

**OFFICE OF INSPECTOR GENERAL (OIG)****\$14,200,000**

The Appropriations Act that funds the National Science Foundation provides for a separate appropriation for NSF's Office of Inspector General (OIG). Accordingly, the FY 2013 Request level identifies the resources needed to support OIG, including amounts for personnel compensation and benefits (PC&B), contract services, training, travel, supplies, materials, and equipment.

The FY 2013 Budget Request for OIG is \$14.20 million, which is identical to the FY 2012 Estimate. In accordance with the Inspector General Act of 1978, as amended (5 U.S.C. App.), it should be noted that this request is \$800,000 less than the \$15 million initially submitted to, and approved by, the National Science Board (NSB).

**OIG Funding**

(Dollars in Millions)

	FY 2011 Actual	FY 2011 ARRA	FY 2012 Estimate	FY 2013 Request	Change Over	
					FY 2012 Estimate	FY 2012 Estimate
					Amount	Percent
Personnel Compensation and Benefits	\$10.82	\$0.07	\$11.38	\$11.54	\$0.16	1.4%
Other Operating Expenses	3.10	0.01	2.82	2.66	-0.16	-5.7%
<b>Total, OIG</b>	<b>\$13.92</b>	<b>\$0.08</b>	<b>\$14.20</b>	<b>\$14.20</b>	-	-
Full-Time Equivalent Employment	74		78	78	-	-

Totals may not add due to rounding.

**Appropriations Language**

For necessary expenses of the Office of Inspector General as authorized by the Inspector General Act of 1978, as amended, \$14,200,000, *to remain available until September 30, 2014.*

**Office of Inspector General  
FY 2013 Summary Statement**

(Dollars in Millions)

	Enacted/ Request	Rescission	Carryover/ Recoveries	Expired	Total Resources	Obligations Incurred/Est.	Carryover/ Recoveries
FY 2011 Appropriations	\$14.00	-\$0.03		-\$0.05	\$13.92	\$13.92	
FY 2011 ARRA <sup>1</sup>	-		1.92	-	1.92	0.08	1.84
FY 2012 Estimate	14.20			-	14.20	14.20	
FY 2013 Request	14.20			-	14.20	14.20	
\$ Change from FY 2012						-	
% Change from FY 2012						-	

Totals may not add due to rounding.

<sup>1</sup>\$1.92 million in unobligated FY 2009 ARRA funds were carried over into FY 2011. The remaining unobligated balance of \$1.84 million was subsequently carried over into FY 2012.

### **Explanation of Carryover**

Within the **Office of Inspector General** appropriation, \$1.84 million was carried over. These multi-year funds are intended explicitly for ARRA oversight. Obligation of these funds will occur over the period of availability, which was revised under P.L. 111-203 to be through December 31, 2012. In January 2012, the Council of the Inspectors General for Integrity and Efficiency (CIGIE) submitted a formal request to the President, on behalf of NSF and other OIGs, for a waiver that would extend the availability of these funds. The response to that request has not yet been received.

### **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.

OIG performs audits of grants, contracts, and cooperative agreements funded by NSF'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 NSF's annual financial statements, which are required for all NSF accounts and activities by the Government Management Reform Act of 1994. Since FY 2006, funds to cover the complete cost of the financial audit have been 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 seek or receive NSF funds such as those who submit proposals to, receive awards from, conduct business with, or work for NSF. 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 NSF for administrative resolution and when needed will recommend modifications to agency policies and procedures to ensure the integrity of NSF's business 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 OIG’s role and NSF’s rules and expectations.

Because diverse skills, training, and experience are necessary to oversee NSF’s many programs, the OIG staff includes scientists, attorneys, certified public accountants, investigators, evaluators, and information technology specialists. The subjects of investigations, audits, and other reviews are also varied and may include: an individual grant recipient or institution; a broad program or functional area of NSF; or a project involving multiple disciplines or entities. OIG also utilizes contractors to perform work when it is cost effective, or when OIG lacks the necessary expertise in-house, as in the case of the annual review of the agency’s financial systems controls and their compliance with FISMA. In FY 2013, the office will also continue to be involved in audits and investigations of NSF programs, grants, contracts, and other activities associated with funding provided by the American Recovery and Reinvestment Act of 2009 (ARRA). Nearly all these grants and contracts involve multi-year awards that in FY 2013 will reach the point at which many allegations and other indicators will be peaking, but because the special appropriation the office received in 2009 to oversee NSF’s ARRA funds will expire at the end of CY 2012<sup>1</sup> unless the President approves our previously-noted waiver request, our ARRA work will have to be funded instead from OIG’s regular appropriation.

