

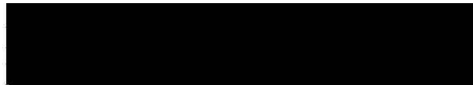


National Science Foundation • 4201 Wilson Boulevard • Arlington, Virginia 22230
Office of Inspector General

MEMORANDUM

DATE: JUL 2 - 2014

TO: Mary F. Santonastasso, Director
Division of Institution and Award Support



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

A handwritten signature in dark ink, likely of Dr. Brett M. Baker, is written over the "FROM:" line and extends to the right.

SUBJECT: NSF OIG Audit Report No. OIG-14-1-003
Independent Audit of Southwest Research Institute's (SwRI) Cash Management and American Recovery and Reinvestment Act (ARRA) Compliance on NSF Grants

This memo transmits the Defense Contract Audit Agency (DCAA) report regarding an audit of Southwest Research Institute's (SwRI) Cash Management and American Recovery and Reinvestment Act (ARRA) Compliance on NSF Grants. Audit objectives were to: (1) determine the cause of a reported \$1 million premature drawdown of NSF funds and any cost impact to NSF; (2) determine whether SwRI was properly accounting and reporting for six NSF ARRA (American Recovery and Reinvestment Act) awards in accordance with Office of Management and Budget (OMB) requirements; and (3) with respect to the accounting and reporting of ARRA funds on NSF awards during the FY 2009 and FY 2010 timeframe, assess the adequacy of SwRI's accounting system to: properly account for, segregate and report the use of ARRA funds; identify and segregate direct from indirect costs; and segregate unallowable costs.

Results of Audit

As for the reported \$1 million premature drawdown, the audit confirmed that SwRI had made a reporting error to NSF in its 3/31/2010 Federal Financial Report (FFR), but this error was corrected in SwRI's 6/30/2010 FFR. The error did not result in an overbilling to NSF, i.e., SwRI did not draw down against the overstated expenditure amounts reported in its 3/31/2010 FFR. Thus, there was no cost impact to NSF.

DCAA found that the reported discrepancy was not an accounting error that affected SwRI's books and records, but was rather a human input error in the amounts manually reported. During the FY 2009 and FY 2010 timeframe, DCAA determined that SwRI followed established procedures regarding requesting and disbursement of funds, and confirmed that no advanced cash drawdowns occurred or interest was earned on subject NSF grants. Thus, the audit disclosed no reportable compliance issues relating to SwRI's cash management practices on NSF grants.

The audit also found six ARRA reporting errors in SwRI's early quarterly ARRA reports (from 12/31/2009 through 9/30/2010) due to human error caused by lack of established and complete policies and procedures for completing ARRA reports. However, DCAA's review of selected subsequent ARRA reports found no error issues; also, DCAA noted that SwRI subsequently established ARRA reporting policies and procedures designed to prevent/reduce errors and increase accuracy (such as cross-checking for errors). Therefore, DCAA opined that the errors in the earlier ARRA reports were not of sufficient materiality to warrant a reportable control deficiency. At our request, DCAA provided additional detail regarding the ARRA reporting errors in a separate memorandum which we are providing to NSF (attached).

As for the adequacy of SwRI's accounting system for the ARRA awards, the audit found no reportable deficiencies during the FY 2009-FY 2010 timeframe. Within its audit scope and based on a judgmental sample (██████████) out of a universe of (██████████), DCAA found that SwRI properly excluded unallowable costs from invoices submitted to NSF, and that SwRI's indirect rates claimed on NSF grants were accurately computed and properly applied. Additionally, the audit determined that SwRI complied with the cost sharing requirements applicable to the six ARRA grants.

Attached are DCAA's audit report and its memorandum detailing the ARRA reporting errors.

OIG Oversight of Audit

To fulfill our responsibilities to ensure that DCAA complied with generally accepted government auditing standards (GAGAS), with the exception that DCAA does not have an external opinion on its quality control system as required by GAGAS, the Office of Inspector General:

- Reviewed DCAA's approach and planning of the audit;
- Monitored the progress of the audit at key points;
- Coordinated periodic meetings with DCAA and NSF officials as necessary, to discuss audit progress, findings and recommendations;
- Reviewed the audit report prepared by DCAA; and
- Coordinated issuance of the audit report.

