

# Executive Summary

- The *FY 2002 Management Letter Report* provides details on two internal control findings identified during the FY 2002 financial statement audit: post-award management and cost accounting. The audit found that NSF had initiated steps to improve post-award monitoring, but that the procedures needed to be refined and implemented before effective monitoring can take place. More comprehensive criteria for identifying high-risk awardees, as well as increased guidance for conducting on-site reviews are needed. In addition, NSF needs to develop a meaningful cost accounting architecture that will provide accurate and timely information to support management decision-making and performance reporting. NSF recently submitted its revised Strategic Plan to Congress and has stated that its next step is to develop a full cost allocation process that will link the costs of its programs to their performance. **(See p. 13)**
- An audit report on NSF's Committees of Visitors (COVs) discusses NSF's reliance on these committees of external experts convened to evaluate the quality of NSF's management of its portfolio of awards, the performance of its grant programs, and the extent to which agency programs contribute to NSF attaining its strategic goals. The audit found that COVs provide valuable independent feedback to NSF on its programs, and constructive suggestions for improvement. However, NSF does not have a process to document how it has responded to recommendations in the COV reports. Also, in its GPRA performance reports provided to Congress and the Office of Management and Budget, NSF does not clearly disclose the limitations of data related to COV evaluations and judgmental sampling, upon which the reports rely. **(See p. 16)**
- A western university inappropriately recovered \$1.43 million in routine administrative and indirect type costs greater than the maximum allowed under federal regulations. NSF first questioned the appropriateness of the university adding research management services (RMS) charges as direct costs to its award proposals in 1994, and directed the university to obtain written approval from HHS, its cognizant federal agency for audit, before including RMS charges on future proposals.

In 1997, HHS concluded that the university's RMS costing methodology did not comply with federal grant regulations for direct-charging of administrative and clerical costs to federal awards. However, the university continued to direct-charge RMS to NSF awards while simultaneously recovering the full amount of administrative support service costs allowed through its approved F&A cost rate. NSF has been working with the university to resolve the \$1.43 million of questioned RMS costs. **(See p. 19)**

- A researcher was sentenced to a year in prison after pleading guilty to embezzling \$202,000 in NSF grant money and other funds. The subject was hired in 1994 to work as Co-Principal Investigator, and spent the next 5 years embezzling funds and stealing items purchased under the project. When the fraud was discovered by the grantee, it required him to repay the organization \$108,497 over 4 years, reimburse \$56,676 to NSF, and removed his ability to charge expenditures to the grant, but allowed him to continue working on the grant project. However, OIG found a large number of suspicious transactions that had not been previously identified by the organization. The Government and the subject agreed that the amount of loss was \$202,000. Based on his admissions and the evidence against him, the subject agreed to plead guilty to one count of stealing federal funds. The court sentenced him to serve 1 year in prison, and ordered him to pay additional restitution to NSF. **(See p. 29)**
- The U.S. Antarctic Program experienced three separate computer related incidents in as many months. In the most serious incident, NSF received an email from a hacker stating that he had breached the South Pole Station network. The hacker claimed to have downloaded everything on the network and threatened to sell the information to "the Russians or the media" if NSF did not pay him. A joint investigation with the FBI resulted in the apprehension of two computer hackers in Bucharest, Romania. The hackers are awaiting trial in Romania, pursuant to cyber-crime related violations and extortion. **(See p. 32)**
- A university committee determined that a PI had committed an egregious act of plagiarism by submitting a proposal to NSF that contained more than a page of text and ideas taken from a confidential research proposal submitted by others. The allegation was referred to the university by OIG after verifying that it contained substance. The committee found that the copied material represented the scientific core of the NSF proposal. It concluded that the PI's plagiarism represented very serious research misconduct, aggravated by the breach of confidentiality in the peer review process, and applied sanctions. Based on the evidence, we concurred with the university's findings and accepted its report. Consistent with the university's actions, we recommended the PI be debarred for 2 years from receiving any federal funds and, further, to protect the merit review process, we recommended that the PI be prohibited from reviewing any NSF proposals for 3 years. **(See p. 35)**