**Office of Inspector General  
Personnel Compensation and Benefits and General Operating Expenses**

(Dollars in Thousands)

	FY 2011 Actual	FY 2011 ARRA	FY 2012 Estimate	FY 2013 Request	Change Over	
					FY 2012 Amount	Estimate Percent
Personnel Compensation and Benefits	\$10,816	\$77	\$11,375	\$11,543	\$168	1.5%
Travel & Transportation of Persons	297	6	335	345	10	3.0%
Advisory & Assistance Services <sup>1</sup>	2,483		2,130	1,952	-178	-8.4%
Communications, Supplies and Equipment, and Other Services	319		360	360	-	-
<i>Training</i>	<i>111</i>		<i>160</i>	<i>160</i>	-	-
<i>Other</i>	<i>208</i>		<i>200</i>	<i>200</i>	-	-
<b>Total, OIG</b>	<b>\$13,915</b>	<b>\$83</b>	<b>\$14,200</b>	<b>\$14,200</b>	-	-
Full-Time Equivalent	74		78	78	-	-

Totals may not add due to rounding.

<sup>1</sup> Includes the costs of the annual financial statements audit and the outsourcing of contracting services.

The FY 2013 request level of \$14.20 million will enable OIG to maintain the same number of FTEs it expects to achieve in FY 2012, by using funds that in previous years were allocated to contractor support, and provide adequate oversight of NSF’s core programs, largest contracts, and riskiest grant awards. Some planned initiatives will be deferred. The FY 2013 Request funds a 0.5 percent Cost of Living Adjustment (COLA) effective January 2013. In FY 2013, \$178,000, an 8.4 percent reduction in Advisory and Assistance Services reflects savings to be achieved in response to Executive Order 13589, “Promoting Efficient Spending.” OIG will undertake a few modest but necessary systems and equipment

<sup>1</sup> P.L. 111-203 specifies that the availability of these funds for obligation expires on December 31, 2012. Previously, these funds were available until the end of FY 2013.

upgrades, including the improvement of Audit's data analytics capability, and the acquisition of investigative case management software.

This funding level would enable OIG to keep pace with NSF's increased financial exposure in awarding billions of dollars in grants and contracts each year. The agency obligated almost \$3.0 billion in American Recovery and Reinvestment Act (ARRA) funds in 2009 in addition to its regular annual appropriation of approximately \$7.0 billion. As many of the projects funded by ARRA wind down through 2012 and 2013, the need for audits and investigations is likely to rise, as fraudulent and other unallowable behavior does not usually surface until the later stages of an award. Since the \$2.0 million appropriation NSF OIG received to oversee ARRA is scheduled to expire at the end of December 2012, these costs will be primarily borne by our regular appropriation in FY 2013 unless the President grants our pending waiver request. If a waiver is approved, the ARRA funds would enable the commitment of more of our FY 2013 appropriation to the oversight of non-ARRA programs, including the research and education programs slated for growth in FY 2013.<sup>2</sup>

*Audits.* Due to the declining quality and economy of contractor-performed audits, OIG is planning to conduct more audits of NSF contracts and grants with its own staff, reducing the number of audits performed by CPA firms under contract. OIG also plans to add an in-house information technology audit capability that was formerly lacking. This change should enable us to achieve greater control over the audit process, resulting in better quality and more timely audits at a lower price. OIG also expects to gain greater institutional knowledge and familiarity by sending its own staff, rather than contractors, into the field to personally observe and report on awardees financial issues, resulting in better program oversight and integrity. The average cost of a contracted audit has risen from approximately \$100,000 in FY 2004 to about \$130,000 in FY 2010, while the need for staff oversight of contractors and the rework associated with their audits further add to their cost.

Our audit unit is investing in enhanced technical capabilities and data analytics that will allow us to improve oversight of NSF funds by better targeting our audits toward the riskiest awardees and by more efficient screening and analysis of large volumes of data. Improvements in the staffing and coordination of our external audits will allow OIG to increase the number of risk-based audits by 33 percent to approximately 20 institutions annually. Plans for technical architecture enhancements to servers, software, and interfaces would be limited to available funding, and deferred if necessary. Once completed, these advancements will provide a strong risk-based framework for identifying high risk awardees for review. At the current funding level, audits of NSF's IT infrastructure will be phased in as funds allow as the agency moves applications and resources into cloud computing and internet service into the Trusted Internet Connection (TIC).

The requested funds would continue to support performance and information technology audits that reflect important federal and OIG priorities, including assessments of the effectiveness of: 1) NSF's acquisition program and its ability to meet existing and newly implemented federal requirements, 2) NSF oversight of contingency costs for construction projects and 3) NSF's financial accountability and oversight responsibilities. Funds would also be used for a series of audits of the adequacy of NSF's cooperative agreements to manage and oversee its large facility awards, and to improve our oversight of IT security at NSF. Finally, funds would be committed to audits that are mandated by law, including the annual Financial Statement Audit, the related Federal Information Security Management Act independent evaluation report, and the triennial audit of the National Science Board's compliance with the Government in the Sunshine Act.

