

MANAGEMENT'S DISCUSSION AND ANALYSIS

About This Report

For FY 2007, the National Science Foundation (NSF) is producing an Annual Financial Report (AFR) in lieu of a consolidated Performance and Accountability Report (PAR), as part of our participation in the Office and Management and Budget (OMB) FY 2007 alternative PAR pilot, pursuant to Circular A-136, *Financial Reporting Requirements*. This FY 2007 Annual Financial Report focuses on the agency's financial performance, the results of the agency's annual financial audit, and compliance with the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA). NSF's FY 2007 performance information will be included with the Foundation's FY 2009 Budget Request to Congress, which will be available on February 4, 2008. NSF believes that the integration of programmatic performance results with the agency's budget request enables the Foundation to demonstrate its leadership in incorporating the outcomes of its investments in *Discovery*, *Learning*, and *Research Infrastructure* in planning future directions. Integrating programmatic performance results with the agency's budget request is the most meaningful context to present this information. In addition, on February 1, 2008, NSF will distribute its seventh annual *Performance Highlights* report as the agency continues its ongoing commitment to be informative and accountable to its stakeholders, customers, and the public. All three documents will be available on NSF's website at www.nsf.gov.¹

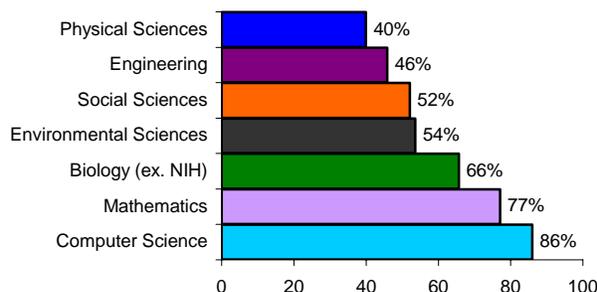
AGENCY OVERVIEW

Mission and Vision

The National Science Foundation was created by Congress in 1950, with a mission of promoting the progress of science and engineering in America. With a budget of nearly \$6 billion, NSF supports research across all fields of fundamental science and engineering and all levels of science and engineering education. NSF funds the best ideas and most promising people, searching out the frontiers of science and engineering to foster high-risk, potentially transformational research that will generate important discoveries and new technology. NSF is widely recognized as a catalyst for basic research as expressed in the NSF vision statement: Advancing discovery, innovation and education beyond the frontiers of current knowledge, and empowering future generations in science and engineering.

Although NSF's annual budget represents less than 5 percent of the total federal budget for research and development, NSF provides nearly half of the federal support for non-medical basic research at the Nation's colleges and universities.

Figure 1. NSF Support as a Percent of Total Federal Support of Academic Basic Research in Selected Fields



¹ The FY 2007 Annual Financial Report is available at www.nsf.gov/publications/pub_summ.jsp?ods_key=nsf0802. NSF's FY 2009 Budget Request will be available on February 4, 2008, at www.nsf.gov/about/budget/. NSF's FY 2007 *Performance Highlights* will be available at www.nsf.gov/publications/pub_summ.jsp?ods_key=nsf0803 on February 1, 2008.

In many fields, including computer science, mathematics, environmental sciences, the social sciences, and non-medical biology, NSF is the primary source of federal academic support (*Figure 1*).² This support of academic research is critical to sustaining future generations of world-class scientists and engineers who will develop the ideas and research tools needed to ensure America's leadership in an increasingly competitive global economy. Although NSF does not directly fund medical research, its support of basic research benefits medical science and related industries, leading to advances in diagnosis, regenerative medicine, drug delivery, and pharmaceutical design and processing.

NSF supports research and education through a competitive, merit-based review process that is recognized throughout government as the exemplar for effective and efficient use of public funds. Ninety percent of NSF funding is allocated through this merit-based, competitive process. Each year, approximately 46,000 members of the science and engineering community serve as panelists and proposal reviewers under the merit review process.³ In FY 2007, NSF received nearly 45,000 grant proposals and made 11,484 new awards, mostly to individual investigators or small groups of investigators in nearly 1,900 colleges, universities, and other public and private institutions throughout the United States. These awards directly involved an estimated 190,000 people, including researchers, teachers, and students from kindergarten through graduate school.

FY 2007 Science and Engineering Highlights

The following are some results reported by NSF-supported researchers in FY 2007:

- An international team of scientists has found that a dramatic change in the climate of tropical Africa may have significantly driven early human evolution. www.nsf.gov/news/news_summ.jsp?cntn_id=109984
- By weaving black carbon nanotubes into paper, engineers have created printable, flexible batteries that are more resilient than many existing batteries, yet can be cut and folded just like paper. www.nsf.gov/news/news_summ.jsp?cntn_id=109868
- An optical technology developed for detecting colon cancer holds promise for detecting pancreatic cancer and could lead to the first screening method for people who have no symptoms of the illness. www.nsf.gov/news/news_summ.jsp?cntn_id=109926
- Researchers discovered a novel bacterium that transforms light into chemical energy; it was discovered in three of the hot springs in Yellowstone National Park. www.nsf.gov/news/news_summ.jsp?cntn_id=109769
- An international study has shown that some types of bacteria can sense light, and that light exposure in a type of bacteria that causes diseases in humans and livestock increases the bacterium's virulence. www.nsf.gov/news/news_summ.jsp?cntn_id=110009&org=NSF&from=newsField
www.nsf.gov/news/news_summ.jsp?cntn_id=109923
- Using supercomputers, scientists are now dramatically speeding up their predictions of 3-D protein structures, which can play a crucial role in endeavors such as rational drug design. www.sdsc.edu/discoveries/discoveries.html
- The "Dark Web" project systematically collects and analyzes all terrorist-generated content on the Web using an array of advanced analysis techniques; it has become a major research test-bed for understanding propaganda, ideology, and operations of various terrorist groups. www.nsf.gov/news/news_summ.jsp?cntn_id=110040

For more information on the results of NSF-funded research, visit www.nsf.gov/news.

² Source: NSF/SRS/R&D Statistics Program, *Survey of Federal Funds for Research and Development, FY 2002-2004*.

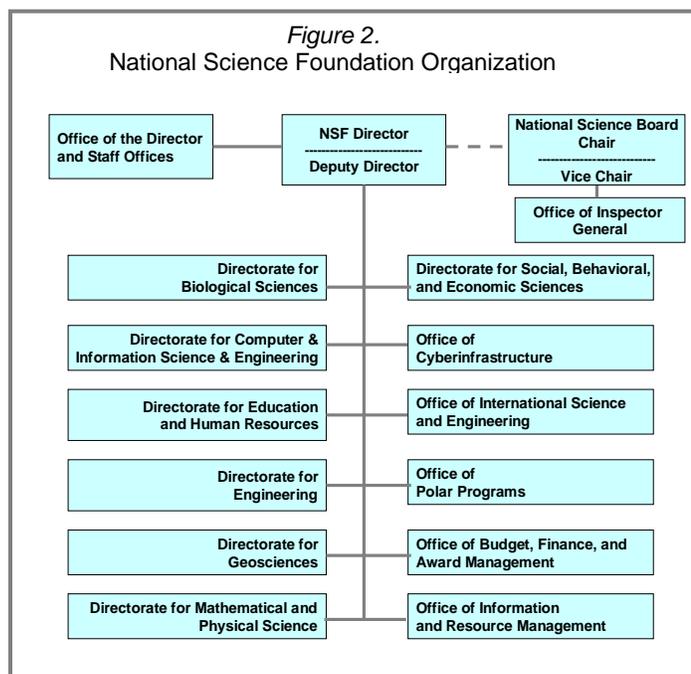
The Public Benefits of a Strong Science and Technology Enterprise

The results of U.S. investments in science and technology have long driven economic growth and improved the quality of life for successive generations. Science and technology have generated new knowledge and industries, created new jobs, provided new sources of energy, developed new modes of communication and transportation, and improved medical care. Today, more nations follow our lead in investing in science and technology, so the United States must maintain its leadership in scientific discovery and new technologies in order to remain globally competitive. In keeping with the President's American Competitiveness Initiative and the recently enacted America Competes Act, NSF invests in fundamental research that helps generate discoveries that spur innovation and lead to new technologies.⁴ NSF also supports world-class facilities and tools that are essential for transformational research. In addition, NSF's education portfolio supports the development of students with the science and mathematics skills that will enable them to participate in the 21st century global workplace.

