

# Oversight and Monitoring of Federal Awards in The USA

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# Ask Us Early, Ask Us Often!!

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# The NSF Mission

The National Science Foundation Act of 1950 (Public Law 81-507) set forth NSF's mission and purpose: *To promote the progress of science; to advance the national health, prosperity, and welfare; to secure the national defense....*

The Act authorized and directed NSF to initiate and support:

- basic scientific research and research fundamental to the engineering process,
- programs to strengthen scientific and engineering research potential,
- science and engineering education programs at all levels and in all the various fields of science and engineering,
- programs that provide a source of information for policy formulation,
- and other activities to promote these ends.

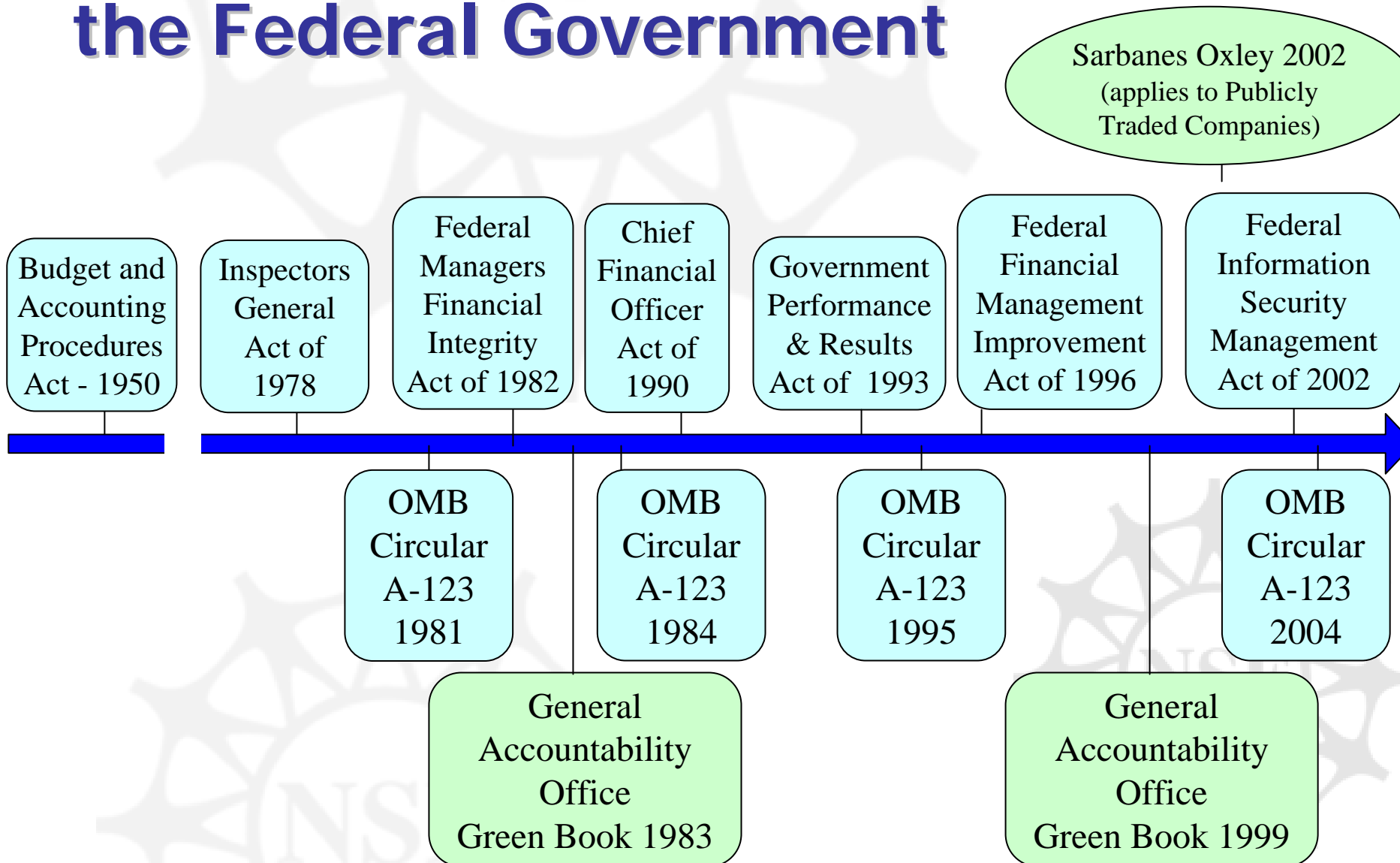
The National Science Foundation supports basic scientific and engineering research and education primarily through the grant mechanism