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<sup>2</sup> NSF OIG has requested that the President extend the period of availability of its ARRA appropriation to its original expiration date of September 30, 2013.

*Investigations.* The appropriation requested would enable OIG to keep pace with an expanding workload driven by NSF's increase in number of awards and ARRA expenditures, a vigorous proactive review and investigative program, the increasing complexity of the financial fraud and internal cases being investigated, and the dramatic increase in Small Business Innovation Research (SBIR) program investigations. Over the past two years, we have responded to Congressional concerns over the growth of SBIR fraud by organizing a working group of OIGs to improve federal law enforcement efforts in this key area. During that period we have opened 52 new SBIR cases, and we expect this upward trend to continue. Many of these investigations are conducted jointly with other agencies, requiring extensive coordination and nation-wide travel. The increased SBIR caseload has also prompted OIG to seek statutory law enforcement authority from the Department of Justice. If this request is approved, OIG special agents will be required to meet specific requirements under the US Attorney General Guidelines, which include quarterly firearms qualifications as well as other tactical training that will increase costs.

Past investments in OIG's investigative program have yielded an excellent return for the government. Our civil and criminal cases frequently produce both financial settlements for institutional fraud and compliance agreements for correcting the underlying systemic problems, thus providing greater protection for future federal funding. Although time-consuming, monitoring institutions' efforts to meet the terms of their five-year compliance plans is vital to preventing fraud from recurring, and it sends a strong message to the community. The systemic problems that have allowed fraud to occur take time to rectify, and ongoing oversight is required to ensure that vulnerabilities in the systems are not further exploited.

OIG's investigative workload is growing rapidly in the research misconduct area as well. Over the past few years, there has been an increase in serious data fabrication and falsification cases. Rising concerns about research integrity led NSF in 2010 to implement a responsible conduct of research (RCR) requirement for NSF awards. OIG is responsible for oversight of institutional RCR plans to ensure that they effectively address risk. Unfortunately, some institutions are implementing RCR programs that are significantly flawed, reflecting a lack of serious commitment to institutional oversight of research awards. Addressing research integrity and misconduct issues requires a highly-skilled staff, equipped with the necessary technological and other resources, to effectively determine their scope and complexity, perform the intricate investigations, and develop meaningful recommendations.

OIG also has a robust outreach program to fulfill its core mission to prevent fraud, waste, and abuse. Drawing on OIG's extensive experience in dealing with grant fraud and research misconduct, our staff plays a key role in educating NSF's and OIG's stakeholders. Our proactive efforts are consistent with the emphasis on transparency and accountability mandated by the administration and the Congress, and they help us assure the integrity of federally funded research and conduct effective oversight of ARRA funds. From an investigative perspective, the requested funds would enable OIG to perform sufficient outreach activities to address: 1) growing concerns regarding the erosion of research integrity, as evidenced by a threefold increase in allegations in the past decade and studies indicating that 25 to 30 percent of scientists engage in questionable research practices; 2) the issues underlying the increasing number of egregious allegations that we are investigating, many of which are related to the employment of scientists from other countries who may not fully understand U.S. rules and procedures; 3) misconduct related to ARRA funds; and 4) the growth of SBIR program fraud. Our ability to continue a vigorous preventative program of proactive review and outreach depends on whether our staffing and travel resources provide sufficient support, especially in light of our other urgent investigative priorities, as set out above.

The appropriated funds would enable us to provide an adequate level of oversight, while limiting some elements of our investigations program. OIG would have to absorb the unique training, equipment and related costs involved in maintaining statutory law enforcement authority. The forensic accounting support that is so vital to investigations involving complex financial systems would be continued, although at a reduced level. Our emphasis on major investigations involving sophisticated financial

issues may have to be cut back to ensure coverage of new investigative efforts related to such high priorities as SBIR fraud and ARRA-supported grants. We would also continue, albeit at a reduced level, our efforts to educate the federal community about issues such as fraud, suspension and debarment, and research misconduct. Other reductions in training and support functions would be needed to preserve funds that are necessary to travel, which is critical to our work.

We would also make a few modest but necessary systems and equipment upgrades, including the acquisition of investigative case management software. We would be able to perform a smaller number of the proactive reviews that guide our investigative efforts, but priority reviews, including an important analysis of fraud and duplicative funding within the SBIR program, and an analysis of research integrity programs would be preserved. These proactive investigative reviews have proven to be an efficient means of uncovering fraud, research misconduct, and other systemic wrongdoing by NSF awardees.