For more than 50 years NSF has had an extraordinary impact on the Nation's scientific knowledge and capacity. NSF has funded the groundbreaking research of thousands of distinguished scientists and engineers including nearly 200 Nobel Prize winners.⁵ NSF-supported research underpins an array of important discoveries, among them the Internet, Web browsers, Doppler radar, Magnetic Resonance Imaging, and DNA fingerprinting. Moreover, advances at the frontiers of knowledge are critical for strengthening national security. Advanced capability in materials science research, sensors and sensor network architecture, cyber-security, and data mining have a direct impact on present and future homeland security systems and capacity.

Organizational Structure

NSF is headed by a Director who is appointed by the President and confirmed by the Senate (*Figure 2*). A 24-member National Science Board, also appointed by the President with the consent of the Senate, meets about six times a year to establish the overall policies of the Foundation.⁶ The NSF workforce includes approximately 1,300 full-time staff. NSF regularly recruits visiting scientists, engineers, and educators who are leaders in their fields. Recruiting active researchers and educators to fill rotating assignments infuses new talent and expertise into NSF and is integral to the NSF's mission of supporting the entire spectrum of science and engineering research and education, particularly



³ For more information about NSF's merit review process, see *Report to National Science Board on the NSF's Merit Review Process*, FY 2006, at www.nsf.gov/nsb/documents/2007/2006_merit_review.pdf.

⁴ For information about the American Competitiveness Initiative and the America Competes Act, see www.ostp.gov/html/budget/2008/ACIUupdateStatus.pdf and www.whitehouse.gov/news/releases/2007/08/20070809-6.html.

⁵ For information about Nobel laureates who have received NSF support, see www.nsf.gov/news/news_summ.jsp?cntn_id=100683&org=NSF&from=news.

⁶ For more information about the National Science Board, see www.nsf.gov/nsb.

research at the frontier.⁷ In addition, NSF employs contractors who are engaged in commercial administrative activities.

President's Management Agenda

The President's Management Agenda (PMA) is a government-wide effort to improve the management, performance, and accountability of federal agencies. In the fourth quarter of FY 2007, NSF maintained its "Green" status in three of five primary initiatives (Figure 3).⁸

► NSF's status in the *Strategic Management of Human Capital* initiative is currently "Yellow," with "Green" in progress. NSF had maintained a "Green" status since 2005, but slipped into "Yellow" in the third quarter of FY 2007. NSF is working with the Office of Personnel Management (OPM) to satisfy the requirements that will allow the Foundation to regain its "Green" status.

► NSF's "Red" status in *Competitive Sourcing* remained unchanged.

► NSF has developed an integrated strategy to maintain its "Green" ratings in *Improving Financial Performance* and the *Performance Improvement Initiative*. The focus of efforts in 2007 has been developing and implementing a process to link data on obligations and expenditures for projects funded in NSF's Stewardship portfolio. Currently, the information is tracked at the contract level, which may involve multiple projects. By integrating financial and budgetary information, management can gain additional insight on current stewardship projects and improve planning for future projects.

► NSF is a federal leader in the use of information technology, actively promoting simpler, faster, more accurate, and less expensive electronic business solutions. The agency is actively engaged in supporting numerous *e-Gov* and *Line of Business* initiatives, including *Research.gov*, a partnership of federal research-oriented grant-making agencies led by NSF that is working to enhance customer service through streamlining and standardizing processes among partners. *Research.gov* will leverage the capabilities of FastLane — NSF's own Web-based system used by NSF customers to electronically conduct business with the agency — to deliver a single web portal for research institutions to find relevant information and conduct grants business with federal research agencies. Planned capabilities for FY 2008 and FY 2009 include a web portal which will provide e-authenticated access to shared services for grantee financial functions (such as financial reporting, grant payments and online inquiry), up-to-date status of grant applications and a policy library with federal-wide and agency-specific policies, guides, and terms and conditions. Security of information technology systems remains a high management priority. The FY 2007 Federal Information Security Management program review recognized NSF's strong information security and privacy programs as comprehensive and committed to continuous and sustained improvement.

**Figure 3.
President's Management Agenda Scorecard**

	Baseline	Status	Progress
	9/30/01	9/30/07	
Strategic Management of Human Capital	R	Y	G
Competitive Sourcing	R	R	R
Improving Financial Performance	G	G	G
Expanded E-Government	Y	G	Y
Performance Improvement Initiative	R	G	G
Notes:			
For the Eliminating Improper Payments Initiative, OMB has moved NSF from an annual to a three-year reporting cycle as a result of reporting low improper payments.			
Green (G) indicates success; Yellow (Y), mixed results; and Red (R), unsatisfactory. Ratings are issued quarterly by OMB.			

⁷ In September 2007, temporary appointments included 167 under the Intergovernmental Personnel Act and 42 under the Visiting Scientists, Engineers, and Educators Program.

⁸ For more information about the President's Management Agenda, see www.Results.gov.

Meeting Future Opportunities and Challenges

NSF faces significantly increased responsibilities in light of the President's American Competitiveness Initiative and the recently enacted America Competes Act. Both call for expanded federal investment to drive innovation and sharpen the Nation's competitive edge. NSF is positioned to maximize the opportunities this brings: NSF will direct its funding toward generating fundamental discoveries that produce valuable and marketable technologies; providing world class facilities and infrastructure that will transform research and enable discovery; and helping the Nation's science, technology, engineering, and mathematics workforce prepare for the 21st century while improving the quality of math and science education in U.S. schools. Of highest priority is the support of frontier research that meets pressing national needs in security, energy, health, and the environment.

NSF will also continue to participate in several government-wide initiatives. As the lead federal agency for the International Polar Year effort that concludes in March 2009, NSF supports research to understand the Earth's extreme latitudes at scales from the global to the molecular. In its leadership role in the Networking and Information Technology Research and Development (NITRD) initiative, NSF will continue to explore the computing frontier, stimulating research advances in new algorithms, architectures, languages, and systems and in emerging models of computing — all enabling applications yet to be imagined. NSF continues to provide critical support for the National Nanotechnology Initiative and lead the U.S. nanotechnology research effort. NSF will also remain actively engaged in *e-Gov* and the Grants Management Line of Business (GMLoB) initiative to streamline federal grants management activities, for which the agency is a co-managing partner and a consortium lead.

