboratory and a natural history museum included \$6,946 of entertainment costs.
- A natural history museum and a scientific and professional society included \$6,552 of alcohol expenses.
- An association of science educators and a natural history museum included \$4,156 of penalty costs.

Direct Cost Bases. The awardees also incorrectly excluded \$2.4 million that should have been included in the direct cost base:

- Three of the five awardees understated their direct cost bases by a total of \$2 million because for a period of up to three years they misclassified direct program costs or member-related costs as indirect costs.
- Two of the five awardees incorrectly excluded \$407,894 of costs that were directly related to their programs.

Inadequate Support for Claimed Costs

Four awardees could not support costs included in the indirect cost pool or the direct cost base, including labor costs of employees who worked on both direct and indirect cost activities.

Lack of Supporting Documentation. Three awardees did not have adequate records to support proposed costs. For example:

- A natural history museum did not have adequate records to support \$726,486 of depreciation included in the indirect cost pool or \$62,476 of voluntary service costs in the direct cost base.

- A scientific and professional society did not have invoices to support \$371,668 of credit card charges included in the indirect cost pool.
- An association of science educators lacked support for \$29,362 of invoices included in the indirect cost pool.

Inadequate Labor Cost Tracking. Four awardees could not support claimed labor costs because they lacked adequate accounting processes to track and document indirect labor costs. For example:

- Two organizations could not support \$1 million of labor costs charged to their indirect cost pools because of inadequate systems to track, document, or certify costs of employees who worked on both direct and indirect cost activities.
- One organization overstated indirect labor costs by \$2,501 because the staff did not update payroll time allocations each period.

Proposals Not Submitted Annually

Two awardees did not submit yearly proposals to NSF, a violation of Federal requirements. As a result, NSF was unable to make timely corrections to overstated indirect rates in order to prevent over-recoveries on existing awards and the continued use of outdated rates in new NSF and other Federal awards.

Indirect Cost Rates Are Overstated

By including incorrect, unallowable, or unsupported amounts in their proposals, awardees overstated their indirect cost rates by 4 to 11 percentage points, with an average overstatement of 8 percentage points. Based on our audit-calculated rates, two awardees over-recovered a total of \$112,209 on their existing awards. Further, we estimate that for four awardees NSF will save approximately \$830,000 of costs over a period of five years as a result of using the audit-calculated rates.

The awardees generally overstated the indirect cost rates in the proposals submitted to NSF because of accounting system weaknesses, such as failure to separately identify allowable and unallowable costs in charts of accounts or general ledgers and because their employees did not understand Federal and NSF requirements. In general, we have found that non-profit organizations do not adequately train their employees to understand the complex rules surrounding the preparation of indirect cost proposals. NSF may need to provide more oversight of and technical assistance to the organizations for which it negotiates indirect costs.

We recommended that NSF require the awardees to: develop and implement written procedures to prepare indirect cost proposals; train their staffs; establish a process to track, document, and certify labor costs for employees spending time on both direct and indirect cost activities; and comply with Federal and NSF

requirements. In the case of the audit that was resolved this reporting period, NSF sustained all our recommendations except one concerning an organization's use of manual spreadsheets to record salary and consulting expenditures. NSF stated that automated systems are not a requirement, but did recommend that the auditee fully document the processing of its manual accounts.

Significant Deficiencies in Cost Proposal For Large Facility Project

At NSF's request, we contracted with the Defense Contract Audit Agency (DCAA) to perform an audit of a \$160 million revised proposal submitted to NSF by a western university. The proposal, covering the period October 1, 2001 through September 30, 2006, was for the continued operations and research and development associated with one of NSF's large facilities dedicated to the detection of cosmic gravitational waves and the measurement of these waves for scientific research.

The audit identified a number of significant findings to be considered in negotiating a final award amount. Of \$160 million in proposed costs, DCAA identified over \$4 million of questioned costs related to an unallowable contingency reserve as well as unsupported advanced research and development tasks. The university proposed the contingency reserve to cover unforeseen actual expenses in excess of the cost estimates as well as costs that could not be anticipated at the time the estimate was prepared. DCAA also questioned over \$900,000 of the proposed costs because the university did not provide adequate supporting documentation for advanced research and development tasks scheduled for FY 2005 and 2006.

