



Testimony



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GRANT MANAGEMENT

Improvements Needed in Federal Oversight  
of NSF Grants

Statement of  
Judy A. England-Joseph  
Associate Director, Energy Issues  
Resources, Community, and Economic  
Development Division

Before the  
Committee on Governmental Affairs  
U.S. Senate



Mr. Chairman and Members of the Committee:

We are pleased to have the opportunity to discuss with you today preliminary results from our current review of grant administration at the National Science Foundation (NSF), which is being performed at your request. Our work has focused on examining the federal oversight process for the NSF grant program. To date we have visited three of NSF's largest grantee institutions--the University of Michigan, the University of Chicago, and Harvard University.

In summary, NSF relies heavily on the institutions receiving the grants to ensure that funds are spent in accordance with applicable federal requirements. Our review at the three universities showed that they had established controls over expenditures charged to NSF grants. For the most part, we found no basis for questioning the charges to the NSF grants that we examined. However, we did find a few instances of misuse of federal funds that had not been prevented or detected by the controls in place. Other investigations have also identified instances of misuse of NSF funds at other universities that might have gone undetected if allegations of misuse had not been received and investigated.

NSF does little to monitor or audit compliance at the larger educational institutions. NSF relies primarily on required independent audits to ensure that these institutions are protecting the government's interest. However, NSF has not received many of these audits, partly because federal guidelines did not contain explicit sanctions for not performing or submitting acceptable audits. NSF also has not developed a mechanism to ensure that it is informed when grantees identify problems with the use of NSF grant funds.

A new Office of Management and Budget (OMB) circular adding sanctions for noncompliance has the potential to improve federal oversight of research grants. However, several issues regarding the implementation of the requirement remain unresolved. For example, procedures have not been developed to decide when and what kind of sanctions will be considered. In addition, NSF will need to do a better job of monitoring audit reports to determine whether it needs to use its own audit resources to supplement these independent audits.

## BACKGROUND

NSF is an independent agency of the federal government established in 1950 to promote and advance scientific progress in the United States. Grants are the primary means by which NSF supports science. In 1990, NSF had a budget of over \$2.1 billion and awarded about 17,000 grants. In addition, significant increases in NSF's budget have been proposed. NSF's budget for fiscal year 1991 increased by about 14 percent, and the agency's proposed 1992 budget shows an increase of about 17 percent.

NSF generally makes grants to organizations rather than to the individual researcher who will conduct the project. This arrangement is intended to allow the researcher to conduct research without bearing excessive administrative burdens. The NSF-grantee relationship emphasizes grantee responsibilities and minimizes NSF involvement in the management of grant-supported activities. NSF relies instead on the grantee to prudently manage activities funded by the grant and to comply with the applicable federal requirements, such as requirements for financial management systems, procurement policies and procedures, and property management.

The three universities we reviewed--the University of Chicago, the University of Michigan, and Harvard University--received \$17.4

million (157 grants), \$19.4 million (232 grants), and \$15.7 million (155 grants) in fiscal year 1989, respectively. We selected these universities because they were among NSF's 25 largest grant recipients, and NSF had not received any audit reports on them. At each university, we examined a judgmental sample of from 25 to 50 grants to determine whether any charges appeared to be clearly inconsistent with federal requirements governing research. We did not review in detail all of the internal control systems at the grantee institutions that pertain to the use of NSF grant funds. We also did not evaluate the results of the research performed, the appropriateness of charges to the grants for such things as staff time, or the need for scientific equipment acquired. In addition, we specifically excluded an examination of indirect costs from the scope of our work because NSF does not set or review the indirect-cost rate for these institutions.

ADEQUACY OF CONTROL SYSTEMS VARY,  
AND SOME NSF FUNDS HAVE BEEN MISUSED

NSF has given grant recipients almost total responsibility for ensuring that funds are used appropriately. However, the effectiveness of the controls over the use of grant funds varies from university to university and even from department to department within the same university.

We found that the universities we visited had established controls over expenditures charged to NSF grants. For the most part, we found no basis for questioning the charges that we examined. However, we did find a few instances of misuse of federal funds that had not been prevented or detected by the controls in place.

-- All of the schools we visited inappropriately charged entertainment and/or food expenses to NSF grants. We found charges to NSF grants amounting to \$5,000 for pizzas, deli

sandwiches, luncheons, and dinners. Federal cost principles (OMB Circular A-21), however, explicitly state that costs for entertainment and social activities, such as meals, are unallowable. For example, a University of Chicago department chairman charged \$420 to an NSF grant for the entertainment of conference participants because university funds were not available.