NSF has a long record of success in leveraging its agile, motivated workforce, management processes, and technological resources to enhance productivity and effectiveness and in maintaining costs for internal operations at roughly 5 percent of the agency's annual budget. However, the opportunities provided by the America Competes Act come at a time when the NSF workforce and infrastructure are being challenged by workload issues. The rise in multidisciplinary collaborative projects, international activities, and major research facility projects has increased the volume as well as the complexity of the Foundation's workload. While the Foundation's budget has grown 80 percent over the past 10 years and the number of competitive proposals has increased 48 percent, staffing has increased less than 10 percent. In addition, meeting new external administrative, oversight, and accountability requirements is an additional burden on limited staffing and funding resources.

NSF management is analyzing various aspects of the agency's workload challenge. NSF has recently completed a study of the agency's administrative functions and a pilot program is currently underway to test the new organizational structure and operations procedures proposed by the study. A key facet of NSF's current human capital management activities is succession planning. A committee chaired by the Deputy Director was formed to examine current succession planning activities and define new strategies and initiatives to enhance the Foundation's ability to develop and recruit high-quality candidates for critical positions and quickly and effectively orient new, incoming staff.

Other management challenges have been identified by the NSF Office of Inspector General (OIG) in various areas including award and contract administration; human capital; budget, cost and performance integration; information technology; the U.S. Antarctic Program; and merit review. Many of these are long-term issues that the agency has been and continues to address. Included in Appendix 3b (page III-15) is a report on NSF's recent efforts in these areas.

PERFORMANCE HIGHLIGHTS

NSF's leadership in advancing the frontiers of science and engineering research and education is demonstrated, in part, through internal and external performance assessments. The results of this process provide stakeholders and taxpayers with vital information about the return on their investments. In FY 2007, performance assessment was guided by the Government Performance and Results Act of 1993 (GPRA), by OMB's Program Assessment Rating Tool (PART), and by NSF's *FY 2006–2011 Strategic Plan*.⁹ To accomplish its mission to promote the progress of science and engineering (S&E), NSF invests in the best ideas generated by scientists, engineers, and educators working at the frontier of knowledge and across all fields of research and education. NSF's *FY 2006–2011 Strategic Plan* establishes four overarching strategic outcome goals by which NSF measures its annual performance: *Discovery*, *Learning*, *Research Infrastructure*, and *Stewardship*. The four interrelated outcome goals establish an integrated strategy to deliver new knowledge at the frontiers, meet vital national needs, and work to achieve the NSF vision. The first three goals focus on NSF's long-term investments in science and engineering research and education. The fourth goal — *Stewardship* — is an internally focused goal that emphasizes effective and efficient management practices.

Figure 4.
NSF Performance Assessment Framework



FY 2007 Results

The results of three strategic goals — *Discovery*, *Learning*, and *Research Infrastructure* — are shown in *Figure 5*. The results for the remaining goals (under *Stewardship*) will be reported in NSF's FY 2009 Budget Request to Congress. The FY 2009 Budget Request will also include a discussion of NSF's performance assessment process, use of the R&D investment criteria, NSF's extensive data verification and validation process, trend data, and other performance-related information.¹⁰

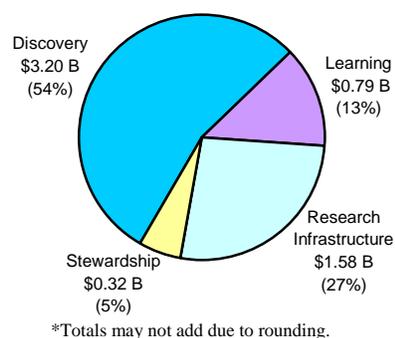
⁹ For information about NSF's PART assessments see www.ExpectMore.gov. NSF's *FY 2006 — FY 2011 Strategic Plan* is available at www.nsf.gov/pubs/2006/nsf0648/nsf0648.jsp.

¹⁰ NSF's FY 2009 Budget Request will be available on February 4, 2008 at www.nsf.gov/about/budget.

Figure 5. FY 2007 Strategic Outcome Goals and Results	
	Results
<p>DISCOVERY: Foster research that will advance the frontiers of knowledge, emphasizing areas of greatest opportunity and potential benefit, and establishing the Nation as a global leader in fundamental and transformational science and engineering.</p> <p><i>FY 2007 Results:</i> Assessments by external experts determined that NSF has demonstrated significant achievement of this goal; the assessment process was verified and validated by an external, independent consultant.</p>	<ul style="list-style-type: none"> ● FY 2003 ● FY 2004 ● FY 2005 ● FY 2006 ● FY 2007
<p>LEARNING: Cultivate a world-class, broadly inclusive science and engineering workforce, and expand the scientific literacy of all citizens.</p> <p><i>FY 2007 Results:</i> Assessments by external experts determined that NSF has demonstrated significant achievement of this goal; the assessment process was verified and validated by an external, independent consultant.</p>	<ul style="list-style-type: none"> ● FY 2003 ● FY 2004 ● FY 2005 ● FY 2006 ● FY 2007
<p>RESEARCH INFRASTRUCTURE: Build the nation's research capability through critical investments in advanced instrumentation, facilities, cyberinfrastructure, and experimental tools.</p> <p><i>FY 2007 Results:</i> Assessments by external experts determined that NSF has demonstrated significant achievement of this goal; the assessment process was verified and validated by an external, independent consultant.</p>	<ul style="list-style-type: none"> ● FY 2003 ● FY 2004 ● FY 2005 ● FY 2006 ● FY 2007
<ul style="list-style-type: none"> ● Indicates successful achievement. 	

In FY 2007, *Discovery*, *Learning*, and *Research Infrastructure* accounted for 95 percent of NSF's investment portfolio (*Figure 6*). Outcomes under these goals are assessed annually by the Advisory Committee for GPRA Performance Assessment (AC/GPA), which comprises experts in various disciplines and fields of science, engineering, mathematics, and education. After reviewing over 1,100 outstanding accomplishments compiled by NSF program officers, award abstracts, investigator project reports, and Committees of Visitors (COV) reports, the advisory committee determined that for FY 2007, NSF had made significant achievements in the *Discovery*, *Learning*, and *Research Infrastructure* goals.¹¹ Moreover, the process of assessment by the AC/GPA advisory committee was itself reviewed and validated by an independent, external management consulting firm.

Figure 6.
FY 2007 Budget Obligations,
\$5.88 Billion*



Assessing Long-Term Research

GPRA requires federal agencies to develop a strategic plan, establish annual performance goals, and report annually on the progress made toward achieving these goals. NSF's mission is to fund long-term science and engineering research and education where outcomes and results can be unpredictable. Science and engineering research projects can generate discoveries in an unrelated area, and it can take years to recognize discoveries and their impact. Moreover, serendipitous results can be the most interesting and

¹¹ The FY 2007 AC/GPA report is available at www.nsf.gov/publications/pub_summ.jsp?ods_key=nsf07207.

most important. Assessing the impact of advances in science and engineering is inherently retrospective and is best performed using the qualitative judgment of experts. The value of expert review was affirmed in the 2001 report from the Committee on Science, Engineering, and Public Policy (COSEPUP) of the National Academy of Sciences, the National Academy of Engineering, and the Institute of Medicine.¹²

As shown in the Figure 4, NSF uses a multi-layer assessment approach, integrating quantitative metrics and qualitative reviews. The use of external experts to review results and outcomes is a longstanding practice in the academic community. NSF's use of such panels, such as the COVs and Advisory Committees, pre-dates GPRA. On broader issues, NSF often uses external third parties such as the National Academies for review. The Foundation also convenes external panels of experts for special studies.¹³

The AC/GPA was formed by NSF to provide an annual review of the agency's accomplishment with respect to the agency's GPRA strategic goals. The AC/GPA also provides recommendations to the NSF Director regarding NSF's performance under GPRA. Each year, the AC/GPA also provides recommendations on ways to improve the assessment process. A particular emphasis from the committee in FY 2007 was how well the material provided covered the full NSF portfolio. This will be a particular focus for the FY 2008 review.