In addition, DCAA reported that the university understated its proposed fringe benefits and indirect costs by \$956,736 and \$932,906 respectively, because it used rates in pricing the proposal that were lower than its most recently negotiated federal rates. In response to DCAA's findings, the university said it would charge the fringe benefits at the negotiated fringe benefit rate, but would charge indirect costs using the lower proposed indirect cost rate.

DCAA recommended that if NSF accepts the lower indirect cost rate contained in the proposal, conditions should be added that would require the university to absorb the difference between the lower proposed rate and the higher negotiated rate, in order to prevent the university from passing the additional costs on to other government awards. With regard to salary costs, DCAA recommended that NSF require the university to provide a detailed listing of students and visiting scientists funded by the award, as they become known, to ensure that other NSF awards are not also funding the proposed positions.

At the conclusion of DCAA's audit, the university did not concur with the findings and recommendations in the audit report. We have forwarded the audit report to NSF's Division of Grants and Agreements (DGA), who requested the

audit of this revised proposal. The university and NSF are working together to resolve the findings and recommendations in the audit report.

Corrective Actions Prompted By Previous Audit Findings

NSF Oversight of Large Facility Projects Improves, But More Remains to Be Done

In our March 2001 Semiannual Report, we reported on our audit of the financial management of a large facility project. Our recommendations focused on enhancing NSF's oversight of these projects by updating existing policies and procedures and developing new ones aimed at improving project management. Last year, we released an audit report that raised additional concerns about NSF's management of large facility projects. Prompted by a Congressional request, the audit found that NSF's policies did not ensure that the projects remained within authorized funding levels, or that accurate and complete information on the total costs of major research equipment and facilities was available to decision makers. NSF responded that it would combine corrective actions recommended by this audit with those initiated as a result of the earlier audit.

Thus far, the agency has implemented approximately half of the original recommendations, including providing guidance to staff for charging expenditures to the proper appropriations account. However, while a corrective action plan is in place and progress is being made, key actions from both of these reports remain unresolved. A major feature of NSF's corrective action plan is the development of a Facilities Management and Oversight Guide. While NSF staff have devoted substantial time to this document over the past two years, it remains in draft form. Additionally, the Guide does not fully address the audits' recommendations. We have commented to NSF that the Guide needs to contain more practical guidance for staff who do the day-to-day work, and that the Guide does not address recording and tracking the full cost of large facility projects.

NSF plans to revise the Guide in May, and formally issue it by September 30, 2003. At that time, staff involved with large facility projects will need to be trained on the revised policies and procedures that will affect its funding, accounting, and monitoring. In the interim, NSF has begun to offer Project Management Certificate Programs through the NSF Academy, to help program officers improve their skills in managing large facility projects.

Two Universities Improve Controls Over Cost Sharing

During this reporting period NSF resolved two audits, with cost sharing findings that were previously reported in our September 2002 Semiannual Report. A northeastern university with \$3.8 million in cost-sharing commitments over a 6-year period did not have adequate internal controls to manage or account for its cost-sharing obligations. It commingled cost-shared expenditures with other expenses unrelated to NSF projects and did not adequately monitor \$682,497 of subrecipient cost sharing. Given the serious nature of the findings, NSF performed an on-site review of the university's corrective actions at our recommendation.

The review confirmed that the university has implemented the recommendations made in the audit report. They found that the university: 1) implemented a system to link the cost-sharing accounts with project accounts on each award, and to support cost-shared labor costs; 2) developed adequate policies and procedures to monitor subaward cost sharing; 3) revised its subcontract agreement to require the subrecipient to account for, document, report, and certify annual cost-sharing contributions to the university; and 4) implemented policies and procedures to certify cost sharing to NSF on an annual basis. At our suggestion, NSF also sent the university a letter encouraging it to strengthen its subrecipient monitoring policies by including activities such as site visits and limited scope audits of their processes for administering Federal awards.

