

NATIONAL SCIENCE FOUNDATION
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MEMORANDUM

DATE: March 10, 2011

TO: Martha A. Rubenstein
Director and Chief Financial Officer
Office of Budget, Finance, and Award Management (BFA/OAD)

FROM: Dr. Brett M. Baker /s/
Assistant Inspector General for Audit

SUBJECT: Limited Scope Review of Recovery Act Quarterly Reporting Processes at the University of Alaska – Anchorage, OIG Report Number 11-1-003

As part of our oversight responsibilities, the Office of Inspector General (OIG) has conducted reviews of institutions that have received National Science Foundation (NSF) grants funded by the American Recovery and Reinvestment Act (ARRA or Recovery Act) to assess the overall quality of required quarterly reporting. Such quarterly reports contain detailed information on ARRA projects and activities and are the primary means for keeping the public informed about the way funds are spent and the outcomes achieved. Our review objectives were to determine whether the University of Alaska – Anchorage (UAA or the University) had established an adequate system of internal controls to provide reasonable assurance that (1) Recovery Act funds were segregated and separately tracked in its project cost accounting system and (2) quarterly reporting was timely, accurate, and fully compliant with Section 1512 ARRA reporting requirements. A detailed description of the background, objectives, scope, and methodology can be found in Appendix A.

Results of Review

Our review found that UAA had properly segregated \$3.4 million of NSF funds awarded for eight ARRA grants in its accounting system, submitted Recovery Act quarterly reports timely, generally established sound written policies and procedures for ARRA reporting, and developed centralized ARRA reporting to ensure consistent application of federal and NSF reporting requirements. However, improvements were needed in the University's processes for compiling and reviewing the quarterly Recovery Act information to ensure all data elements reported were accurate, complete, and fully compliant with Section 1512 requirements. Specifically, our review disclosed that UAA

had not established sufficient processes for (i) performing a comprehensive data quality review of ARRA data to preclude clerical and/or posting errors, (ii) reporting ARRA vendor jobs, and (iii) checking the debarment and suspension status of vendors.

As a result, our review of the December 2009 and March 2010 quarterly reports disclosed that five of the eight data elements we reviewed were correctly reported while the other three data elements were incorrectly reported. Specifically, UAA accurately reported the following five data elements: funds received/invoiced, subaward amounts, quarterly activities/project description, project status, and final report status. However, the University had not established adequate processes to accurately report the number of jobs, expenditures, and vendor payments.

The exceptions identified during our review occurred primarily because UAA was in the early stages of developing its ARRA reporting processes. Given the delays and changes to OMB reporting guidance and the volume of ARRA data required to be reported within 10 days after the end of each quarter, this was understandably a very challenging process. Nevertheless, given the unprecedented accountability and transparency goals of the Recovery Act, the development of effective UAA processes and oversight functions are critical factors for ensuring ARRA data quality.

A draft of this memorandum was provided to UAA management for its review and comment. In addition, a written outline of the review results was presented to University management at the completion of our onsite review work so that timely UAA actions could be taken to implement improvements needed to promote the highest degree of transparency and accountability over Recovery Act funds. The University concurred with the findings and recommendations and began making improvements to its processes shortly after the auditors brought these issues to its attention. UAA comments and position on the audit findings and recommendations can be found in their entirety in Appendix B.

To help ensure the recommendations are resolved within six months of audit report issuance pursuant to Office of Management and Budget Circular A-50, please provide the audit resolution memorandum for our review when NSF has obtained an acceptable UAA Corrective Action Plan. The Plan should document that appropriate corrective actions have been implemented to address the report recommendations. Milestone dates should be provided for corrective actions not yet completed.

We appreciate the cooperation that was extended to us during our review. If you have any questions, please free to contact Joyce Werking at extension 8097 or Kenneth Lish at extension 5004.

cc: Mary Santonastasso, Division Director, DIAS
Dale Bell, Deputy Division Director, DIAS
Alex Wynnyk, Branch Chief, CAAR/DIAS
Debbie Rafi, Director, University Business Affairs, ONR

Audit Findings and Recommendations

1. Improvements Needed in Data Quality Review Process to Ensure Accurate ARRA Quarterly Reports

Section 4.2 of OMB Memorandum M-09-21¹ requires “Prime recipients, as owners of the data submitted, [to] have the principal responsibility for the quality of the information submitted.” Specifically, the prime recipient is responsible for (a) implementing internal control measures to ensure accurate and complete information and (b) performing data quality reviews to identify reporting errors and making appropriate and timely corrections.