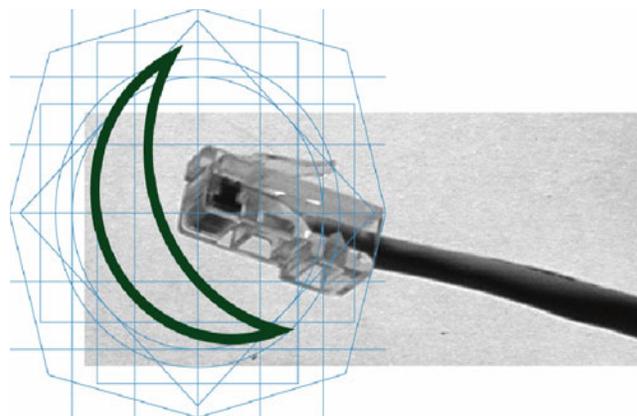
For *Stewardship*, NSF's goals are principally quantitative and focus on administration, management, and customer service.

Research Highlights

The following are examples of NSF-supported research results reported in FY 2007. Additional results can be found at www.nsf.gov/discoveries.

► Creating an Energy-Efficient Internet:

Researchers at the University of South Florida and the University of Florida are investigating new ways to reduce Internet energy consumption by reducing the energy wasted by idle network links and networked edge devices such as PCs and set-top boxes. These devices typically remain powered-up during frequent and lengthy periods of idleness. Estimates of the potential savings from this research are hundreds of millions of dollars per year in the United States alone. One goal of this project is to work with the energy efficiency community, government agencies, networking equipment manufacturers, and the



The image depicts the IEEE 1621 symbol for low-power sleep and an Ethernet connector. Together they symbolize the goal of reducing the energy used by ethernet networks. Credit: Bruce Nordman at LBNL.

¹² Quoting the report, *Implementing the Government Performance and Results Act for Research: A Status Report*: “Because we do not know how to measure knowledge while it is being generated and when its practical use cannot be predicted, the best we can do is ask experts in the field — a process called *expert review* — to evaluate research regularly while it is in progress. These experts, supplemented by quantitative methods, can determine whether the knowledge being generated is of high quality, whether it is directed to subjects of potential importance to the mission of the sponsoring agency, and whether it is at the forefront of existing knowledge — and therefore likely to advance the understanding of the field.” (National Academy of Sciences, Committee on Science, Engineering, and Public Policy; Washington, D.C., National Academy Press, 2001).

¹³ A schedule of NSF's program evaluations and a list of the external evaluations completed in FY 2007 will be included with the FY 2009 Budget Request.

standards bodies that govern networking equipment operation. The researchers are also working with the EPA Energy Star program to incorporate their research into new energy management specifications for new products.

► **Creating Effective Tools and Techniques for Visually Impaired Students in Chemistry:**

NSF-supported researchers have developed devices and lab procedures that allow blind and visually impaired students to conduct general chemistry laboratory experiments without the aid of sighted assistants. The research team at Penn State's Independent Laboratory Access for the Blind project (ILAB) has produced several devices for conducting chemistry experiments including a hand-held, submersible audible light sensor that fits in a test tube and converts light intensity to an audible signal. Another device the team created is an inexpensive portable color recognizer to detect the color of a substance in a beaker. The ILAB team also works with industry partners, including the Vernier Software and Technology Company, to make commonly used scientific software accessible to blind students who use speech output systems when conducting chemistry experiments independently.



Blind students independently conduct a chemistry experiment. Credit: Reprinted with permission from C&EN. Copyright 2007 American Chemical Society. Photograph by Linda Wang.

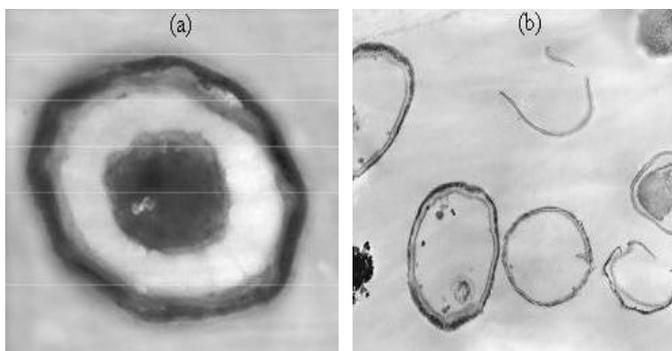


► **South Pole Telescope:** The largest telescope (10m) in Antarctica was successfully constructed and tested at the South Pole during the 100-day 2006–2007 summer season. Observations from this telescope will provide data for new insights into the topics of several national reports, including the 2000 Decadal Report on Astronomy and Astrophysics, the National Research Council's *Connecting Quarks with the Cosmos*, the Office of Science and Technology Policy report *Physics of the Universe*, and most recently the reports of the *Cosmic Microwave Background Task Force* and the *Dark Energy Task Force*.

South Pole Telescope. Credit: Photo courtesy United States Antarctic Program.

► **Using Visible Light to Destroy Pathogens in Water:**

Chemical byproducts from disinfecting water can be toxic or can cause cancer. A safer way to treat water uses light to destroy pathogens but problems with titanium dioxide catalysts have stymied this approach. Using nanomaterials, researchers at the NSF-supported Center of Advanced Materials for the Purification of Water with Systems, an NSF Science and Technology Center, developed effective titanium dioxide catalysts. This removes the primary obstacle to using light for water treatment and makes it possible to use visible light, rather than UV, to disinfect drinking water.



Transmission electron microscopy image of bacillus spores before (left) and after (right) photocatalytic treatment. Credit: Mark Shannon, University of Illinois.

MANAGEMENT ASSURANCES

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires agencies to establish internal control and financial management systems that provide reasonable assurance that the integrity of federal programs and operations are protected in accordance with guidance provided by the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*. In FY 2006, NSF established a program to identify and document all business processes and controls over those processes, assess their risk, and test the key controls in those processes. A scope limitation was imposed for the financial control review to allow the agency a three-year period to better ensure implementation of all A-123 Appendix A requirements. This was a strategic option offered by OMB to all agencies. Adopting this strategy precludes NSF from reaching a level of *full assurance* regarding controls for FY 2007, but better ensures that NSF will have in place the internal control infrastructure necessary to reach and maintain a level of full assurance at the close of FY 2008.

In FY 2007, NSF reviewed and evaluated significant entity-level control activities currently in place to support compliance with FMFIA and other applicable laws and regulations, which included (but was not limited to) the NSF Act of 1950, as amended; Annual Appropriation Law; Government Performance and Results Act of 1993; Clinger-Cohen Act of 1996; Federal Information Security Management Act of 2002; Chief Financial Officers Act of 1990, as amended; Federal Financial Management Improvement Act of 1996; Improper Payments Information Act of 2002; Single Audit Act of 1984, as amended; and the Inspector General Act of 1978, as amended.

NSF conducted a review of lessons learned from FY 2006 for its Accountability and Performance Integration Council (APIC), which is the equivalent of a Senior Assessment Team. NSF also implemented an Internal Controls Training Program for the APIC Internal Controls Working Group and our Business Process Owners. NSF managers continued to identify the processes that achieve the mission of the agency and the internal controls of its programs and administrative operations. Eight major processes and 38 sub-processes have been identified so far. NSF refined its risk assessment methodology to identify areas of inherent risk and used the results to target the controls for management's focus year-to-year. In FY 2008, NSF expects to have an internal control system that meets all the requirements of the revised A-123 guidance. The results of NSF's assessment of the adequacy of internal controls entity-wide, including financial controls, are reported in the NSF FY 2007 FMFIA Assurance Statement (see page I-11).