- Awards are primarily to Universities (~ 85% of funding)

# Oversight and Monitoring of Federal Awards

- Overall Federal Context for Oversight
- NSF Gold Standard Model for Monitoring and Business Assistance

# Evolution of Internal Controls in the Federal Government



# Current Drivers and Concerns

- Heightened scrutiny caused by irregularities and fraudulent activities in the private sector
- Corporate scandal led to Sarbanes Oxley Act of 2002



# Current Drivers and Concerns

- Private sector attention brought a corresponding focus to heightened scrutiny in the Public Sector



- OMB Circular A-123, Updated December 2004: Management's Responsibility for Internal Control
- Improper Payments Information Act of 2002 (Public Law No: 107-300) to improve the integrity of the government's payments and to ensure that correct amounts are paid to the correct recipient
  - Primarily focuses on programs such as Social Security, Medicare, and Medicaid
  - Includes proper use by ultimate recipient/subrecipient

# \$ Funding Flow \$

## US Gov't Control Environment

## Other Control Environment

**Federal Responsibility**

**Congress**

**Administration/  
Treasury**

**Government Financial  
Statements**

**Agency**

**Financial  
Statement &  
Internal  
Controls**

**Budget Act; Laws &  
Regulations; CFO Act; OMB  
Circulars; Cost Principles;  
GAO; OIG Act**

**Taxpayers**

**OIG/Contractor Audit;  
GPRA; FFMIA; A-123  
FMFIA; OMB Form &  
Content Guidance**

**Taxpayers**

**Awardee Responsibility**

**Awardee**

**Grant Terms &  
Conditions;  
Expenditure Reports;  
Internal Controls**

**Subrecipients**

**Subaward Terms &  
Conditions and  
Internal Controls**

**Laws & Regulations;  
Single Audit Act/A-133;  
OMB Cost Principles;  
Cognizant Audit Agency**

**University  
Boards;  
State  
Auditors**

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# Internal Controls for the Federal Agency

- Integral part of the **entire cycle of planning, budgeting, managing, accounting and auditing**
  - Support effectiveness and integrity & provide continual feedback to management
- Agency managers must ensure an **appropriate balance between strength of controls and the relative risk associated with particular programs and operations.**
  - Benefits of controls should outweigh the cost
  - Agencies consider qualitative and quantitative factors when analyzing costs against benefits
- Committee of Sponsoring Organizations (COSO) **internal control standards apply to program and administrative operations**
  - Economy and Efficiency of Operations
  - Reliable Financial Reporting
  - Compliance with Laws and Regulations

# What is Internal Control?

- A process designed to provide reasonable assurance regarding the achievement of business objectives
- 3 Main Objectives
  - To promote effectiveness and efficiency of operations
  - To ensure reliability of financial reporting
  - To maintain compliance with applicable laws and regulations
- Helps an entity get where it wants to go – accurately and timely – and avoid pitfalls along the way

# Define the Control Environment

- Perform risk assessments
- Implement control activities
- Perform continuous monitoring & testing to identify poorly designed or ineffective controls
- Communicate objectives of internal control and ensure organization commitment to sustaining an effective internal control environment
- Have a clear strategy, sound documentation, an audit trail, and independently verifiable results

# Why is Internal Control Important?

## Operations

- Promotes efficiency and effectiveness of operations through standardized processes
- Ensures the safeguarding of assets through control activities

