

OFFICE OF INSPECTOR GENERAL**\$11,860,000**

The Appropriations Act that funds the National Science Foundation provides for a separate appropriation heading for NSF's Office of Inspector General (OIG). Accordingly, the FY 2007 Budget Request identifies the resources needed to support OIG, including amounts for personnel compensation and benefits, contract services, training, travel, supplies, materials, and equipment.

The FY 2007 Budget Request for OIG is \$11.86 million, which represents an increase of \$500,000 over the FY 2006 Current Plan of \$11.36 million.

Office of Inspector General Funding

(Dollars in Millions)

	FY 2006		FY 2007 Request	Change over FY 2006	
	FY 2005 Actual	Current Plan		Amount	Percent
Personnel Compensation and Benefits	\$7.78	\$7.90	\$8.20	\$0.30	3.8%
Other Operating Expenses ¹	2.39	3.46	3.66	0.20	5.8%
Total	\$10.17	\$11.36	\$11.86	\$0.50	4.4%
Full-Time Equivalent Employment	63	61	63	2	3.3%

Totals may not add due to rounding.

¹The cost of the annual audit of NSF's financial statements is included in this request.

Appropriation Language

For necessary expenses of the Office of Inspector General as authorized by the Inspector General Act of 1978, as amended, ~~\$11,500,000~~ \$11,860,000, to remain available until September 30, ~~2007~~ 2008. (*Science Appropriations Act, 2006.*)

**Office of Inspector General
Budgetary Resources Summary**

(Dollars in Millions)

Fiscal Year	Enacted/ Request	Rescission	Carryover/ Recoveries	Total Budgetary Resources	Obligations Incurred/Estimated
FY 2005 Actual	10.11	-0.08	1.22	11.25	10.17
FY 2006 Current Plan	11.50	-0.14	1.09	12.45	12.45
FY 2007 Request	11.86	-	-	11.86	11.86
\$ Change from FY 2006	\$0.36			-\$0.59	
% Change from FY 2006	3.1%			-4.7%	

Totals may not add due to rounding.

Explanation of Carryover

Within the Office of Inspector General appropriation, a total of \$1.09 million was carried forward into FY 2006 to fund priority audits that are contracted out, contracts for financial analysis and other technical support for OIG investigations, contract support for information technology and other administrative

needs of the office, and personnel compensation costs. It may also be used to protect the appropriation against unanticipated variations between obligations and expenditures.

OIG Responsibilities

In February 1989, the National Science Board established OIG pursuant to the Inspector General Act Amendments of 1988. The statute confers on OIG the responsibility and authority to:

- Conduct and supervise audits of NSF programs and operations, including organizations that receive NSF funding.
- Conduct investigations concerning NSF programs and operations, including organizations that receive NSF funding.
- Evaluate allegations of research misconduct, such as fabrication, falsification, or plagiarism, involving individuals who participate in NSF-funded activities.
- Provide leadership, coordination, and policy recommendations for:
 - Promoting economy, efficiency, and effectiveness in the administration of NSF programs and operations, and
 - Preventing and detecting fraud and abuse in NSF programs and operations.
- Issue semiannual reports to the National Science Board and Congress to keep them informed about problems, recommended corrective actions, and progress being made in improving the management and conduct of NSF programs.

As set forth in the OIG Strategic Plan, the primary functions of the Office are audits, reviews, and investigations. To provide the diverse skills, training, and experience necessary to oversee NSF's varied programs, the OIG staff includes scientists, attorneys, certified public accountants, investigators, evaluators, and information technology specialists. The focus of an investigation, audit, or other review may be on a single entity or individual, an organization, a project involving multiple disciplines, or a broad program or functional area.

OIG performs audits of grants, contracts, and cooperative agreements funded by the Foundation's programs. The Office also conducts audits and reviews of both internal agency programs and external organizations that receive NSF funding to ensure that financial, administrative, and programmatic activities are conducted economically, effectively, and in compliance with agency and federal requirements. OIG is also responsible for overseeing the audit of the Foundation's annual financial statements, which are required for all NSF accounts and activities by the Government Management Reform Act of 1994. The Office contracts with a public accounting firm to conduct the financial statements audit, and in the past the cost was allocated proportionately to the accounts audited. Beginning in FY 2006, funds to cover the complete cost of the financial audit are requested in this appropriation. OIG also audits financial, budgetary, and data processing systems used by NSF to develop the financial statements. In addition, the Office performs multi-disciplinary reviews – involving auditors, attorneys, management analysts, investigators, and others as needed – of financial, management, and program operations to identify broader problems and highlight best practices.

OIG investigates possible wrongdoing by organizations and individuals who submit proposals to, receive awards from, conduct business with, or work for the Foundation. Allegations of research misconduct are also investigated. OIG assesses the validity and seriousness of all the allegations it receives and recommends proportionate action. When appropriate, the Office refers the results of these investigations to the Department of Justice or other authorities for criminal prosecution, civil litigation, or resolution via settlement agreements and institutional compliance plans. OIG refers other cases to the Foundation for administrative resolution and, when appropriate, recommends modifications to agency policies and

procedures to ensure the integrity in NSF's systems. The Office works closely with institutions on the conduct of their internal investigations and performs outreach activities aimed at preventing and detecting fraud, waste, and abuse and at raising the awareness of funded researchers, institutional administrators, and agency employees about the OIG's role and NSF's rules and expectations.