NSF conducted a review of its Financial Accounting System (FAS) in accordance with OMB Circular A-127 and the Federal Financial Management Improvement Act (FFMIA). Based on the results of the review we can provide reasonable assurance that our financial management systems substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Government Standard General Ledger (SGL) at the transaction level.

Based on the reviews conducted during the year, APIC and the Senior Management Round Table (SMaRT), with concurrence of the Chief Operating Officer/Deputy Director, recommended a statement of limited assurance to the NSF Director for FY 2007. The recommendation noted that management found no evidence of material weakness in either financial controls or entity-wide controls. The recommendation also noted that NSF internal controls meet the provisions of FMFIA, as implemented by A-123, including compliance with OMB Circular A-127, *Financial Management Systems*.

In the FY 2007 Independent Auditor's Report, NSF received an unqualified opinion of our financial statements, with no material weaknesses.¹⁴

¹⁴ See Appendix 1, page III-1, for Summary of Financial Statement and Management Assurances tables.

NSF FY 2007 Federal Managers' Financial Integrity Act
Assurance Statement

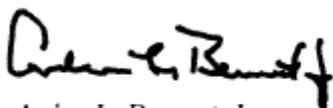
The National Science Foundation (NSF) is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). These objectives are to ensure effective and efficient operations, compliance with applicable laws and regulations, and reliable financial reporting.

For Fiscal Year 2007, the Foundation is providing a qualified statement of assurance that its internal controls and financial management systems meet the objectives of FMFIA. This qualification is due to a scope limitation related to the agency's plan to implement Appendix A of OMB Circular A-123 over a three-year period, as described below.

NSF conducted its evaluation of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123. Based on the results of this evaluation, NSF identified no material weaknesses under Section 2 of FMFIA and no system nonconformances under Section 4 of FMFIA. NSF provides reasonable assurance that its internal controls over the effectiveness and efficiency of operations and its compliance with applicable laws and regulations, as of September 30, 2007, were operating effectively, and no material weaknesses were found in the design or operation of these internal controls.

NSF conducted its assessment of internal control over financial reporting in accordance with the requirements of Appendix A of OMB Circular A-123. A limited number of processes that could potentially impact financial reporting were not included in the scope of this assessment. These excluded processes will be included during the agency's FY 2008 internal control review. Other than the scope limitation covering those processes that were not tested, NSF provides reasonable assurance that the internal controls over financial reporting as of June 30, 2007, were operating effectively and no material weaknesses were found in the design or operation of these internal controls.

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires agencies to implement and maintain financial management systems that are substantially in compliance with federal financial management systems requirements, federal accounting standards, and the United States Government Standard General Ledger at the transaction level. NSF financial management systems substantially comply with FFMIA.



Arden L. Bement, Jr.
Director
National Science Foundation

November 13, 2007

FINANCIAL DISCUSSION AND ANALYSIS

NSF's commitment to excellence, results-oriented management, and stewardship encompasses the agency's financial management arena. NSF's goal of excellence in financial management focuses on providing the highest business services to our customers, stakeholders, and staff through effective financial control, prompt and streamlined work processes, and reliable and timely financial information to support sound management decisions. The result has been an established record of effectiveness in federal financial management and a leadership role in government-wide grants management activities.

In FY 2007, NSF successfully maintained "Green" ratings in both the President's Management Agenda (PMA) financial performance initiative and the Department of Treasury's Financial Management scorecard. NSF also achieved top scores in the government-wide Chief Financial Officers (CFO) Council's financial management metrics. With respect to improper payments, since NSF has been below the OMB reporting threshold, the agency is now reporting on a three-year cycle.¹⁵ In addition, NSF implemented the new Federal Financial Report (FFR) for grant recipients and is participating in OMB's alternative PAR pilot. NSF has a leadership role in a number of federal initiatives, including the CFO Council Grants Policy Committee and the Grants Management Line of Business (GMLoB) initiative. Consistent with our leadership role, the agency is pursuing an integrated approach in its involvement with the grants and financial management lines of business initiatives.

As part of our stewardship commitment, NSF prepares annual financial statements in conformity with general accepted accounting principles (GAAP) of U.S. federal government entities and subjects them to an independent audit to ensure their integrity and reliability in assessing performance. For FY 2007, NSF received an unqualified audit opinion. The audit report noted no material weaknesses but included two significant deficiencies: Contract Monitoring (repeated from the prior year) and Property, Plant and Equipment Accounting and Reporting. NSF is addressing both deficiencies through a combination of process and system improvements. NSF's efforts in developing and implementing a comprehensive post-award monitoring program has resulted in the removal of last year's post-award monitoring deficiency.

Understanding the Financial Statements

NSF's FY 2007 financial statements and notes are presented in accordance with *OMB Circular No. A-136, Financial Reporting Requirements* dated June 29, 2007. NSF's current year financial statements and notes are presented in a comparative format. The Stewardship Investment schedule presents information over the last five years. Figure 7 summarizes the significant changes in NSF's financial position in FY 2007.

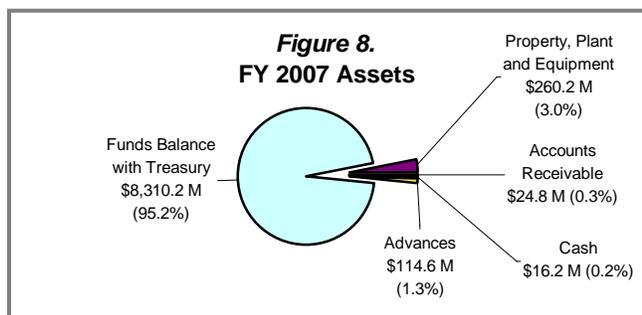
Figure 7.
Significant Changes in NSF's Financial Position in FY 2007
(Dollars in Thousands)

Net Financial Condition	FY 2007	FY 2006	Increase/ (Decrease)	% Change
Assets	\$8,726,006	\$8,247,611	\$478,395	6%
Liabilities	\$515,430	\$441,720	\$73,710	17%
Net Position	\$8,210,576	\$7,805,891	\$404,685	5%
Net Cost	\$5,636,129	\$5,595,761	\$40,368	1%

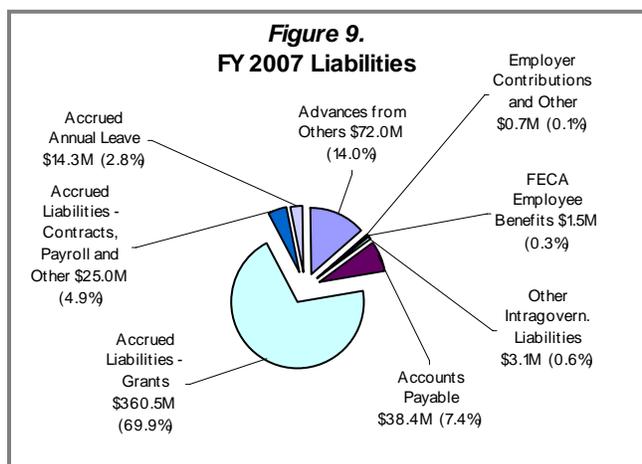
¹⁵ For more information on Improper Payments Information Act reporting, see Appendix 2, page III-3.

