

OIG FY 2002 Performance Report

This section describes OIG’s accomplishments towards the three goals set forth in the *OIG Performance Plan for FY 2002*:

1. Increase OIG impact on NSF’s effectiveness and efficiency.
2. Safeguard the integrity of NSF programs and resources.
3. Utilize OIG resources effectively and efficiently.

Overall, OIG accomplished most of its goals, many of which were aimed at improving key internal processes. The Office of Audits successfully implemented initiatives such as “team based auditing”, and the development of new quality checks for documenting and reporting on audits. Team based auditing involves OIG management in decision making during critical junctures of an audit to increase its focus on issues of systemic importance. These quality improvements contributed to a successful peer review of audit operations by another Federal OIG. The Office of Investigations carried out a major revision of its policy manual, conducted a mock peer review, and wrote two articles published in professional journals. In particular, we expect the new *Investigations Manual*, which defines the criteria for a quality product and streamlines investigative procedures, to significantly impact investigative operations. In addition, Audits and Investigations collaborated to develop an effective process for referring matters that require the other’s professional expertise. We note that some actions described were not fully implemented by the end of the period, including the completion of enhancements to our Knowledge Management System, and a detailed, stratified analysis of NSF’s funding activities.

Under each goal, we identified several strategies for achieving the goal. For each strategy, we listed specific actions that we planned to complete during FY 2002. Since for the purpose of performance reporting we are transitioning from a fiscal year reporting period (October thru September) to one that begins April 1, our report includes a few actions that were completed during the first half of FY 2003.

HIGHLIGHTS

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Goal 1: Increase OIG Impact on NSF's Effectiveness and Efficiency

1. Identify and implement approaches to improve audit product quality and timeliness.

This strategy has 6 actions associated with its successful completion:

- *Implement team-based auditing approach on high-risk audits.*
- *Develop audit workpaper quality standards.*
- *Develop audit report quality standards.*
- *Develop audit guide for contract auditors.*
- *Develop automated work-in-process tracking system.*
- *Conduct a Study of Audit Report Timeliness.*

OIG made significant progress toward accomplishing this goal. Team-based auditing calls for formal conferences between auditors and managers at key junctures during an audit, thereby facilitating improved communications that result in timelier, higher quality audit reports. During FY 2002, the Office of Audit developed policies and procedures to establish the team-based process within our office and held team-based conferences on a regular basis. Consequently OIG reports are focusing to a greater degree on identifying *systemic* issues of importance to NSF, which we believe will have greater impact. Implementation of the team-based approach for audits performed by our contract accounting firms has proved more challenging, however, and will be accomplished over the coming year.

During FY 2002, the Office of Audit issued a more comprehensive policy on the documentation of evidence that supports the auditors' significant conclusions, judgments, findings, and opinions. The policy will improve the supervision and oversight of our audits by ensuring that a uniform and complete record is provided for each audit. The Office has also written a draft policy and checklist, based on Government Audit Standards, aimed at improving the quality of audit reports. The staff is already following many elements of the draft policy. We also initiated a comprehensive revision of our audit guide for contractor-performed audits. The guide has been updated to include all recent audit guidance related to government grants, and it has been expanded to provide for more OIG oversight and quality control over the final audit products. OIG staff will complete the guide during FY 2003.

The OIG Knowledge Management System (KMS) is an information technology system designed to integrate and update dozens of existing "stovepipe" applications. When completed, KMS will support virtually all audit functions, including audit resolution, audit planning, project management, trend analysis, and audit performance process components. During FY 2002, we migrated audit data from existing

information systems and used KMS to prepare the data tables required in the Semiannual Report to the Congress. Future tasks include identifying system enhancements to support additional operational functions.

During FY 2002, an internal study identified a number of reasons for untimely audit reports, including the lack of familiarity of new OIG auditors with NSF awards and programs, the demanding workload of audit managers, and the uneven implementation of the team-based auditing process. To date, we have addressed four of the five recommendations, including formalizing the team-based process with a written policy and assessing whether team-based auditing is appropriate for all audit work. During FY 2003, we will focus on ensuring that the audit staff becomes more knowledgeable of NSF awards and programs.