However, UAA had not established adequate data quality review procedures to ensure all ARRA data elements were accurate, complete, and fully compliant with OMB reporting guidance. As a result, our review disclosed the following data elements were incorrectly reported:

- The same vendor payment of \$159,911 was erroneously reported on two different ARRA grants on the March 2010 quarterly report.
- Expenditures were under-reported by \$11,417 for one ARRA grant on the March 2010 quarterly report because the field had mistakenly not been updated from the prior reporting quarter.
- The total number and dollar of vendor payments were understated in the December 2009 report for the three ARRA grants sampled.² These two vendor fields were not reported on a cumulative basis, but mistakenly reported only for the current ARRA quarter. As such, four vendor payments totaling \$1,619 were incorrectly reported instead of 15 vendor payments totaling \$3,040, a difference in dollar value of almost 50 percent.

These reporting exceptions occurred primarily due to human error in posting the data from source documentation to the ARRA report template and were not identified during UAA's quality review process. Specifically, the independent review process was not complete and comprehensive because the reviewer only looked for blank fields and “obvious errors” in the ARRA report template. Without validating the reported data fields to source documentation maintained in its ARRA files, the University's review process lacked assurance that the calculations made are correct, or that there were no transposition errors that occurred while posting the data. A more robust data quality review process of key ARRA data fields would have identified the errors we found and allowed UAA the opportunity to correct the data prior to submission.

¹ OMB Memorandum M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*, issued on June 22, 2009.

² UAA had a total of eight ARRA grants awarded by NSF.

Recommendation:

We recommend that the NSF Director of the Division of Institution and Award Support, coordinate with the cognizant audit agency, as needed, to require UAA to establish a more formal and robust data quality review process to ensure its ARRA quarterly reports are accurate and complete.

UAA Response: UAA concurred with the recommendation and has stated they worked with the auditors to make immediate improvements to its data quality review process.

OIG Comments: UAA's response met the intent of the recommendation. However, UAA needs to provide NSF with the specific steps it has established to improve its data quality review process.

2. UAA Needs To Report Jobs for ARRA Vendors

Section 5.7 of OMB M-10-08³ requires prime recipients to generate estimates of jobs impacted by directly collecting data from subrecipients and vendors on the total jobs created or retained by ARRA-funded projects and activities. Such job data collection from all institutions receiving Recovery Act funds is essential for accurate and complete reporting of ARRA jobs created/retained to the public and all stakeholders.

However, UAA had not established a process for obtaining job estimates from vendors. As of March 31, 2010, the University had made 48 vendor payments totaling \$181,767. While our review of the one large vendor payment greater than \$25,000 did not disclose that any ARRA jobs were required to be reported, it is important that UAA establish procedures for collecting such vendor job estimates to be fully compliant with federal guidance and to ensure any future vendor jobs are accurately reported. Such procedures should establish the methodology for collecting quarterly job estimates and assessing its overall reasonableness prior to reporting. In addition, the procedures should define criteria for when job estimates should be requested. For example, job estimates should be requested for consulting service-type contracts, which by its nature employs people and creates jobs.

This control weakness occurred because UAA officials lacked a comprehensive understanding of the ARRA job reporting requirements associated with vendor payments. University officials mistakenly believed that any jobs created or retained by Recovery Act vendors were considered "indirect or induced jobs" that are explicitly excluded from reporting by OMB guidance.

³ OMB Memorandum M-10-08, *Updated Guidance on the American Recovery and Reinvestment Act- Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates*, issued December 18, 2009.

Recommendation:

We recommend that the NSF Director of the Division of Institution and Award Support, coordinate with the cognizant audit agency, as needed, to require UAA to (a) establish formal procedures for obtaining quarterly job estimates from vendors and (b) perform high-level logic checks to ensure the reasonableness of the quarterly job estimates reported by vendors.