The following is a brief description of the nature of each required financial statement and its relevance. Certain significant balances or conditions are explained to help clarify their relationship to NSF operations.

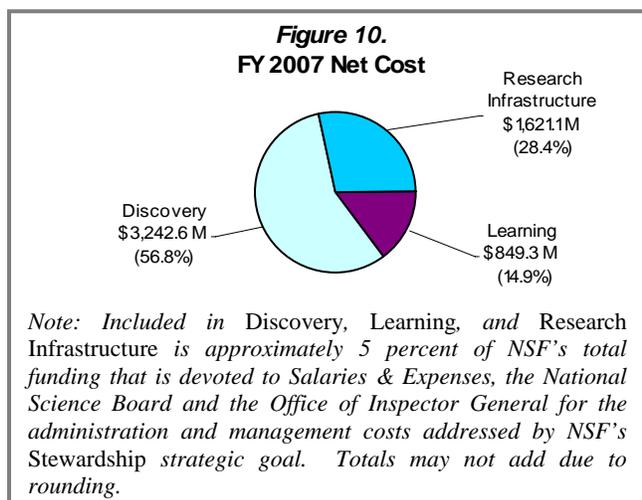
Balance Sheet: The Balance Sheet presents the total amounts available for use by NSF (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position). Three line items consisting of *Fund Balance with Treasury*; *Property, Plant and Equipment*; and *Advances* represent 99 percent of NSF's current year assets (*Figure 8*). *Fund Balance with Treasury* is funding available through the Department of Treasury accounts from which NSF is authorized to make expenditures and pay amounts due. *Property, Plant and Equipment* comprises capitalized property located at NSF headquarters and NSF-owned property in New Zealand and Antarctica that support the U.S. Antarctic Program (USAP). *Advances* are funds advanced to NSF grantees, contractors, and other government agencies.



Three line items, *Accounts Payable*, *Accrued Liabilities-Grants*, and *Advances from Others* represent 91 percent of NSF's current year liabilities (*Figure 9*). *Accounts Payable* includes liabilities to NSF vendors for unpaid goods and services received. *Accrued Liabilities-Grants* are amounts recorded for NSF's grants for which grantees have incurred costs but have not submitted their Federal Cash Transaction Reports (FCTR). *Advances from Others* represent payments received in advance from other federal agencies through interagency agreements for services that have not been performed.



Statement of Net Cost: This statement presents the annual cost of operating NSF programs. Gross cost less any offsetting revenue for each NSF program is used to arrive at the net cost of specific program operations. *Intragovernmental Earned Revenues* are recognized when these related program or administrative expenses are incurred and deducted from the full cost of the programs to arrive at the *Net Cost of Operation*. Approximately 95 percent of all current year NSF costs incurred were directly related to the support of the *Discovery*, *Learning*, and *Research Infrastructure* strategic goals. Costs were incurred for indirect general operation activities (e.g., salaries, training, activities



related to the advancement of NSF information systems technology, and activities of the NSB and the OIG). These costs were allocated to the *Discovery, Learning, and Research Infrastructure* strategic goals and account for 5 percent of the total current year *Net Cost of Operations*. These administrative and management activities are the focus of our *Stewardship* strategic goal.

Statement of Changes in Net Position: This statement presents the sum of cumulative net results of operation since inception and unexpended appropriations. NSF's Net Position increased to \$8.2 billion in FY 2007 — an increase of five percent — due to the increase in *Unexpended Appropriations* and *Cumulative Results of Operations*. *Unexpended Appropriations* is affected mainly by *Appropriations Received* and *Appropriations Used*, with minor impact from a non-expenditure *Transfer* of \$5.7 million from the U.S. Agency for International Development (USAID).

Statement of Budgetary Resources: This statement provides information on how budgetary resources were made available to NSF for the year and the status of those budgetary resources at year-end. For FY 2007, new *Budgetary Authority* for Research and Related Activities, Education and Human Resources, Major Research Equipment and Facilities Construction, the combined National Science Board, OIG and Salaries & Expenses were \$4,666 million, \$797 million, \$191 million and \$264 million, respectively. *Total Budgetary Resources* increased by 5.0 percent and *Net Outlays* decreased slightly by 0.2 percent in FY 2007. The *Net Outlays* reported on this statement reflects the actual cash disbursed for the year by Treasury for NSF obligations and is reduced by the amount of *Distributed Offsetting Receipts*.

Stewardship Investments: NSF-funded investments yield long-term benefits to the general public. NSF investments in research and education yield quantifiable outputs, including the number of awards made and the number of researchers, students, and teachers supported or involved in the pursuit of discoveries in science and engineering and in science and math education. The incremental decrease in the net costs of Research and Human Capital Activities reflects a decrease in education and training activities. The increase in support to scientists, postdoctoral programs, and graduate students and the increase in the number of people directly involved in NSF-supported activities primarily reflect the increase funding in basic and applied research.

Limitations of the Financial Statements

In accordance with the revised guidance *OMB Circular No. A-136, Financial Reporting Requirements*, we are disclosing the following limitations of NSF's FY 2007 financial statements, which appear in Chapter II of this report: The financial statements have been prepared to report the financial position and results of operations of NSF, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from NSF books and records in accordance with U.S. generally accepted accounting principles (GAAP) for federal entities and the format prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. government, a sovereign entity.

Budgetary Integrity: NSF Resources and How They Are Used

NSF is funded primarily through six Congressional appropriations that totaled \$5.9 billion in FY 2007. Other FY 2007 revenue sources included \$106.0 million in reimbursable authority, \$5.7 million in appropriation transfers from other federal agencies, \$107.4 million in H-1B collections and \$41.3 million in donations to support NSF activities.¹⁶ NSF made investments in fundamental research and education to the Foundation's agency's three mission-oriented strategic outcome goals of *Discovery, Learning, and*

¹⁶ Donations of \$41.28 million include \$406,847 of interest earned on the donations received in FY 2007.

Research Infrastructure. About 5 percent of NSF's budget was for Stewardship activities focused on internal agency operations and award management activities.¹⁷

Major investments were made in Networking and Information Technology Research and Development; the National Nanotechnology Initiative; Cyberinfrastructure; Mathematical Sciences; International Polar Year; Biocomplexity in the Environment; and Human and Social Dynamics. NSF also supported education activities for students and teachers from pre-K through the post-doctoral level. Among major research facility and equipment projects supported were the Atacama Large Millimeter Array, which when completed will be the world's most sensitive, highest resolution, millimeter-wavelength telescope; EarthScope, a distributed geophysical instrument array that will enhance our understanding of the structure and dynamics of the North America continent; and the IceCube Neutrino Detector Observatory in Antarctica. At the time of this report, NSF had not yet received its FY 2008 appropriations.

Financial System Strategy

The goal of NSF's Financial Accounting System (FAS) is to provide quality business services to our customers through effective funds control, efficient award processes, and reliable and timely financial data to inform management decisions. FAS is a custom developed online, real-time system that provides the full spectrum of financial transaction functionality required by a grants-making agency and complies with government-wide rules and regulations for financial management systems .