2. Strengthen our focus by refining approaches for selecting work and setting priorities.

This strategy has 5 actions associated with its successful completion:

- *Continue to enhance audit planning processes to assess audit risk and focus on substantive agency and Federal issues by developing and formalizing an audit planning strategy.*
- *Assign audit staff to program areas; develop agency expertise.*
- *Conduct historic trend analysis of audit findings.*
- *Conduct agency funding analysis by program and grantee institution.*
- *Develop permanent files of programmatic and audit areas.*

A strong effort was made to improve our audit focus. Most significantly, OIG developed and applied, for the first time, a formal audit planning methodology. First, we identified eight broad strategic risk categories based on our knowledge of NSF's core business processes, e.g., award administration, human capital. We then assessed each category according to its inherent risk (impact if a problem occurs) and control risk (probability that a problem will occur) to develop a risk map. Finally specific audits were selected, consistent with the risk map, to be performed in the coming year. In FY 2003, we will assess the effectiveness of our new methodology before finalizing the procedures.

During FY 2002, we assigned responsibility for staying informed about specific NSF program areas to individual audit staff to improve our collective knowledge about NSF's various programs. We also contracted with an accounting firm to perform an analysis of historic audit data to identify past trends in reported compliance, internal control, and questioned-cost findings. We expect that the results of the analysis will enable us to enhance our audit planning and risk assessment processes. In addition, the contractor will recommend modifications to data fields in our KMS system, if necessary. The contractor is expected to conclude its work during FY 2003.

Two planned actions were not completed during FY 2002. We concluded a funding analysis of programs managed by the Agency's Engineering Directorate, but have not yet analyzed the remaining program directorates. In addition, we did not develop permanent files in FY 2002, because this action follows upon the completion of our agency funding analysis.

3. Develop an OIG outreach plan to support NSF's efforts to inform the awardee community about the financial and compliance standards that matter for efficiency and effectiveness.

This strategy has 1 action associated with its successful completion:

- *Completion of an Outreach Plan for efficiency and effectiveness matters.*

The Office of Audit developed a draft audit outreach plan for the activities that comprise OIG's audit-related outreach efforts. We identified three goals of audit outreach: gaining a better understanding of NSF activities and operations; monitoring audit-related changes in our OIG community; and educating NSF and the external community on audit issues. We also continued to share our expertise and experience with NSF and their awardees. We were invited to discuss our work and give outreach presentations at a number of institutions and events outside NSF, including Cal State University, Experimental Program to Stimulate Competitive Research (EPSCOR) workshop, NSF Regional Grants Conference, ATE Workshop, TCUP/HBCU Grant Management Workshop, the National Council of University Research Administrators Conference, and the Committee on Government Relations Conference.

Goal 2: Safeguard the Integrity of NSF Programs and Resources

1. Identify ways to improve investigative product quality and timeliness.

This strategy has 5 actions associated with its successful completion:

- *Ensure consistency of investigative reports within each of the Investigative sections.*
- *Define the minimal contents and structure of an Administrative or Civil/Criminal Investigative Report.*
- *Complete rewriting the Investigative Manual.*
- *Implement Milestones and develop target timelines.*
- *Define quality product.*

To prepare for undergoing its first-ever peer review, the Office of Investigations reviewed all investigative processes to ensure that they meet the standards articulated in the *Quality Standards for Investigations* issued by the President's Council for Integrity

and Excellence (PCIE) and the Executive Council of Integrity and Excellence (ECIE). Although the PCIE/ECIE did not finalize the Peer Review Guide by the end of the fiscal year, we implemented many of the prescribed actions and strengthened the processes that assure quality and timeliness.