DCAA is responsible for the attached audit report and memorandum, and the conclusions expressed therein.

We thank you and your staff for the assistance extended to us during the audit. If you have any questions about this report, please contact David Willems at (703) 292-4979 or Jannifer Jenkins at (703) 292-4996.

Attachments:

DCAA Audit Report No. 3311-2012W17900001, *Independent Audit of Southwest Research Institute's (SwRI) Cash Management and American Recovery and Reinvestment Act (ARRA) Compliance on National Science Foundation (NSF) Grants*, dated November 12, 2013

DCAA Memorandum 03311 820.5 2012W1790001, *Response to Additional Questions submitted by National Science Foundation Office of Inspector General (NSF-OIG) regarding Audit No. 3311-2012W17900001, dated November 12, 2013, at Southwest Research Institute (SwRI)*, dated March 20, 2014

cc: Alex Wynnyk, Branch Chief, CAAR
Michael Van Woert, Executive Officer, NSB
Ann Bushmiller, Senior Legal Counsel, NSB

Defense Contract Audit Agency



United States
Department of Defense



November 12, 2013

Independent Audit of Southwest Research Institute's (SwRI) Cash Management and American Recovery and Reinvestment Act (ARRA) Compliance on National Science Foundation (NSF) Grants

AUDIT REPORT NO. 3311-2012W17900001

RESTRICTIONS:

1. The contents of this audit report should not be released or disclosed, other than to those persons whose official duties require access in accordance with DoD 5200.1-R, Information Security, January 1997, Appendix 3, paragraph AP3.2.3. This document may contain information exempt from mandatory disclosure under the Freedom of Information Act. Exemption 4, of the Freedom of Information Act, which addresses proprietary information, may apply.

It is not practical to identify during the conduct of the audit those elements of the data which are proprietary. Proprietary determinations should be made in the event of an external request for access. Unauthorized disclosure of proprietary information violates 18 U.S.C. 1905 and, if the information is contractor bid or proposal or source selection information, 41 U.S.C. 2102. Any person who unlawfully discloses such information is subject to penalties such as fines, imprisonment, and/or removal from office or employment.



Audit Report No. 3311-2012W17900001

2. Under the provisions of Title 32, Code of Federal Regulations, Part 290.7(b), the Defense Contract Audit Agency will refer any Freedom of Information Act requests for audit reports received to the cognizant contracting agency for determination as to releasability and a direct response to the requestor.
3. The Defense Contract Audit Agency has no objection to the release of this report, at the discretion of the contracting agency, to authorized representatives of SwRI.
4. Do not use the information contained in this audit report for purposes other than action on the subject of this audit without first discussing its applicability with the auditor.



DEFENSE CONTRACT AUDIT AGENCY

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REFERENCES: NSF Interagency Award Number OIG-0948811
Relevant Dates: See Page 10

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SUBJECT OF AUDIT

As requested by National Science Foundation Office of Inspector General (NSF-OIG) Associate Inspector General for Audit on August 5, 2011, we examined records at Southwest Research Institute relating to a reported \$1 million premature drawdown of funds affecting National Science Foundation (NSF) grants and American Recovery and Reinvestment Act (ARRA) funding in FY2009-FY2010, to determine the cause of the drawdown and if there were any notable inadequacies affecting areas related to the reporting of NSF grants and ARRA funding during the noted time period.

SCOPE OF AUDIT

We conducted our examination in accordance with generally accepted government auditing standards (GAGAS), except Defense Contract Audit Agency (DCAA) does not currently have an external opinion on its quality control system as required by GAGAS. The most recent external quality control review opinion expired on August 26, 2009. GAGAS require that we plan and perform the examination to obtain reasonable assurance about whether the data and records examined are free of material misstatement.