Personnel Compensation and Benefits and General Operating Expenses

(Dollars in Thousands)

	FY 2006		FY 2007 Request	Change over FY 2006	
	FY 2005	Current		Amount	Percent
	Actual	Plan			
Personnel Compensation and Benefits	\$7,780	\$7,900	\$8,200	\$300	3.8%
Travel and Transportation of Persons	219	260	270	10	3.8%
Advisory and Assistance Services	1,904	2,880	3,060	180	6.3%
Communications, Supplies & Equipment, and Other Services	262	320	330	10	3.1%
Total	\$10,165	\$11,360	\$11,860	\$500	4.4%

Totals may not add due to rounding.

The OIG request for FY 2007 includes funding for the annual audit of NSF's financial statements, which NSF program accounts had funded prior to FY 2006. The cost of this audit, which is conducted by an independent contract auditor under OIG oversight, is reflected in the table as part of Advisory and Assistance Services.

Most of the 4.4 percent increase for FY 2007 would be applied to higher personnel cost-of-living costs, the two additional FTEs, and the increased costs of audits conducted by CPA firms under contract to OIG. With the additional staffing resources, our primary audit focus would be to increase attention in four areas that pose the greatest challenge to the agency: (1) award oversight and monitoring, including the management of large infrastructure projects and implementation of a risk-based program for monitoring NSF's 30,000 active awards; (2) strategic management of NSF resources, including NSF's implementation of its multiyear Business Analysis contract recommendations, agency planning for future workforce needs, and the strengthening of its administrative capabilities; (3) NSF processes to oversee the scientific performance of its research and to assess the results of its long-term investments in major research programs; and (4) specific program issues, such as managing the U.S. Antarctic Program and ensuring the transparency of NSF's merit review process.

OIG would enhance its ability to target risky awardees by improving its automated trend analysis techniques for scanning prior OIG and A-133 audit findings and by achieving a more comprehensive understanding of the nature and size of NSF's funded programs. For example, past studies have shown high risks in awards involving cost sharing and awards made to large school districts under NSF's urban systemic initiative program. This level of funding would also allow for a thorough review of labor-effort costs charged to NSF awards. Labor effort is the single largest cost in NSF awards, and it is frequently cited in audit reports for weak internal controls. OIG would also continue to focus attention on audits of international institutions, which are becoming an increasing part of NSF's research portfolio but often are not subject to the terms and conditions of NSF's other awardees. Our efforts would be coordinated with other OIGs and international audit organizations to evaluate the need for developing standardized financial, accounting, and audit requirements for accountability of funds provided by all sources.

Staff is also needed to expand the OIG's Quality Control Reviews of non-Federal CPA firms conducting audits for grantees under the Single Audit Act (OMB Circular A-133). Because NSF relies extensively on these audits for post-award monitoring and financial statement reporting, it is critical that the quality of

the audits be assured. Over the past few years, Quality Control Reviews of the CPA firms conducting A-133 audits have raised significant concerns about their quality. More resources would allow the Office to continue to improve its Quality Control Review program.

Criminal, civil and administrative investigative cases continue to become more complex, resulting in increased interactions with NSF, awardee administrators, and the Department of Justice to develop effective resolutions to complex institutional fraud cases through settlements and compliance programs. In the wake of Sarbanes/Oxley and the increased attention it places on corporate financial fraud, we have seen an increase in allegations of institutional fraud. We anticipate an increasing need to use forensic financial services to resolve these cases. This year alone these services enabled us to resolve two cases resulting in \$1.6 million in recoveries and the implementation of institutional compliance programs. These cases require significantly more staff time, specialized knowledge, and strong analytical skills, and they offer the potential for greater recoveries and systemic changes in institutions to ensure detection of fraud and the proper use of Federal funds. OIG's proactive investigative reviews have been productive in detecting potential misuse of NSF funds, the complexity of allegations of wrongdoing received by OIG has steadily increased, and additional resources are needed to ensure diligent investigations of the growing number of substantive complaints. Further, NSF is increasingly funding organizations other than traditional academic institutions. Investigations into these organizations require additional resources to fully understand the scope and complexity of the matter.

In recent years, OIG has made a concerted effort to educate NSF staff and the research communities about avoiding the kinds of problems that lead to investigations, unfavorable audit findings, or administrative corrective actions. The request level will enable us to commit a modest amount of staff time to OIG outreach programs that help NSF staff, awardee institutions, and researchers better understand system and grant management issues and the preventive or corrective measures that may need to be taken. Auditors, investigators, and other staff regularly participate in outreach activities, and as NSF programs increase in complexity and number, OIG has seen a commensurate increase in requests for information from universities and research institutions. The NSF OIG will continue to play a leadership role in convening international conferences and workshops that are well attended by NSF's counterparts in other countries, including their auditing and investigative components, to discuss common concerns.