- A researcher at the University of Chicago paid for two \$500 thank-you luncheons for people who worked on his grant proposal. The researcher justified the charge to the grant by saying that since similar charges had been made in the past he thought that it was an allowable charge. When we asked NSF about the appropriateness of these charges, however, NSF officials concluded that such charges were unallowable.
  
- An administrator at the University of Michigan charged a researcher's \$515 airfare to department funds because federal regulations prohibit charges to grants for the use of foreign-flag carriers except under certain specific circumstances. However, she then charged the NSF research grant for approximately \$500 worth of departmental office supplies to offset the cost of the airfare. Office supplies are allowable as direct costs only if they are necessary to carry out the projects supported by the grant and if the university normally treats them as direct costs. In this case, the departmental office supplies should have been charged to university funds, which are partially reimbursed by federal agencies' indirect-cost payments.
  
- In another example at the University of Michigan, costs totaling \$4,754 for office equipment (a fax machine and a xerox machine) were divided among several NSF grants, other federally-funded activities, and university accounts.

However, general-purpose equipment not specifically used in research is unallowable as a direct charge to a grant, according to federal guidelines. These charges should be covered by university funds, which are partially reimbursed by federal indirect cost payments.

Some of these problems were due to internal control weaknesses, while others resulted because the institutions or researchers were unfamiliar with federal requirements.

Both Harvard University and the University of Michigan have indicated that they are correcting some of the problems we brought to their attention. For example, Harvard University has established a new cost category to segregate expenses, such as "business-related entertainment," that are ineligible for federal reimbursement. Also, NSF plans to issue more explicit guidance regarding allowability of entertainment charges.

#### OTHER INVESTIGATIONS INDICATE CONTROL WEAKNESSES

While our work at the three universities did not identify instances where large dollar amounts of NSF grant funds were misspent, investigations at other universities have shown that weaknesses in controls can result in larger problems.

- A University of California at San Francisco investigation showed that a purchasing supervisor embezzled \$332,000 in federal funds (of which \$41,500 was NSF grant funds) over a 10 year period. Weak procurement controls allowed the embezzlement to continue even after the supervisor left the university's employment.
- Administrators at the Rensselaer Polytechnic Institute charged over \$17,000 in research assistants' salary and

tuition costs to two NSF grants. These charges could not be justified, however, because the researchers had discontinued work under the grants. NSF's investigation confirmed the researchers' allegations regarding the unjustified charges.

- A Pennsylvania State University internal investigation confirmed allegations that a researcher improperly used personnel, mailing services, and computer resources paid for by NSF and the university for his private business. The researcher reimbursed about \$12,000, almost all of which was credited to the NSF grant for costs improperly charged to it.
  
- A University of California, Berkeley, internal investigation concluded that \$41,000 had been inappropriately charged to an NSF grant and little or no research had been performed. The researcher had falsified time sheets for his research assistants, submitted false travel claims, and charged supplies that were used at his residence.

Although NSF eventually learned of each of these problems, they were not caught by the grantees' control systems. The cases might have gone undetected if allegations of misuse had not been received and investigated.

AGENCIES HAD PROBLEMS ENFORCING  
FEDERAL AUDIT REQUIREMENT IN THE PAST

After grants are awarded, NSF relies primarily on independent audits to ensure that grantees' control systems are protecting the government's interest. However, as I will discuss, audits have not always been performed.

Until recently, the audit requirement for most of the NSF grantees was contained in Attachment F of OMB Circular A-110 (Standards for Financial Management Systems for Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations). This requirement called for audits every 2 years by independent auditors to test the fiscal integrity of financial transactions as well as compliance with the terms and conditions of the federal grants. These audits, called single audits, cover the organization as a whole rather than individual grants. Another OMB circular (A-88) established a single cognizant federal audit agency for each educational institution. The cognizant agency responsibilities now include ensuring that reports satisfy federal requirements and are available to federal agencies.

While the A-110 circular called for audits to be performed, it is not specific regarding the scope of the audits and their objectives. The circular also did not specifically require grant recipients to submit the audit reports to the government or establish any penalties for not doing so. Consequently, the federal agencies had no means of enforcing this audit requirement. For example, according to an audit official at the Department of Health and Human Services (HHS)--the cognizant audit agency for most educational institutions--many of the audit reports they received did not qualify as A-110 audits because they did not discuss the grantee's compliance with applicable federal regulations. While HHS generally could not accept these audits as completed A-110 audits, it did not have the authority to require the educational institutions to correct and resubmit the reports. According to HHS officials, many of the institutions for which HHS is the cognizant agency did not submit audit reports that satisfied A-110 requirements.