FAS is integrated with NSF's core business systems, including the Proposal and Reviewer System (PARS), the Awards System, Guest (panelists) Travel and Reimbursement System, eTravel System and the FastLane System that supports grants management. FAS supports both the grant and core financial processes and is used to monitor, control, and ensure the management and financial accountability of over 20,000 active awards with nearly 1,900 external grantee institutions. FAS distributes funds electronically to grantees in a seamless and controlled environment and interfaces information to the FastLane system that allows grantees the ability to check available funds in real time on a daily basis. The reporting capabilities built into the FAS software include on-line lookups to verify funds, track commitments and obligations, and the ability to generate daily, weekly, monthly, and quarterly reports that provide up-to-date financial information about NSF operations for program and grantee decision support. All FAS-generated reports are posted electronically and are available to staff via *Report.web*, which is a web-based application that streamlines information distribution. In addition, information from FAS is captured and used in our Enterprise Information System.

NSF's ability to meet interface and integration requirements of any government-wide initiative (e.g. e-Travel and e-Learning), to adopt new legislative, regulatory, and policy requirements as they are promulgated, and to implement required technical upgrades is resource dependent. Consistent with NSF's eGovernment Implementation Plan, FAS will remain in a steady-state phase in the FY 2007-FY 2012 timeframe. The Financial Management Line of Business (FMLoB) continues to define government-wide standards that all agencies will be required to implement. In order to meet these new requirements, NSF is beginning to develop a strategy for our future financial management system that complies with the FMLoB guidelines. A key element for the future financial management system is to ensure that NSF continues to support fully integrated grant financial requirements within the financial system framework. NSF will analyze the FMLoB Shared Service Provide (SSP) options in 2008, leading to a Business Case

¹⁷ The FY 2007 budget was formulated under the FY 2003-2008 strategic plan which identified the agency's four strategic goals as *Ideas, People, Tools, and Organizational Excellence*, which are comparable to NSF's current strategic goals of *Discovery, Learning, Research Infrastructure, and Stewardship*, identified in NSF's FY 2006-2011 strategic plan. Also, in the FY 2008 Budget Request, the Salaries and Expenses appropriation was renamed Agency Operations and Award Management

Feasibility Study for the financial management system in 2009. NSF will also identify the interrelationships between the FMLoB and the GMLoB to ensure that all requirements will be identified to support NSF's status as a GMLoB Consortia Lead for grants management.

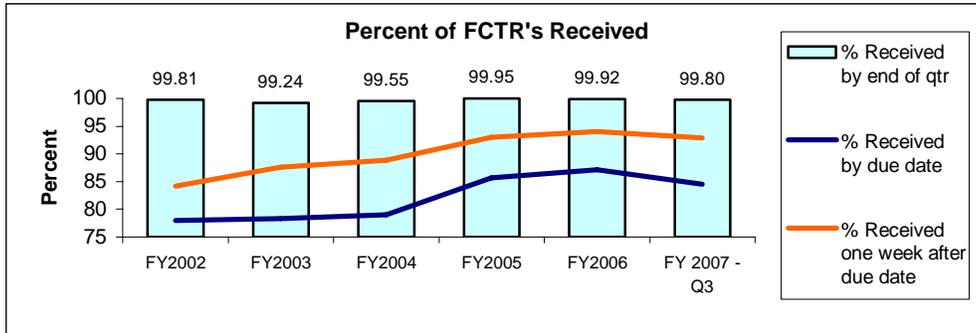
Key Financial Metrics

This section presents selected key financial measures of NSF's core business of awarding grants and our progress in associated electronic processes.

Since inception of the Department of Treasury's Financial Management Service Scorecard in FY 2004, NSF has consistently received the highest "Green" ratings for accuracy and timeliness of our financial reporting in the quarterly ratings (*Figure 11*).

<i>Figure 11.</i>		
U.S. Department of Treasury Financial Management Scorecard		
Category	Standard	Results (as of 6/30/07)**
Accuracy of Reporting*	<i>Green:</i> If differences outstanding for less than 3 months. <i>Yellow:</i> If differences are older than 3 months but less than 6 months. <i>Red:</i> If differences are older than 6 months.	
Timeliness of Reporting*	<i>Green:</i> If original and supplemental reporting completed by the third workday. <i>Yellow:</i> If original submitted by the 3rd workday and supplemental report submitted on the 4th workday. <i>Red:</i> If original submitted after the 3rd workday and/or supplemental submitted after the 4th workday.	
Checks issued Comparison Reporting	<i>Green:</i> If differences outstanding for less than 3 months. <i>Yellow:</i> If differences are older than 3 months but less than 6 months. <i>Red:</i> If differences are older than 6 months. <i>N/A:</i> If agency does not have disbursing authority.	N/A
* FMS 224, SF1218/1221 and FMS 1219/1220. ** Most current data available.		

Figure 12.

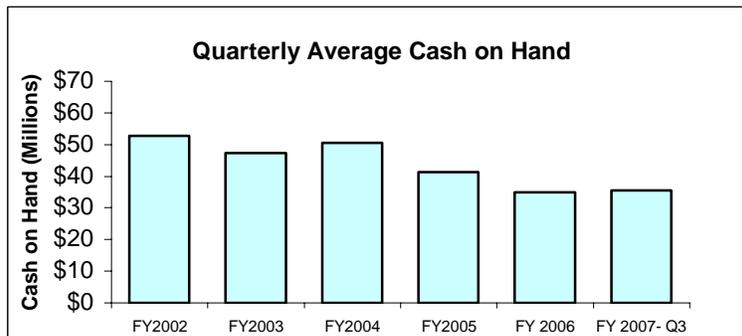


Note: Grantees are required to report the status of funds received from NSF on a quarterly basis through the submission of a Federal Cash Transaction Report (FCTR) or the Federal Financial Report (FFR). The reports are prepared and submitted by the grantee electronically to NSF through the FastLane Financial Function.

* FY 2007 Q3 is most current data available.

Figure 12 focuses on the SF 272 Federal Cash Transaction Report (FCTR) and Federal Financial Report (FFR) processes, key parts of NSF's core grant business. The FCTR/FFR collection rate is shown for the past five years. NSF routinely collects over 99.9 percent of all required FCTR/FFRs — a collection rate that significantly exceeds that of other federal agencies.

Figure 13.



* FY 2007 Q3 is most current data available.

Figure 13 shows the results of NSF's increased emphasis on enhanced FCTR monitoring activities implemented in January 2005. Unexpended federal cash held by grantees has dropped by an average of about \$14 million per quarter due to NSF monitoring activities, indicating improved cash management on the part of the NSF grantees.

Figure 14.