Our examination included the following:

- As required by NSF, SwRI reports the status of funds quarterly, through the use of Federal Cash Transaction Reports (FCTRs). Due to the reported \$1 million premature drawdown of funds, we determined the cause and any cost impact attributed to SwRI's reported \$1 million drawdown of NSF funds which was subsequently reversed in the FCTR dated 6/30/2010;
- Review of SwRI's accounting and reporting for the six (6) NSF ARRA (American Recovery and Reinvestment Act) awards to determine whether SwRI is properly accounting and reporting for these six (6) FY2009 and FY2010 awards in accordance with Office of Management and Budget (OMB) requirements; and
- Solely with respect to the accounting and reporting of ARRA funds on NSF awards during the FY2009 and FY2010 timeframe, assess the adequacy of SwRI's accounting system to properly account for, segregate, and report the use of ARRA funds for NSF awards in accordance with OMB requirements; to identify and segregate direct from indirect costs on NSF awards; and to identify and segregate unallowable costs on NSF awards.

We evaluated the subject of audit using the applicable requirements contained in the:

- Federal Acquisition Regulation (FAR),
- Cost Accounting Standards (CAS),
- Office of Management and Budget (OMB) Circular A-133 Compliance Supplement (June 2012),



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- 2 CFR Part 215 (OMB Circular A-110) – Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations,
- National Science Foundation (NSF) General Grant Conditions and Grant Policy Manual,
- Public Law 111 – 5 – The American Recovery and Reinvestment Act (ARRA) of 2009,
- ARRA Terms and Conditions,
- OMB M-10-08 Updated Guidance on ARRA,
- Implementing Guidance on Use of ARRA Funds (OMB M-09-21)

We have not examined SwRI's entire accounting system and related systems or internal controls on a current basis. Please refer to the Contractor Organization and Systems section (page 8) for additional information about the systems. The scope of our examination reflects our assessment of control risk and includes those tests of compliance with applicable laws and regulations that we believe provide a reasonable basis for our opinion. Our examination does not provide a legal determination on SwRI's compliance with the noted requirements.

RESULTS OF AUDIT

In our opinion, SwRI's reporting error and subsequent corrective action relating to the reported \$1,000,018 discrepancy in reported NSF grant funds had no substantive and material effect on the actual cash disbursements and funding, resulting in no material cost impact to the NSF grant awards during the FY2009 and FY2010 timeframe (including the six (6) ARRA awards). The reported discrepancy was not an accounting error that affected SwRI's books and records, but was rather a human input error in the amounts manually reported within the quarterly FCTR for March 31, 2010. Our review disclosed that SwRI was properly reporting on NSF grants and ARRA funding during the time period identified in the scope of our audit. Our review also determined that, for the NSF grants within our scope, SwRI properly segregated direct and indirect costs and identified and excluded unallowable costs.

The results of audit are summarized below:

We determined the cause and any cost impact attributed to Southwest Research Institute's (SwRI) reported \$1 million drawdown of NSF funds, which was subsequently reversed in the Federal Cash Transaction Report (FCTR) dated 6/30/2010. Our scope included assessing SwRI's official explanation for why there was a reported funding drawdown of over \$1 million dollars affecting multiple NSF grant awards (including six [6] ARRA-funded contracts) and reviewing relevant documentation, in order to determine if SwRI's explanation is verifiable and reconcilable to applicable support documentation.

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SwRI explained that when the previous Quarterly Federal Cash Transaction Report (3/31/10) was generated, a manual reporting error occurred affecting the generation of the report, caused by a one-time human error during the input of cost information from SwRI's accounting system into that report, which caused the Unobligated Balance of Funds amounts for specific NSF grant awards (i.e. contracts) to be inputted as the Cumulative Cash Disbursement (or Federal Share of Expenditures) amount for that period. SwRI stated that this error only affected the reporting of cash disbursement and did not result in an overbilling to the Government. SwRI stated that the reporting error was not identified and corrected until the 6/30/2010 Quarterly Federal Cash Transaction Report was in the process of being issued. SwRI provided email printouts documenting the discovery of the reporting error by the cognizant NSF billing clerk and SwRI's attempt to take corrective action.