Many actions were carried out in conjunction with rewriting the Office's *Investigations Manual*, which clearly defines the criteria for a quality product and streamlines investigative procedures. For example, in order to simplify case processing and ensure consistency and quality, it eliminates the separate procedures used for Administrative and Civil/Criminal cases. The new manual also outlines the minimum requirements and model structure for Management Implication Reports, Administrative and Civil/Criminal reports, and case closeouts.

The process of review and approval of investigative closeouts and reports includes investigative, legal and administrative considerations, thereby ensuring that OIG only recommends actions consistent with previously resolved cases. As a check on the timeliness of the process, the milestones used in administrative investigations are now being applied in civil/criminal and preliminary cases, and are an integral feature of the new Knowledge Management System.

The Office of Investigations conducted a mock peer review using three staff members as the peer review team. The team was charged with determining the office's compliance with the finalized Peer Review Guide. To make that determination, the team spent approximately four days conducting an entrance conference, reviewing files and supporting documentation, performing interviews, and conducting an exit conference. This was useful both as a test of our office's procedures and operations and as a training tool for investigative staff.

2. Enhance outreach effectiveness.

This strategy has 5 actions associated with it:

- *Revise the Outreach Plan to incorporate the plan of the audit office.*
- *Develop a Civil/Criminal Investigations companion brochure.*
- *Monitor and assess the effectiveness of outreach on case processing time, priorities, and allegation assessment.*
- *Participate in NSF New Employee orientation.*
- *Revise Program Management Seminar materials.*

The Inspector General Act of 1978 identifies preventing fraud and abuse as one of the key roles of Inspectors General. Consistent with this mandate, our office has identified outreach efforts to help educate the community as an important preventative activity. During the fiscal year, we revised our Outreach Plan to include a component for our Office of Audits and to emphasize contact with broader audiences to increase the efficiency of our outreach efforts.

The Office of Investigations developed two new themes for presentations at conferences: managing compliance programs, and managing principal investigator (researcher) and institutional conflicts of interest. The effectiveness of outreach presentations is measured by feedback received on evaluation forms and by repeat invitations to an event. We reached several hundred people during presentations to external organizations during this period, and the evaluations showed that our presentations were well received.

Information provided on the OIG website and the distribution of a variety of OIG brochures extended our reach to those who cannot attend presentations. The Office of Investigations developed a brochure on Civil/Criminal investigations, revamped the existing handout on Research Misconduct, and developed two new brochures: *When must you report allegations to NSF's Office of Inspector General*, and *Conflict of Interest Considerations*. The office also wrote two articles that were published in professional journals: one explored the topic of conflicts of interest, and the other discussed the relation of research misconduct to fraud.

During FY 2002, we ensured that new NSF employees were provided with materials and brochures about OIG during the New Employee Orientation. We also had representatives speak at each of the five NSF Program Management Seminars for new program managers. We updated the Program Management Seminar binder twice to ensure that it reflected current information on OIG, and we revised the outreach plan to incorporate Audit participation in Program Management Seminars

We also reached NSF staff by giving presentations at the mandatory Conflict of Interest briefings, of which there are more than 20 each year.

Goal 3: Utilize OIG Resources Effectively and Efficiently

1. Enhance communication and collaboration between audit and investigations.

This strategy has 5 actions associated with its successful completion:

- *Share information about audit and investigative activities at all-staff meetings.*
- *Award and administer contract for the provision of audit services in support of investigative activities.*
- *Provide opportunities for cross-cutting training for auditors, investigators, and other OIG staff.*
- *Implement Grant Fraud Indicators pilot program.*
- *Provide timely information exchange and referrals between the audit and investigation units.*

Communications and contacts between auditors and investigators within OIG increased over the past year as the offices worked to improve communication and understanding where their respective responsibilities converge. During FY 2002, the two offices briefed OIG staff on a regular basis about audit, investigative and outreach activities at monthly staff meetings. At the request of investigations staff, auditors gave a presentation to an interagency grant fraud working group on the OMB Circulars and the relationship between non-compliance and fraud. In FY 2002, a contract was awarded to an accounting firm to provide audit services in support of investigative activities. The assistance of audit staff in crafting the contract and working with the audit contractor has been essential to several important investigations. Investigations staff were required to obtain professionally recognized training in the area of financial accounting and auditing. Similarly, auditors were encouraged to attend classes that would broaden their knowledge and skills outside their discipline.