**CFO COUNCIL METRIC TRACKING SYSTEM
FINANCIAL MANAGEMENT INDICATORS**

Indicator	Definition	Standard	Data through 6/29/07
1. Fund Balance with Treasury (Net)	Identifies the difference between the fund balance reported in Treasury reports and the agency fund balance with Treasury recorded in its general ledger on a net basis.	Green: fully successful <= 2% Yellow: minimally successful > 2% - <= 10% Red: unsuccessful > 10%	 GREEN 0.0%
2. Amount in Suspense (Absolute) Greater than 60 Days Old	The timeliness of clearing and reconciling suspense accounts. This metric is reported quarterly.	Green: fully successful <= 10% Yellow: minimally successful > 10% - <= 20% Red: unsuccessful > 20%	 GREEN 0.0%
3. Delinquent Accounts Receivable from Public Over 180 days	The success in reducing or eliminating delinquent accounts receivable from the public. This metric is reported quarterly.	Green: fully successful <= 10% Yellow: minimally successful > 10% - <= 20% Red: unsuccessful > 20%	 RED 21.3%
4. Electronic Payments	The number of electronic payments measures the extent to which vendors are paid electronically.	Green: fully successful >= 96% Yellow: minimally successful >= 90% - < 96% Red: unsuccessful > < 90%	 GREEN 99.2%
5a. Percent Non-Credit Card Invoices Paid on Time	How many non credit card invoices are paid on time in accordance with the Prompt Payment Act (PPA).	Green: fully successful >= 98% Yellow: minimally successful >= 97% - < 98% Red: unsuccessful < 97%	 YELLOW 97.4%
5b. Interest Penalties Paid	The amount of interest penalties paid on late invoices relative to total dollars paid in accordance with the PPA.	Green: fully successful <= 0.02% Yellow: minimally successful > 0.02% - <= 0.03% Red: unsuccessful > 0.03%	 GREEN 0.011%
6a. Travel Card Delinquency Rates Individually Billed Account (IBA)	The percent of travel card balances outstanding over 61 days for Individually Billed Accounts (IBA).	Green: fully successful <= 2% Yellow: minimally successful > 2% - <= 4% Red: unsuccessful > 4%	 RED 6.2%
6b. Travel Card Delinquency Rates Centrally Billed Account (CBA)	The percent of travel card balances outstanding over 61 days for Centrally Billed Accounts (CBA).	Green: fully successful = 0% Yellow: minimally successful > 0% - <= 1.5% Red: unsuccessful > 1.5%	 GREEN 0.0%
6c. Purchase Card Delinquency Rates	The percent of purchase card balances outstanding over 61 days.	Green: fully successful = 0% Yellow: minimally successful > 0% - <= 1.5% Red: unsuccessful > 1.5%	 GREEN 0.0%

Figure 14 is NSF's CFO Metrics Tracking System (MTS) Scorecard for June 2007, the most recent data available. The MTS, sponsored by the CFO Council Committee on Performance Measurement, provides monthly details on core financial metrics across government. Indicator 3 — the ratio of public receivables greater than 180 days to total receivables — was caused by a single delinquent debt out of the pool of NSF outstanding public receivables, causing the MTS score for NSF to experience an anomaly from the normal scoring it receives. NSF's receivables are generally among the lowest of all government agencies. A "Yellow" reported for Indicator 5a, "Percent Non-Credit Card Invoices Paid on Time," can be attributed to a minor change in interest paid which is not likely to continue over future monthly reports. Indicator 6a, "Travel Card Delinquency Rates Individually Billed," may continue to alternate between "Green" and "Red" until the NSF travel administration system, FedTraveler, becomes fully integrated into NSF's Financial Accounting System. Generally, since MTS was launched in January 2005, NSF has had the most consistently high scores of any government agency. To see scorecards and for additional information about the Metrics Tracking System, see <http://www.fido.gov/mts/cfo/public>.

In April 2007, NSF began participating in the Financial Management Services Metrics (FMSM) Program developed by the Financial Management Line of Business (FMLoB), in collaboration with the federal financial management community. The FMSM established a set of Financial Services Metrics that will facilitate an assessment of financial services government wide. FMSM metrics have been designed to

help identify opportunities to improve the performance and affordability of the financial services provided by Shared Service Providers and federal agencies. There is currently insufficient program history to be able to assess the relative value or context of NSF's participation in this program.

**Figure 15.
Recent Trends**

The following table summarizes several of NSF's key workload and financial indicators. Obligations are a direct result of each year's appropriation while expenses reflect multiple years of prior obligations. Of real significance is the 10.6 percent increase since FY 2004 in the number of competitive awards while staffing (FTE) has increased less than 3 percent.

(Dollars in Millions)

	FY 2004	FY 2005	FY 2006	FY 2007	%Change FY 04-07
Obligations Incurred	\$5,870.72	\$5,653.90	\$5,878.01	\$6,169.19	5.1%
NSF Expenses (Net of Reimbursements)	\$5,100.14	\$5,408.17	\$5,595.76	\$5,636.13	10.5%
Stewardship (Expenses)	\$268.30	\$292.43	\$321.09	\$275.99	2.9%
FTE (includes OIG)	1,274	1,279	1,277	1,310	2.8%
Competitive Proposals	43,851	41,760	42,377	44,598	1.7%
Competitive Awards	10,380	9,794	10,450	11,484	10.6%
Average Annual Award Size	\$139,637	\$143,669	\$134,595	\$144,804	3.7%
Average Award Duration (in yrs)	2.9	2.9	2.9	2.9	0.0%
Property (PP&E, Net of Depreciation)	\$240.44	\$257.56	\$261.35	\$260.21	8.2%
Total Assets	\$7,929.03	\$8,075.06	\$8,247.61	\$8,726.01	10.1%

Percent Change: FY 2004 to FY 2007



Future Business Trends and Events

The future will require a continued focus on management excellence through increased attention to specific financial operations and strategic issues. The PMA and other new administrative policy initiatives mandate that NSF, like other federal agencies, demonstrate consistent progress in improving financial management practices as well as adapt to changing management and policy initiatives. We are committed to leveraging technology and human capital resources to improve operations and services to our customers and stakeholders. In addition, we proactively address management challenges identified

through internal review and oversight. In this section, we describe some of the areas that the agency will be focusing on in both the immediate future and the long term.

OMB Circular A-123: NSF is in its second year of a three-year implementation plan for our internal controls program under the revised OMB Circular A-123, *Management Responsibility for Internal Controls, Appendix A* guidance. In FY 2007, NSF opted for a scope limitation and worked on a plan to ensure the Foundation's internal controls program will be fully implemented by the end of FY 2008. Several additional key business processes have been identified for documentation and testing in FY 2008. We have also refined our risk assessment process and FMFIA review program. These improvements are a key part of ensuring full compliance with A-123 by the end of FY 2008.

E-Travel: NSF is the lead agency in implementing EDS's FedTraveler, one of three government-wide approved e-Travel Presidential initiative systems. NSF is paving the way for other agencies to follow. In FY 2007, NSF staff continued to work with the vendor to correct ongoing issues with the system. NSF will continue efforts toward improving and enhancing the system to ensure that it fully supports the needs of the agency.

Federal Financial Report (FFR): As part of its implementation initiatives for the Federal Financial Assistance Management Improvement Act of 1999 (P.L. 106-107), OMB is consolidating and replacing existing grant recipient financial reporting forms with a single Federal Financial Report (FFR). The FFR provides grantees with a financial reporting process that will be common to all federal agencies while simplifying reporting requirements, procedures, and associated business processes. The FFR will utilize a standardized pool of data elements as defined by the Grants Policy Committee of the Federal Chief Financial Officers Council. NSF implemented the FFR in FastLane Financial Functions as an optional grantee expenditure report during July 2007. Additionally, NSF plans to develop a FFR within its *Research.gov* initiative that will be offered to other federal research-oriented agencies. NSF's FFR will assist OMB in advancing Federal Grants Streamlining initiatives, reinforce NSF leadership within the federal grants management arena, and maintain the customized integration of business processes and systems inherent in NSF's end-to-end systems. The FFR is in the final approval stages at OMB. After the form has received final approval, NSF will deactivate the Federal Cash Transaction Report (FCTR).

Financial Service Offerings of the NSF GMLoB: NSF has built a highly integrated financial and grants management process that has the flexibility to provide services to other agencies. As such, NSF is becoming a shared service provider with its *Research.gov* initiative within the Grants Management Line of Business (GMLoB) in a fee-for-service environment to other federal research agencies. NSF is in the process of developing financial service offerings that include grant payments, grantee financial reporting, and centralized grant accounting. These offerings will complement and extend the shared services to be offered for pre-and post-award grant management services. NSF financial services have the technical capability and management acumen, combined with proven business processes, which will provide a benefit to the federal research community.