Based on documented emails, significant reductions in expenses were noted on the affected awards and prompted SwRI to determine if the cause was a mistake. Once the reporting error was identified, SwRI was directed by the cognizant NSF billing clerk that a revision to the previous report could not be done, but to rather roll over the correction to the 6/30/2010 report by inputting the correct total expenses for the then-current period and provide remarks within the report acknowledging the correction.

We received copies of the Federal Financial Reports and determined that there were no significant reversals outside of the 6/30/2010 reporting period. We reviewed the data within the noted FFRs and compared it to the documented costs and we noted the following:

- The correct cash disbursement for the affected NSF awards for the 3/31/2010 reporting period was \$189,911;
- The reported period cash disbursement for the affected NSF awards was \$1,801,613;
- The difference between the reported FFR cash disbursement and the Project Cost System generated cash disbursement for the affected NSF awards during the 3/31/2010 period resulted in a reported overstatement of \$1,611,702 expenditures;
- The actual cash disbursement for the affected NSF awards for the 6/30/2010 reporting period was \$611,685;
- The reported period cash disbursement for the affected NSF awards was -\$1,000,018, which represents the total corrective action; and
- The remaining difference between the previously reported overstatement and the combination of the actual cash disbursement and the noted corrective action to the 6/30/10 FFR, is \$0.

Based on our reconciliation/verification of SwRI's explanation for the reported cash disbursement reversal in the FFR for 6/30/2010, along with support documentation, we determined that, as the reporting error and correction had no substantive and material effect on

the actual cash disbursements and funding accounted for within SwRI's [REDACTED] system, there was no cost impact to the noted NSF grant awards (including the 6 ARRA awards).

We documented an understanding of the internal controls over compliance for Cash Management, Compliance Requirement C, including identifying relevant controls providing assurance that the compliance objective was achieved as related to the NSF grants and awards. Our review disclosed that there were no reportable issues between SwRI's documented policies and procedures covering cash management compliance during the FY2009 and FY2010 timeframe, in relation to Compliance Requirement C, Cash Management within the compliance supplement of OMB Circular A-133.

We attempted to ascertain the procedures established with NSF and SwRI to minimize the time between the transfer of Federal funds and the payout of funds. While we noted applicable criteria relating to payments and the use of advanced cash draws of funding, our review disclosed that there were no requirements relating to the timing of fund transfers and payouts within the individual NSF grant documentation we reviewed.

We judgmentally selected [REDACTED] requests, out of a universe of [REDACTED] applicable to the NSF grants affected by the \$1 million dollar drawdown during FY2009 and FY2010, and traced to supporting documentation showing that the costs, for which reimbursement was requested, were incurred prior to the date of the reimbursement request. Based on our testing, we determined that SwRI followed the required criteria for reimbursement requests, in that we did not note any invoiced costs submitted to NSF that were not recorded and paid for by SwRI within 30 days of the issuance of reimbursement requests.

We verified that established procedures to minimize the time elapsing between drawdown and disbursement were followed and noted whether interest was earned on Federal cash draws relating to the NSF grants affected by the reported \$1 million drawdown during FY2009 and FY2010. We determined that SwRI followed established procedures regarding requesting and disbursement of funds during the subject fiscal year timeframe. Additionally, we confirmed that no advanced cash drawdowns or interest were incurred on the subject NSF grants.

We reviewed SwRI's accounting and reporting for the six (6) NSF ARRA (American Recovery and Reinvestment Act) awards to determine whether SwRI is properly accounting and reporting for these six (6) FY2009 and FY2010 awards in accordance with Office of Management and Budget (OMB) requirements.

We obtained copies of quarterly ARRA reports for judgmentally selected NSF ARRA grants and reviewed the selected ARRA reports, in order to observe any errors within the reports relating to funds received and spent, as well as jobs created and/or saved. We determined that there were issues affecting the accuracy of the earlier ARRA reports that we selected, due to human error caused by a lack of established and complete policies and procedures for completing the ARRA reports. Based on our review of the subsequent selected ARRA reports, there were no

error issues; in conjunction, we noted that SwRI established ARRA reporting policies and procedures designed to prevent/reduce errors and increase accuracy (such as cross-checking for errors). Taking into account these facts, we believe that, while there were errors affecting the earlier ARRA reports we selected, these errors were not of a significant materiality and were subsequently corrected in the later ARRA reports within our selection pool; therefore, we do not believe there is a reportable control deficiency.