UAA Response: UAA concurred with the recommendation and stated it has already established procedures and developed forms to collect quarterly job estimates from vendors and incorporate high-level logic checks to ensure reasonableness of the jobs reported. Additionally, the University stated that the new procedures were posted on its website on May 13, 2010 and sent to Principal Investigators. UAA also stated that it began collecting vendor jobs data in May 2010, shortly after the auditors brought this issue to its attention.

OIG Comments: UAA's response met the intent of our recommendation.

3. Procedures for Ensuring ARRA Vendors and Subrecipients Are Not Ineligible

OMB federal grant regulations⁴ restrict subawards and contracts to certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in federal assistance programs or activities. Accordingly, for contracts over \$25,000 and all subawards funded with federal assistance funds, recipients are required to obtain a certification from its contractor and/or subawardee regarding its Excluded Parties List System (EPLS)⁵ status and that of its principal employees.

However, UAA had not established a procedure requiring that EPLS certifications be obtained prior to contract award and documented in procurement files. As of March 31, 2010, the University had one ARRA vendor contract greater than \$25,000, where officials were unable to provide any documentation on the contractor's debarment or suspension status. While our EPLS query did not find that the subject contractor had been excluded from receiving federally-funded work, the lack of University procedures for consistently performing such checks increases the risk that ARRA funds, as well as any NSF grant funds, could be potentially awarded to debarred or suspended parties. Given the unprecedented accountability goals of the Recovery Act, such a risk is not acceptable.

⁴ 2 CFR Part 215.13, *Debarment and suspension, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-profit Organizations* (formerly OMB Circular A-110).

⁵ EPLS provide a single comprehensive list of individuals and firms excluded by federal government agencies from receiving federal contracts, federally-approved subcontracts, and certain types of federal financial and nonfinancial assistance and benefits. The EPLS is used to keep agencies abreast of administrative, as well as, statutory exclusions taken throughout the Federal Government.

This control weakness occurred because University procurement officials did not sufficiently practice sound procurement management practices and procedures. Cognizant officials stated that they do not consistently check the EPLS prior to entering into contractual obligations with vendors over \$25,000 and do not have an established process for documenting EPLS status in its contract files in cases where such certifications are obtained. In addition, while UAA's grants management officials stated that they do consult the EPLS prior to issuance of subawards, there is similarly not an established process for documenting the determination made in grant files.

Recommendation:

We recommend that the NSF Director of the Division of Institution and Award Support, coordinate with the cognizant audit agency, as needed, to require UAA to establish formal procedures requiring that the EPLS be reviewed and the status documented for all vendor contracts over \$25,000 and all subaward agreements to ensure neither the organization nor its principal employees are presently debarred, suspended, or proposed for debarment by any federal department or agency.

UAA Response: UAA concurred with the recommendation and stated that the EPLS is now reviewed throughout the procurement process and the documentation of such review is being noted on various forms.

OIG Comments: UAA's response met the intent of the recommendation.

Background, Objectives, Scope, and Methodology

Background:

Recovery Act Reporting Requirements:

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (Recovery Act or ARRA) was enacted to help the nation recover from a severe economic downturn. The Recovery Act emphasizes unprecedented levels of accountability and transparency over the \$787 billion of public funds committed by Congress, of which \$3 billion was received by NSF. The public expects that the use of ARRA funds will result in a positive impact to our nation's economy, including jobs creation and retention. Accordingly, Section 1512 of the Recovery Act requires recipients to submit reports on ARRA activity no later than 10 days after the end of each reporting quarter. The first ARRA quarterly report was required to be submitted for the period ending September 30, 2009.

ARRA reporting instructions are contained in the Office of Management and Budget (OMB) guidance. OMB is the primary agency responsible for providing Section 1512 reporting guidance used by federal agencies, grant recipients, and grant subrecipients. The federal guidance clearly establishes that recipients have primary responsibility for the quality of data submitted. In addition, NSF has issued supplemental guidance to its recipients for ARRA reporting.