Audit and Investigations also worked together during FY 2002 to implement a Grant Fraud Indicators pilot program. With the participation of both Audit and Investigations staff, investigators developed a handbook to help identify potential indications of fraud that may arise during audits of NSF awards and programs. Auditors have begun to use the handbook in planning their audits and for guidance during their fieldwork. During FY 2003, the Office of Audit will ensure that its audit support contractors are also alert to the indicators described in the handbook.

The two offices collaborated to develop the fundamentals of a timely and efficient referral process. They implemented a monthly managers' meeting to facilitate exchanges of information and planning relative to referrals and other matters of common interest. With the help of audit staff, Investigations developed an audit referral form and added procedures for making referrals to Audit in the Investigations Manual. Investigators referred several cases to Audit that raised accounting and internal control issues, and auditors provided informal guidance in investigative cases requiring audit expertise. Matters raising possible fraud and other investigatory issues were also referred from Audit to Investigations. The Office of Audit began to develop formal policies and procedures for referrals to Investigations.

2. Better utilize professional expertise and talents of all OIG staff.

This strategy has 6 actions associated with it:

- *Conduct survey of OIG staff to obtain their views on the effectiveness of (1) OIG use of its resources in personnel, equipment, technology and contracting, (2) management planning, policies, and procedures, (3) internal cooperation and communications, and (4) OIG impact on NSF.*
- *Analyze survey results and develop corrective actions for the problems identified.*
- *Increase the use of the team approach in OIG activities.*

- *Develop an integrated MIS within the OIG.*
- *Develop OIG policies and procedures as needed.*
- *Ensure that all appropriate OIG activities and experiences are shared at all-staff meetings.*

At the end of the fiscal year, we conducted a survey of OIG employees to obtain their views on the effectiveness of (1) OIG use of its resources, (2) management planning, policies, and procedures, (3) internal cooperation and communications, and (4) OIG impact on NSF. Seventy-six percent of OIG employees submitted responses, and a staff committee analyzed the survey results. They showed that employees believed they had a good understanding of the OIG mission and goals, adequate training for individual growth and development, and sufficient computer resources and support. OIG staff also felt that harassment was not tolerated in the office, OIG worked well with its governing bodies (the National Science Board and the Congress), and individual performance was evaluated fairly in OIG. In terms of performance and impact, OIG staff believed that the subjects of OIG audits and investigations were treated equitably, OIG work units followed appropriate standards, OIG staff were qualified to do their jobs and practiced the highest ethical standards, and OIG produced high quality work. They felt that OIG outreach efforts were important to our mission and that the OIG environment supported a balance between work and personal life.

The survey also pointed out several areas needing attention. Most significant was the need to improve coordination and communications between the audit and investigative units. The management review process for clearing reports and the utilization of contractors by OIG were two other areas identified as in need of improvement. Finally, OIG staff questioned whether OIG management had struck the appropriate balance between asking for timeliness and meeting high quality standards on reports. We have resolved to take concrete steps to address these issues in FY 2003.

We made use of the team approach for several OIG activities, including the planning of the annual office retreat, development of a pilot office assignment policy, and evaluation of the employee survey results. As indicated above, we explored ways to improve collaboration among staff members, including wider use of the team approach. In FY 2002, we made significant progress in implementing an integrated management information system, which was used effectively by the investigations unit. The development of the system is ongoing, and full utilization by the auditing and administrative staffs will be completed in FY 2003. We issued final OIG policies on telecommuting, public release of OIG reports, and special recognition awards, and we developed pilot procedures for office assignments. Each month we held all-staff meetings to share information about OIG administrative matters, update staff on audit and investigative activities, conduct training, and hear outside speakers, primarily senior NSF managers describing their program operations and issues.