Solely with respect to the accounting and reporting of ARRA funds on NSF awards, we assessed the adequacy of SwRI's accounting system to properly account for, segregate and report the use of ARRA funds for NSF awards within our scope of testing, in accordance with applicable OMB requirements, which include the following:

- The ability to identify and segregate direct from indirect costs on NSF awards; and
- The ability to identify and segregate unallowable costs on NSF awards.

We identified the types of activities which are either specifically allowed or prohibited by the laws, regulations, and the grant agreements pertaining to the NSF program. We used the noted criteria to determine the presence of allowability issues within our testing of prime grantee (SwRI) and subrecipient invoiced costs.

We judgmentally selected [REDACTED] out of [REDACTED] transactions and verified that the transactions were for allowable activities and summarized the results. We determined that SwRI properly excluded unallowable costs on NSF awards within our scope, in that there were no invoiced costs submitted to NSF for reimbursement that were unallowable per the applicable NSF grant requirements and criteria.

We verified the accuracy of SwRI's [REDACTED] indirect costs to NSF grants during the fiscal year timeframe of our audit scope, through the use of [REDACTED] rates. We determined SwRI's application of indirect rates to [REDACTED] to NSF grants to be consistent with the [REDACTED] indirect rates that were current during the timeframe of our audit scope. Our review disclosed that the indirect rates applied to generate [REDACTED] reimbursement requests matched the [REDACTED] rates.

We reviewed all adjusting journal entries applicable to the noted NSF grants within our scope, to determine the presence of significant adjusting journal entries for [REDACTED] labor applicable to the NSF grants affected by the \$1 million dollar drawdown and evaluate their effect. Within the scope of our review, there were no adjusting entries that would establish the presence of reportable deficiencies affecting SwRI's accounting system or related internal controls, nor were there any adjusting entries establishing the presence of inappropriate and/or systemic mischarge of costs to the noted NSF grants within our scope.

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We determined that SwRI complied with the cost sharing requirements applicable to the six (6) NSF ARRA grants within our scope, in that SwRI was able to maintain monitoring of cost sharing by using a process that provided a consistent application of cost share that was recorded and accumulated throughout the completion of the grants.

We discussed the results of our audit with SwRI representatives [REDACTED]

[REDACTED] in an exit conference on November 7, 2013.

CONTRACTOR ORGANIZATION AND SYSTEMS

1. Organization:

Southwest Research Institute (SwRI) is an internationally active, independent, nonprofit, research and development organization founded in 1947 to help business, industry, and government solve scientific/technological problems. It provides engineering and technical support services primarily centered in San Antonio, Texas. The total revenue for fiscal year ended September 28, 2012, was [REDACTED] million. Approximately [REDACTED] percent of its revenues relate to government contracts and the remaining revenues relate to commercial contracts and subcontracts. SwRI currently has approximately [REDACTED] employees.

2. Business Systems (and related internal controls):

a. Accounting System

Pursuant to DFARS 252.242-7006 (final rule effective February 24, 2012), the overall accounting system criteria encompasses the elements of the control environment, accounting and billing systems, and IT general systems controls. In addition, elements of the labor, compensation, and indirect and ODC systems that DCAA previously reviewed also relate to the accounting system as a whole.

We have not examined SwRI's entire accounting system and related systems or internal controls on a current basis. Further, due to limitations on agency resources, we have not been funded to perform a full audit of the entire accounting system at SwRI.

However, under Audit Report No. 3311-2012W11090001 (dated December 13, 2012), we reported a significant deficiency in the contractor's accounting system pursuant to DFARS 252.242-7006(c)(16), Accounting System, that we considered to be a material weakness.

