

**NATIONAL SCIENCE FOUNDATION**  
4201 WILSON BOULEVARD  
ARLINGTON, VIRGINIA 22230

November 7, 2006

To: Christine C. Boesz  
Inspector General

From: Thomas N. Copley   
Chief Financial Officer

Subject: Management's Response to Independent Auditor's Report  
Fiscal Year 2006

I am extremely pleased that the National Science Foundation (NSF) is receiving its ninth clean opinion on the audit of its Financial Statements for fiscal year 2006. Throughout the audit, NSF worked closely with the auditors and provided full cooperation and assistance in ensuring the successful completion of this important process. The Foundation is continually striving to enhance accountability and controls in a Federal environment of increasing financial complexity. This achievement continues to gain significance as the level of investments and commitments needed to obtain a clean opinion increase.

NSF generally agrees with the two reportable conditions and is committed to resolving the issues noted in your report. The attachment provides some specific comments in a few areas. NSF has made significant progress in addressing the underlying causes for these conditions and will continue its efforts in these areas. In addition, the Foundation plans to provide a detailed corrective action plan that will highlight its activities to resolve these matters.

I appreciated receiving the draft audit report earlier than anticipated. I particularly found the presentation to be balanced and the executive summary helpful in facilitating Management's communications.

I would like to commend both of our organizations for the professionalism exhibited during the audit. It is important to recognize the time and efforts spent by all parties during Clifton Gunderson's initial audit year.

cc: Dr. Arden L. Bement, Jr.  
cc: Dr. Kathleen Olsen

Attachment (Management's Response to Auditor's Report)

**Attachment**  
**Management's Response to Auditor's Report**

**Post –Award Oversight for High Risk Grants and Cooperative Agreements**

We generally agree with the condition as stated by the auditors. We would like to re-emphasize that the National Science Foundation (NSF) has proactively taken action to refine its post award monitoring program. In doing so, the Foundation has addressed many of the issues noted in the condition statement.

Concerning the specific recommendations, we offer the following comments:

**1. Desk Reviews** - We concur and note that it was always NSF's intention to complete the desk reviews initiated in fiscal year (FY) 2006. This was the inaugural year for the desk review process. As such, significant time was spent designing and implementing the policies, procedures, and practices governing this program. However, NSF was still able to complete 54% of the FY 2006 desk reviews before the FY ended.

The desk review component of our monitoring program is being implemented consistent with the Corrective Action Plan entered into between NSF Management and the Office of Inspector General on February 14, 2006. All desk reviews identified in the FY 2006 risk assessment will be completed. We have identified, scheduled, and commenced FY 2007 desk reviews.

**2. Risk Assessment Modifications** - We concur with this recommendation and have proactively taken steps to address this issue. We have implemented changes to the 2007 Risk Assessment Model that incorporated a new data field called Total Intended Award Amount (TIAA) in an effort to identify awards that stood a chance of being incrementally funded and extended. The TIAA field indicates NSF's intention to award additional funds above the amount cumulatively awarded as of the date of the Risk Assessment data run. This allows the Risk Assessment Model to identify continuing award increments that appear to be about to expire soon from the data run information, but where there is an intention (assuming satisfactory scientific progress and availability of funds) to issue additional award increments.

NSF's award system is a dynamic, living portfolio. The Risk Assessment data run is a "snap shot in time." There may always be a possibility that an award appearing to expire in the near future on the Risk Assessment data run, might be extended.

**3. Federal Cash Transactions Report (FCTR) Transactional Testing** - We concur that our FCTR transactional testing is focused on low and medium risk awards. FCTRs are an aggregated expenditure report of all awards, regardless of risk ranking, at an institution. Through previous analyses we determined that a very small subset of NSF awardees managed a portfolio solely comprised of high risk awards. The total dollar value of those awards was less than 1 percent of the high risk population.

We plan to consult with our contractors, who execute our FCTR transactional testing, to obtain assistance in constructing a sampling and stratification plan for appropriate coverage of low, medium, and those high risk awards not subject to desk reviews, Award Monitoring and Business Assistance Program or Total Business Systems Review site visits.

### **Contract Monitoring**

We generally agree with the condition stated in the report concerning the need for independent verification of property plant and equipment information. In addition, NSF will consider your recommendation on maintaining source documentation in relation to the cost/benefit involved and other potential alternatives that may address the overall condition.