3. Address recruiting and retention issues.

This strategy has 5 actions associated with it:

- *Use survey results and other information to analyze OIG skill mix and determine whether it will meet the priority needs of the office in the future.*
- *Focus recruiting efforts on correcting any skill deficiencies identified.*
- *Assess the adequacy of existing NSF personnel services to the OIG and take steps to correct any problems.*
- *Develop a system for tracking retention rates, turnover, and length of service.*
- *Evaluate the use of telecommuting in OIG.*

We targeted our hiring based on an assessment of OIG's priority needs, adding five new FTE and filling behind departing staff in financial auditing, contract oversight, performance auditing, criminal investigations, administrative investigations, and outreach. We restored our criminal investigations unit to full strength and added staff to the financial audit unit. When two audit support employees departed, we consolidated their primary functions into a single position, freeing up a slot for other needs. On a pilot basis, we established a two-person staff in Denver, Colorado, to address auditing needs in the western region more effectively. We developed a Federal Career Intern program in OIG that will be used for recruiting in FY 2003.

OIG worked with NSF's Human Resource Management staff on improving the agency's new E-Recruit system for processing our job applicants electronically, and we discussed ways in which OIG may take on more responsibility for handling its personnel tasks. Based on our assessment of our personnel needs and the over-extended NSF human resource staff, we determined that we need to strengthen our administrative unit in FY 2003 by hiring a specialist responsible for developing an integrated personnel management system that includes core competencies, individual development plans, updated position descriptions, and a personnel retention tracking process. We did not achieve our planned action of developing a system for tracking retention rates, turnover, and length of service during FY 2002, but we intend to do so in FY 2003 as a new function in our knowledge management system. To enhance both recruiting and retention, we established a telecommuting option for all employees, and seven employees (13 percent) were approved for participation in the program.

4. Strengthen effectiveness of and investment in staff development and training.

This strategy has 4 actions associated with it:

- *Develop an office-wide process for individual development plans.*

- *Provide OIG training in NSF programs and procedures, professional skills, and other subjects that have wide application within the office.*
- *Ensure that the requirements of the existing training policy are met by all OIG staff.*
- *Identify core competencies for staff by grade level/position.*

Groundwork was laid for establishing an individual development plan (IDP) process in OIG in April 2003, to coincide with the annual performance rating period for all staff. We examined various IDP programs from both the public and private sectors, and senior management will decide on the final format and procedures prior to its introduction in FY 2003.

OIG aggressively promoted training during FY 2002, and the staff survey reflected strong employee satisfaction with the opportunities for individual growth and development. We conducted monthly all-staff meetings that brought in senior officials from NSF directorates to discuss their operations and concerns, and the annual OIG Retreat focused both on teambuilding and on individual Myers Briggs indicators. The office arranged for special training programs for the staff in audit and investigative techniques, and all except new employees met the OIG requirement to complete at least 24 hours of training directly related to their work each year. We were not successful in establishing staff core competencies during FY 2002, but we completed early developmental work by gathering information on core competencies used in other agencies and making plans to discuss the process with contractors who will be providing similar services to NSF.

Finally, as further evidence of the effectiveness of OIG's investment in staff development and training, OIG received three key quality control certifications. The United States Postal Service OIG conducted a quality control review of our audit operations and found that our quality control system provides reasonable assurance that our audits are conducted in conformance with auditing standards. Also, under Federal law, the head of each agency is required to ensure that Federal employees are informed of their rights regarding the Whistleblower Protection Act (WPA) and prohibited personnel practices (PPP). The Office of Special Counsel (OSC) has created a certification program under which it will certify that an agency is in compliance with this law. NSF OIG has successfully completed each of these steps and received OSC certification. And in February, we submitted a certification and accreditation package to the CIO, prepared in accordance with NSF IT security policies and guidance from the National Institute of Standards and Technology (NIST), that was the basis for the IG to certify that the OIG server substantially meets all applicable Federal policies, regulations and standards.