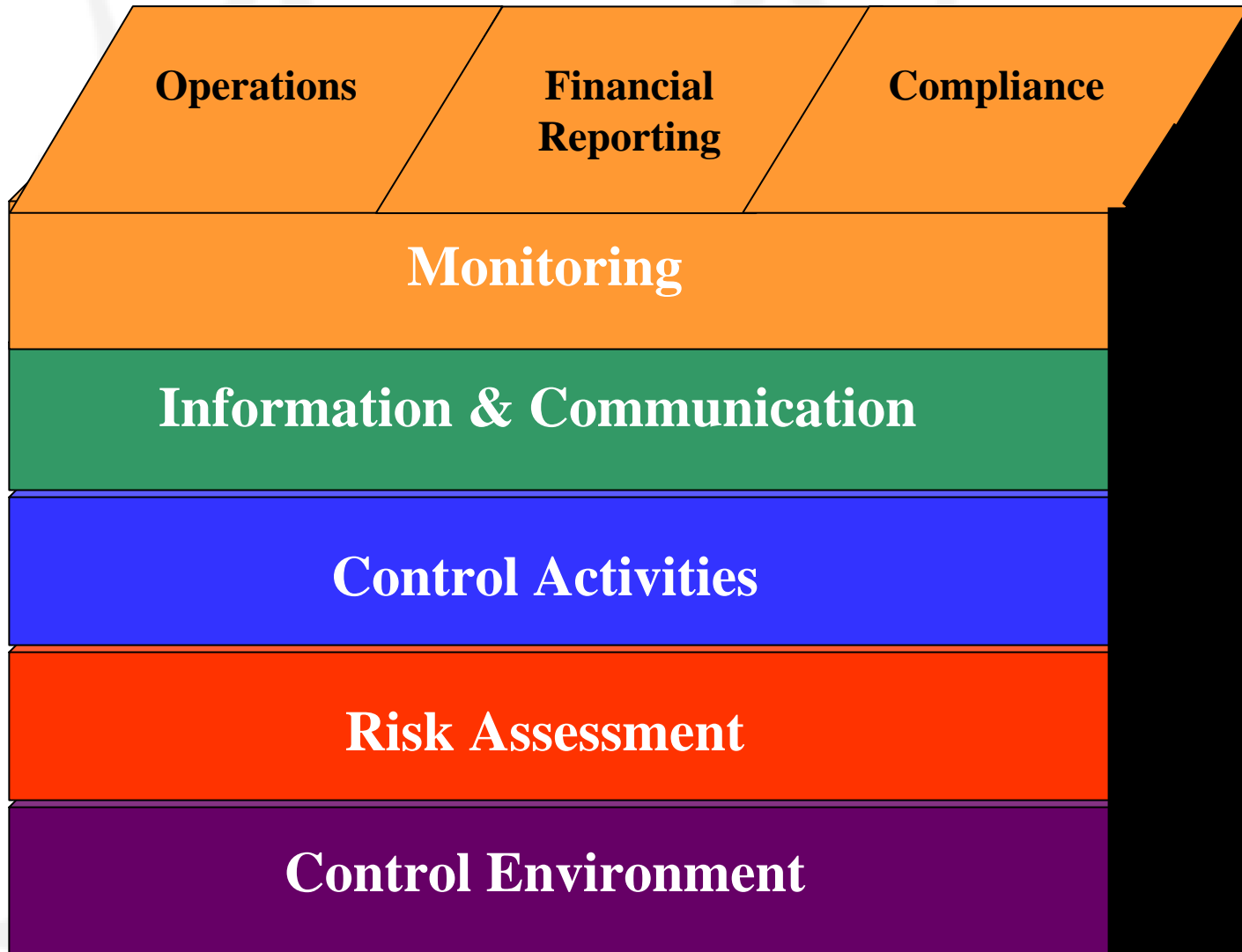
## Financial

- Promotes integrity of data used in making business decisions
- Assists in fraud prevention and detection through creation of an auditable trail of evidence

## Compliance

- Helps maintain compliance with laws and regulations through periodic monitoring

# The COSO Framework



# **The Story Begins – Emphasis on Stewardship of Federal Funds**

- Governmentwide Emphasis on Stewardship
- Important to Recognize the System the Government already has in place
- Consider How to Supplement this System with Additional Monitoring

# NSF's Gold Standard Program

- NSF's Program is a Model in Federal Government
- NSF Conducts an Annual Risk Assessment of All Awards
  - Allows appropriate focus on high risk awards
- NSF Increased Resources
  - Staff
  - Time Devoted
  - Travel