AUDIT REQUIREMENTS STRENGTHENED, BUT  
SOME ISSUES NEED FURTHER ATTENTION

The A-110 audit requirement has been superseded by OMB Circular A-133 (Audits of Institutions of Higher Education and Other Nonprofit Institutions). A-133 requires that grant recipients have an independent financial and compliance audit conducted in accordance with government auditing standards at least once every 2 years. A-133 requires the grant recipients to submit these audit reports to the agencies providing funding and provides for sanctions against recipients that do not comply with the audit requirement. The new requirements are applicable to audits of fiscal years that began on or after January 1, 1990.

Implementation of A-133 is an opportunity to correct the current problems federal agencies have in obtaining compliance with the audit requirement and to improve the federal oversight of grant funds. However, action is needed to ensure that the requirement works effectively. For example, questions remain about how the sanction provision of the new requirement will be implemented. Although the cognizant agency is to receive and review the audit reports, according to HHS, the authority to impose sanctions if the reports are not received rests with the funding agency. Procedures have not been developed to decide when sanctions will be considered, to determine what kind of sanctions would be appropriate, or to coordinate the actions of the different funding agencies when sanctions are imposed.

NSF DOES LITTLE COMPLIANCE MONITORING, AND  
AUDITS HAVE FOCUSED ON SMALLER GRANTEE INSTITUTIONS

Although the single audits are intended to supplement rather than supplant the institution's own oversight activities, NSF does little to monitor larger grantees' compliance with federal requirements. NSF's involvement with the grantees after the grant

has been awarded focuses either on the technical aspects of the research or on general educational activities. For example, NSF administrative staff conduct site visits at its 120 largest grant recipients every 5 years, which focus on educating grantees about NSF policies and requirements.

Within NSF, the Office of Inspector General (OIG) is responsible for overseeing grantee compliance with federal requirements. However, since its creation in 1989, the OIG has focused most of its audits on grantee institutions not assigned to a cognizant audit agency. Most OIG audits, therefore, have covered smaller grantee institutions, such as museums and institutions that have received grants under the Small Business Innovative Research program.

In contrast, we found that OIG has few audit reports on the larger grantees and had not routinely monitored whether audits had been performed. For example, NSF had not received any audit reports for 20 of its 45 largest grant recipients since 1987. The OIG's activities at the larger institutions have been limited to investigating specific allegations of abuse of NSF grants.

OIG officials told us that they had focused on the smaller grantees because they believed it represented the best use of their limited resources. They noted that audit responsibility for the larger educational institutions had been assigned by OMB Circular A-88 to the cognizant agencies, but no other federal agency had audit responsibility for these smaller grantees. However, the officials acknowledged that because another agency has cognizance the OIG was not relieved of the responsibility for ensuring that NSF grant funds are being used appropriately. They stated that the OIG plans to focus increased attention on the larger grantees in the future.

NSF GRANTEE INSTITUTIONS WERE NOT REQUIRED TO INFORM  
NSF OF FINANCIAL MISCONDUCT

NSF's grant conditions do not explicitly require that institutions inform NSF of misconduct involving NSF funds. As a result, NSF was not promptly informed of cases such as those at the Pennsylvania State University and the University of California at San Francisco discussed earlier. In the Pennsylvania State University case, the university accepted the researcher's offer to refund the \$12,000 in NSF money, with no admission of guilt, and closed the investigation. NSF was not aware of the investigation or the settlement agreement until it received a confidential allegation about the researcher and began its own investigation. In the University of California at San Francisco case, NSF was not informed of the investigation until 2-1/2 years after the crime was discovered.

Without information on instances of misconduct and on how they were handled, NSF lacks assurance that misused grant funds have been repaid and that appropriate controls have been put in place to ensure that future improprieties do not occur. During our review, we asked NSF whether grantee institutions were required to inform NSF about instances of financial misconduct. NSF could not cite any such requirement. In its latest draft of the general conditions for grants, however, NSF is adding a requirement that the grantee notify NSF of any significant problems in the administrative or financial aspects of the grant.

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In summary, Mr. Chairman, NSF does not have a system in place to provide for adequate federal oversight of its grants. While large institutions are required to have independent auditors examine their controls over grant funds, in many cases these audits have not been performed or accepted. NSF has also done little to

ensure that these institutions have established controls safeguarding NSF grant funds.

OMB's issuance of a new circular that strengthens the audit requirement provides an opportunity to improve federal oversight of grants. However, attention is needed to ensure that the requirements in the new circular are properly implemented. Furthermore, the fact that NSF's OIG has also recognized the need to focus its attention on the larger grantees should help to improve oversight of NSF grant funds.

Mr. Chairman, this concludes my statement. I would be pleased to respond to any questions you or Members of the Committee may have.