OMB published a Recipient Reporting Data Model to define the 99 data elements required to be reported for each ARRA grant on June 22, 2009. Clarifications to the elements were published by OMB as a set of *Frequently Asked Questions* with extensive updates published to address both recipient and federal agency concerns; many of which were issued only a short time prior to the end of each ARRA reporting quarter. Some of the key data elements required to be reported include award number; quarterly award activities; funds received/invoiced; award expenditures; number of and description of jobs created or retained; number and dollar of subawards and vendor payments; project status; and final report indicator.

NSF Recipient Reviewed:

The University of Alaska - Anchorage (UAA) is the state's largest post-secondary institution and is one of the three regional university centers in the University of Alaska system. UAA operates with the mission to discover and disseminate knowledge through teaching, research, engagement, and creative expression. UAA is an open access university with academic programs leading to occupational endorsements; undergraduate and graduate certificates; and associate, baccalaureate, and graduate degrees. In the fall

of 2009, it had a student body of 15,662 students, 536 regular and 447 adjunct faculty members, and 1,133 other staff.

Sponsored programs, including research, service, and instruction occur in many departments across campus and are also a function of a number of UAA's centers and institutes. UAA's Office of the Vice Provost for Research and the Graduate School provides coordination with other units within the University of Alaska and Statewide Administration on matters of research, compliance, sponsored programs and federal initiatives. The Office of Sponsored Programs provides review and signatory authority for all sponsored proposals submitted to funding sources and the Grants and Contracts Services Office provides post-award administration of sponsored programs in concert with Principal Investigators and departmental administrators.

As of March 31, 2010, UAA had been awarded eight ARRA grants totaling \$3.4 million, which accounted for about one-quarter of its total NSF grant portfolio of \$12.8 million and 29 awards. ARRA expenditures totaled \$63,169 or 1.9 percent of total Recovery Act funds as of December 31, 2009 and \$310,588 (9.2 percent) as of March 31, 2010. At the time of our review, UAA had neither issued nor received any ARRA subawards funded by NSF. Furthermore, UAA had received six other Recovery Act grants totaling \$2.8 million from other federal agencies.

Review Objectives:

Our review objectives were to determine whether UAA had established an adequate system of internal controls to provide reasonable assurance that (1) Recovery Act funds were segregated and separately tracked in its project cost accounting system and (2) quarterly reporting was timely, accurate, and fully compliant with Section 1512 reporting requirements.

Scope and Methodology:

Our review focused on UAA's December 2009 ARRA report, but included review of its March 2010 report to assess the University's progress and improvements made in reporting processes. We reviewed the University's processes for compiling and reporting Recovery Act data elements. Of the 99 data fields required to be reported for each ARRA grant, we selected key elements that were either deemed critical to ensuring transparency or that were considered more at risk of being reported inconsistently or inaccurately. Accordingly, our review focused on the following eight data elements: the number of jobs created or retained, funds received/invoiced, expenditures, vendor payments, subaward amounts, quarterly activities/project description, project status, and final report status indicator. To gain an understanding of UAA's processes for compiling and reporting of the ARRA data elements, we conducted a limited review of internal controls related to our audit objectives. Our review included the following steps:

- Reviewed criteria for ARRA reporting including Section 1512 of the Recovery Act and OMB and NSF guidance.

- Reviewed UAA policies, procedures, and processes for collecting, compiling, reviewing, and reporting ARRA data.
- Interviewed cognizant UAA officials, including Principal Investigators, to gain an understanding of their role in the ARRA project management and reporting process.
- Performed analytical procedures to understand and evaluate UAA's Recovery Act reporting processes and related controls. This included the process for reporting quarterly activities/project description, project status, and final report status indicator; and ensuring ARRA funds were not awarded to debarred or suspended parties.
- Performed limited non-statistical sampling procedures to determine the reasonableness of the reported data elements when compared to supporting documentation for funds received/invoiced, expenditures, vendor payments, and subaward amounts.
- Reconciled the number of jobs created or retained to payroll records to determine the reasonableness of the number of jobs reported for a limited non-statistical sampling of ARRA grants. Our sample included jobs reported for three of eight grants in the December 2009 report.
- Discussed fieldwork results with UAA management officials.

The onsite UAA review work was performed from April 26 -30, 2010, with additional information obtained through January 2011. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for the findings and conclusions contained in the report.

To obtain a copy of the Auditee Response to this report,

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