We also reported that a Southern university was at risk of not meeting \$239,805 of required cost sharing, and did not have adequate procedures to monitor \$414,477 of subrecipient cost sharing, or systems to separately account for NSF cost sharing. In addition, the university did not certify its cost sharing to NSF when required. During audit resolution, NSF verified that the university met its cost-sharing obligation before expiration of the award, and had modified its accounting system to separately track NSF cost sharing. They also developed written subrecipient monitoring policies and added a clause to its standard subaward agreement that specifies subrecipient responsibilities for cost sharing. NSF determined that the university had updated its procedures to ensure compliance with cost-sharing certification requirements.

School Districts Strengthen Internal Controls

In our September 2002 Semiannual Report (pp. 22-24), we reported on two urban school districts that had deficiencies in their accounting systems for cost sharing, payroll, and participant support costs. Of \$8.6 million in costs claimed by one school district, we questioned over \$600,000 of participant support costs used for unauthorized purchases of technical software. Also, while the school district exceeded its cost-sharing requirement, \$1.7 million of the amount claimed lacked supporting documentation. In addition, we found that the school district was not

following its own policies for reviewing and certifying its time records. During the resolution of the audit findings with NSF, the school district returned the full amount of the questioned costs. The school district also reported that it has strengthened its procedures to ensure that future award expenditures are for allowable costs as required by federal and NSF grant requirements, cost-sharing claims are verifiable from its accounting records, and payroll documentation is adequately reviewed and certified.

For the second school district, we reported that its entire required cost sharing obligation of \$9.5 million was not supported and at risk of not being met before the expiration of the award. This material noncompliance occurred because the school district lacked written policies and procedures and an accounting system for accumulating and reporting cost sharing for the NSF award. For audit resolution purposes, the school district submitted revised documentation certifying that it had contributed \$9.6 million in cost sharing, and provided NSF with its newly developed policies and procedures for tracking accounting and documenting its cost-sharing contributions. After reviewing the school district's supporting accounting records and source documents, NSF accepted the revised cost-sharing certification and indicated that it would perform follow-up procedures to ensure that the recommended policy changes are implemented.

Resolution of Contract Audits Clarify Indirect Cost Questions

NSF resolved two audits of contractors during this semiannual period. An audit of a \$7.2 million contract awarded to a for-profit company in support of various science and engineering outreach activities was unable to determine the allowability of over \$1 million in claimed indirect costs because of unclear provisions related to indirect cost recoveries in the contract. NSF had allowed certain salary costs in its pre-award negotiations with the contractor, if the contractor agreed to distinguish between indirect and direct expense for these salaries. However, their accounting records did not clearly make this distinction.

During audit resolution, NSF decided that the contractor's claim for indirect costs on the salaries was appropriate and is negotiating final indirect cost rates with the contractor for the contract's four-year period. Once these rates and the allowable direct cost bases for each of these four years are determined, NSF will calculate the allowable indirect costs for the contract. At our recommendation, NSF also issued written guidance to its own staff that indirect cost provisions in NSF awards should be written clearly, without ambiguity, and reflect their expectations for indirect cost recovery. The guidance requires NSF awarding officials to document reasons for any final decisions on indirect cost rates and application bases that are different from recommendations by NSF cost analysts.

In our March 2002 Semiannual Report (p. 31), we reported on a contract issued to a southern consortium whose purpose is to provide facilities and personnel for support and operation of the Graduate Research Fellowship Program. Of \$12.4 million in costs and fees claimed by the contractor, we questioned \$313,978 in indirect costs because the contractor did not adjust its claim for indirect costs based on actual final indirect cost rates. We also reported that for four years the contractor failed to obtain required Federal audits. During audit resolution, NSF reviewed with the contractor the indirect costs that could be charged to the NSF contract. As a result, NSF required the contractor to reduce its contract billing to NSF by \$57,545 for disallowed indirect costs. NSF also required the contractor to obtain required Federal audits on its current NSF contract.

Work In Progress

NSF Awards for International Programs

As described in the September 2002 Semiannual Report (p.34), we are performing audits of four foreign institutions. NSF estimates that it currently spends five to ten percent of its annual budget, or between \$240 and \$480 million in fiscal year 2003, on activities with a significant international scope. The vast majority of these funds go to U.S. institutions to support international activities and collaborations. NSF believes that international science and engineering collaborations are important to staying current with new global discoveries and methods. Also, many scientific tools, such as large instrumentation and facilities are made more affordable through international partnerships. Thus, NSF anticipates that the funding allocated to international scientific activities will increase.