SwRI's cost accounting system is not able to adjust indirect billing rates on a retroactive basis following revisions made to its [REDACTED] rates or [REDACTED] rates under FAR 42.704 or 42.705. SwRI's policy is to not adjust its billings [REDACTED] established or [REDACTED] claimed in its incurred cost proposals until the final closing of the contract. Because SwRI's billings do not reflect the [REDACTED] or the [REDACTED] they would mutually agree to bill, we reported that this would be in noncompliance with DFARS 252.242-7006(c), which states in part that "The Contractor's accounting system shall provide for – (16) Billings that can be reconciled to the cost accounts for both current and cumulative amounts claimed..."

Failure to update billings on all contracts to reflect the [REDACTED] rates and update the schedule of [REDACTED] costs claimed and billed (Schedule I of its incurred cost submission) within 60 days, does not comply with FAR 52.216-7(d)(2)(v) (eff 6/30/2011) and FAR 52.216-7(e) (eff prior to FY2000).

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Although DCAA has not reviewed the overall accounting system, the prior [REDACTED] [REDACTED] provided a letter on May 1, 2013, stating that SwRI's accounting system was "acceptable" and "approved", "on the condition that SwRI will make billing adjustments using provisional billing rates from FY2012 and forward."

SwRI's accounting system segregates cost by contract or project under the general cost categories of labor, overhead, materials and supplies, travel, and other direct costs. The following is the rate structure established for bidding, billing, and historical cost and describes how the most significant indirect costs are allocated:

Major Indirect Cost Pool	Base
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

The [REDACTED] The variance (difference between billing and actual) [REDACTED].

b. .Billing System

Pursuant to DFARS 252.242-7006, the billing system is considered an element of the overall accounting system. We have not examined SwRI's billing system and related internal controls on a current basis. Further, due to limitations on agency resources, we have not been funded to perform a full audit of the entire accounting and billing system at SwRI.

However, flash Report No. 3311-2010W11010003 (dated April 20, 2011) stated that the contractor has inadequate policies and procedures for reviewing subcontractor invoices prior to payment and recommends corrective action to improve the reliability of its future cost claims. In our professional judgment, the deficiency noted could adversely affect the organization's ability to submit billings that are correctly prepared for government programs, projects, and contracts.

In addition, flash Report No. 3311-2010W11010001 (dated February 16, 2010) stated that SwRI has inadequate policies and procedures for preparing provisional billing and bidding rates and recommended corrective actions to improve the reliability of its future cost claims.

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Under Audit Report No. 3311-2010W17900004 (dated September 6, 2011), we reviewed SwRI's revised policies and procedures for developing the [REDACTED] provisional rate and determined that they continue to be inadequate. More specifically, the contractor's revised policies and procedures do not address the following topics as mentioned in the review cited above:

- the adjustment of billings and timing of adjustments throughout the year and over the life of the contract after rates [REDACTED] are claimed and settled,
- what circumstances preclude the contractor from [REDACTED] [REDACTED] rate adjustments.

In our professional judgment, the deficiency noted could adversely affect the organization's ability to submit billings that are correctly prepared for government programs, projects, and contracts.

3. Cost Accounting Standards:

SwRI is subject to Cost Accounting Standards. Audit Report No. 3311-2008W19100001 (dated March 26, 2010) stated that SwRI's CASB Disclosure Statement Revision No. 3 does not adequately describe SwRI's revised cost accounting practices. Accordingly, we recommended that SwRI submit a revised disclosure statement. On October 1, 2010, SwRI submitted a revised CAS disclosure statement (Revision No. 4). Currently, this revised submission has not been reviewed or accepted. In addition, SwRI provided a revised CAS disclosure statement (Revision No. 5), on June 6, 2011 which provided for a change in accounting practices for [REDACTED] Operations which becomes effective October 1, 2011. The auditor has completed fieldwork and testing for Disclosure Statement Revision Nos. 4 and 5, and the final results are currently going through management review.

DCAA PERSONNEL

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General information on audit matters is available at <http://www.dcaa.mil>.

