

OFFICE OF INSPECTOR GENERAL**\$11,500,000**

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 2006 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 2006 Budget Request for OIG is \$11.5 million, which represents an increase of \$1.47 million over the FY 2005 Current Plan of \$10.03 million.

Office of Inspector General Funding
(Dollars in Millions)

	FY 2004 Actual	FY 2005 Current Plan	FY 2006 Request	Change over FY 2005	
				Amount	Percent
Personnel Compensation & Benefits	\$7.30	\$7.49	\$7.73	\$0.24	3.2%
Other Operating Expenses ¹	2.17	2.54	3.77	1.23	48.4%
Total	\$9.47	\$10.03	\$11.50	\$1.47	14.7%
Full-Time Equivalent Employment	62	60	61	1	1.7%

Subtotals may not add due to rounding.

¹Starting in FY 2006, the cost of the annual audit of NSF's financial statements is requested in this appropriation.

Appropriation Language

For necessary expenses of the Office of Inspector General as authorized by the Inspector General Act of 1978, as amended, ~~\$10,110,000~~ \$11,500,000, to remain available until September 30, ~~2006~~ 2007. (Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act, 2005.)

Office of Inspector General
FY 2006 Summary Statement
(Dollars in Millions)

Fiscal Year	Enacted/ Request	Rescission	Carryover/ Recoveries	Total Resources	Obligations Incurred/Estimated
FY 2004 Appropriation	10.00	-0.06	0.75	10.69	9.47
FY 2005 Current Plan	10.11	-0.08	1.22	11.25	11.25
FY 2006 Request	11.50	-	-	11.50	11.50
\$ Change from FY 2005	1.39			0.25	
% Change from FY 2005	13.7%			2.2%	

Totals may not add due to rounding.

Explanation of Carryover

Within the Office of Inspector General appropriation a total of \$1.22 million was carried forward into FY 2005 to cover priority audits that are contracted out; fund contracts for financial analysis and other technical support for OIG investigations; provide contract support for information technology and other administrative needs of the office; fund personnel compensation costs; and protect the appropriation against unanticipated variations between obligations and expenditures.

Adjustments to Base

In FY 2006, \$1.10 million was moved from the R&RA and EHR appropriation base to the OIG account to cover the cost of the NSF's financial statements audit. The current five-year audit contract expires in FY 2005. While the cost of the new contract will not be known until it has been competed, it is expected to increase by 25-30 percent over current plan estimates.

<u>Financial Statements Audit</u>	FY 2004	FY 2005	FY 2006
	Actual	Current Plan	Request
R&RA	656,765	710,343	-
EHR	143,948	145,492	-
OIG	-	-	1,100,000
Total	\$800,713	\$855,835	\$1,100,000

Totals may not add due to rounding.

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. The Office also investigates allegations of research misconduct, usually in close coordination with the awardee institutions. After assessing the validity and seriousness of a violation, OIG recommends proportionate action. The Office refers the results to the Department of Justice or other authorities for criminal prosecution or civil litigation, when appropriate. In other cases, OIG refers the matter to the Foundation for administrative resolution; if applicable, the Office also recommends changes in agency policies and procedures to correct problems that have been identified. OIG 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 2005			Change over	
	FY 2004 Actual	Current Plan	FY 2006 Request	FY 2005 Amount	FY 2005 Percent
Personnel Compensation & Benefits	\$7,302	\$7,492	\$7,728	\$236	3.2%
Travel and Transportation of Persons	207	270	290	20	7.4%
Advisory and Assistance Services	1,550	1,888	3,082	1,194	63.2%
Other Services	70	60	60	0	0.0%
Communications, Supplies & Equipment	340	320	340	20	6.3%
	\$9,469	\$10,030	\$11,500	\$1,470	14.7%

Totals may not add due to rounding.

The OIG request for FY 2006 assumes a 2.3 percent increase for pay for civilian personnel, but most of the budget increase requested for the OIG will fund the annual audit of NSF's financial statements, which NSF program accounts had previously funded. These audit costs are reflected in the table as part of Advisory and Assistance Services. This audit is conducted by an independent contract auditor under OIG oversight. The contract for the audit will be re-competed in 2005, so its cost in 2006 is uncertain. While recent NSF audits have cost between \$600,000 and \$810,000, the audit under a new contract is expected to exceed \$1.0 million in FY 2006.

The Office's primary effort will continue to focus audit attention in five areas that pose the greatest challenge to the agency: (1) strategic management of NSF resources, including the agency's planning for future workforce needs and the need to strengthen its administrative capabilities (travel funds for monitoring large facilities and other awards, staff recruitment, appropriate use of rotators, office space, etc.); (2) improved financial performance, including the management of large infrastructure projects, a risk-based program for effective post-award monitoring, and appropriate oversight of awards that continue to have cost sharing; (3) expanded electronic government, including improved information security and effective operation of NSF's IT systems; (4) budget and performance integration, including improving the objectivity of the data collected for Government Performance and Results Act reporting, full disclosure of the limitations of more subjective performance reporting (such as the use of "nugget" success stories and Committees of Visitors assessments), and improved cost accounting, especially at the NSF program level; and (5) program-specific challenges in such areas as managing the U.S. Antarctic Program and broadening participation in the agency's merit review process. As NSF's financial exposure grows due to its continuing investment in large facilities and instrumentation and its efforts to make larger awards over longer periods of time, our audit coverage has expanded. Follow-up work in assessing progress in large research equipment projects will also be a priority.

The OIG will maintain its focus on specific issues that emerge concerning the management of NSF programs, procurement and acquisition, information technology, human capital, awardee financial accountability and compliance, and OMB Circular A-133 audits. We have made a strong commitment to improving the quality of audits conducted by CPA firms, and the increase in time and effort required to meet the higher standards is significantly raising the costs of contracted audits. In recent years, these audits have uncovered material issues concerning unallowable indirect costs, unfunded cost-sharing commitments, and records maintained by large school systems that are so inadequate they cannot even be audited. The OIG will phase in assessments of NSF actions resulting from the agency's multiyear business analysis contract and workforce plan, which are scheduled for completion in FY 2005. Finally, we will initiate an audit on international collaborations, which are an integral part of NSF's portfolio, with particular attention to the accountability and audit requirements of international partners.

As criminal, civil and administrative investigative cases have become more complex; we have increased our interaction with NSF, awardee administrators, and the Department of Justice to try to resolve them in the most effective and efficient manner. Today these cases normally require more staff time, specialized knowledge, and analytical skills, as well as more frequent contract support when special financial or other expertise is needed. We have developed and applied a process for identifying grant fraud indicators that may be found through audits and other reviews, enabling OIG to integrate investigative and audit work more effectively and take a more proactive approach. Our Office has also taken a leadership role in establishing a peer review process for investigative activities in Inspector General offices, which will enhance the quality of investigations throughout the IG community. At the requested funding level, the NSF OIG will continue to be the community leader for research misconduct and related investigative initiatives.

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.