NSF staff Altie Metcalf, Marty Rubinstein, and Asst. IG for Audit, Debbie Cureton, prepare to depart New Zealand for Antarctica.

When NSF makes awards directly to foreign institutions, the awards are at increased risk for financial problems and lack of compliance with award requirements because foreign organizations are less likely to understand U. S. grant requirements and have different accounting practices. Therefore, we initiated audits of four foreign organizations representing \$46 million in total NSF awards over the past five years. The audits will evaluate the adequacy of NSF processes and controls for overseeing and monitoring awards to foreign institutions and determine whether foreign grantees are administering their awards in accordance with NSF terms and conditions. During this reporting period, we completed fieldwork at one foreign institution and expect to issue the audit in the next semiannual report. We have also initiated audits at two more institutions.

Award Administration Best Practices

In our September 2002 Semiannual Report (pp.33-34), we reported on the progress of a best practices review being conducted to assist NSF in its efforts to assess scientific progress and ensure effective financial management of its awards. During the audit fieldwork, we studied how eight Federal, state, and private grant-making organizations administer and monitor their awards, and document their management and oversight policies and practices. We expect the report to be issued in the next semiannual reporting period.

Committees of Visitors

Audit work continues on our review of NSF's Committees of Visitors (COVs) program. NSF relies on these committees of external experts to conduct evaluations and advise management on the performance of its scientific programs. The COV assessments are also used as a measure of program performance. This audit is examining how NSF evaluates and uses the COV reports currently, and whether the process for developing the reports, and their utility to management, can be improved. During this reporting period, the audit fieldwork was completed. We will issue the report in the upcoming semiannual period.

A-133 Audit Reports

80 A-133 Audit Reports Are Reviewed; Quality Control Reviews Planned

The Single Audit Act of 1984, as amended, requires non-Federal entities expending \$300,000 or more in a year in Federal awards to have a single or program-specific audit for that year. OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, provides implementing guidance for these audits (generally referred to as A-133 audits), which are intended to provide Federal agencies with information on how award recipients manage Federal funds.

In this reporting period, we performed desk reviews on 80 A-133 audit reports with NSF expenditures totaling \$676 million for fiscal years 2000 through 2002. 39 of the reports identified internal control weaknesses and/or findings of noncompliance with Federal grant requirements. The most common deficiencies related to claims for unallowable costs, inadequate cash management and lack of compliance with timely reporting of financial and program results. Additionally the auditors questioned \$18,895 of NSF-funded costs and cost sharing claimed by award recipients. These reports have been forwarded to NSF's Division of Acquisition and Cost Support for audit resolution.

NSF relies on A-133 audits to meet its pre and post-award responsibilities for monitoring the more than \$4 billion of awards it funds annually. Thus, the quality of these audits is important to enabling NSF to carry out its award administration and stewardship responsibilities. However, as we reported in our September 2002 Semiannual Report, recent Quality Control Reviews (QCRs) conducted by other Federal agencies have raised concerns about the quality of these audits and the pervasiveness of this problem. Therefore, consistent with OIG responsibilities under the Single Audit Act, we have identified this area as a new strategic focus of our annual audit plan. One particular concern is the quality of A-133 audit coverage that NSF awards receive, since these awards tend to be small relative to other Federal awards.

NSF has audit oversight responsibility for 18 organizations, including two universities and 13 school districts. In accordance with the draft guidelines issued by the President's Council on Integrity and Efficiency, we plan to conduct QCRs on these 18 organizations over the next five years. Thus, in the upcoming reporting period we will conduct three QCRs of the A-133 audits of institutions that receive the largest share of their Federal funding from NSF.

Our office also participates in a Federal OIG working group that is exploring the possibility of conducting QCRs of a statistically significant sample of A-133 audits, as part of a larger Federal OIG effort to assess the reliability of the A-133 audits government-wide. Over the next several months, a committee of Federal and state agencies will develop the sampling methodology, testing documents, contracting options, and training requirements. OMB has requested funding for this project in the President's FY 2004 budget.