RELEVANT DATES

Request for Audit: NSF-OIG Associate Inspector General for Audit – dated August 5, 2011; received August 5, 2011

Revised due date extension: November 22, 2013

AUDIT REPORT AUTHORIZED BY:

[REDACTED]
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AUDIT REPORT DISTRIBUTION

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IN REPLY REFER TO

03311 820.5 2012W17900001

March 20, 2014

MEMORANDUM FOR OFFICE OF INSPECTOR GENERAL, NATIONAL SCIENCE
FOUNDATION

ATTENTION: Mr. David Willems, Audit Manager (dwillems@nsf.gov)

SUBJECT: Response to additional questions submitted by National Science Foundation Office of Inspector General (NSF-OIG) regarding Audit No. 3311-2012W17900001, dated November 12, 2013, at Southwest Research Institute (SwRI)

As discussed on March 10 and 18, 2014, your office requested additional details regarding six ARRA reporting errors referred to in the subject audit report. While these immaterial errors did not warrant explicit discussion in our report conclusions, we are providing the following additional details per your specific request.

The following are the specific ARRA reporting errors noted during our review of the selected ARRA reports:

- 1) In the 12/31/2009 ARRA report for project 15192 (AST-0909166), the reported jobs [REDACTED]
- 2) In the 3/31/2010 ARRA report for project 15183 (AST-0909137), the reported jobs amount [REDACTED] calculation was missed.

[REDACTED]

March 20, 2014

SUBJECT: Response to additional questions submitted by National Science Foundation Office of Inspector General (NSF-OIG) regarding Audit No. 3311-2012W17900001, dated November 12, 2013, at Southwest Research Institute (SwRI)

- 3) In the ARRA reports for project 15183 (AST-0909137) for 3/31/2010, 6/31/2010, and 9/30/2010, the reported award date for the [REDACTED] sub-award is listed as 11/09/2009. However, the fully executed/signed award date is 3/4/2010 in the sub-award documentation. SwRI stated that the 11/09/2009 date in the ARRA reports is based on a purchase requisition that was issued before the sub-award was fully executed/signed. The period of performance for the sub-award is between 11/1/2009 and 8/31/2012, which reconciles to why a purchase requisition would be issued before the sub-award was fully executed/signed, as work was already being performed by the sub-recipient. SwRI stated that once the sub-award was fully executed/signed, the related date (3/4/2010) should have been what was listed within the 3/31/2010, 6/31/2010, and 9/30/2010 ARRA reports. While we consider this issue as a reporting error, we do not believe that it had a material effect upon other elements listed within the ARRA reports, and did not have a material effect on the related ARRA funding.
- 4) In the ARRA report for project 15183 (AST-0909137) for 3/31/2010, we noted that the reported Funds Invoiced/Received amount was \$11,311, while the applicable Project Cost System report information shows that the Amount Billed/Paid was \$14,345. The resulting difference was \$3,034 in unreported invoiced/received funds. SwRI stated that the difference resulted from an error caused by SwRI not properly updating the ARRA report. We noted that there were no other reporting errors affecting Funds Invoiced/Received amounts for project 15183 in the 6/31/2010 and 9/30/2010 ARRA reports.
- 5) In the ARRA reports for project 15183 (AST-0909137) for 3/31/2010 and 6/31/2010, we noted that the reported Expenditure Amounts were [REDACTED] and [REDACTED] respectively. The applicable Project Cost System report information shows that the Total Cost and Fee amounts for the 3/31/2010 and 6/31/2010 reporting periods were [REDACTED] and [REDACTED]. The resulting difference for the 3/31/2010 reporting period was \$9,673 in unreported expenditures. The resulting difference for the 6/31/2010 reporting period was \$7,636 in over-reported expenditures. SwRI stated that the difference affecting the Expenditure Amount for the 3/31/2010 ARRA report resulted from an error caused by SwRI not properly updating the ARRA report. SwRI stated the difference affecting the Expenditure Amount for the 6/31/2010 ARRA resulted from human error. We noted that there were no reporting errors affecting Expenditure amounts in the 12/31/2009 and 9/30/2010 ARRA reports for project 15183.

6) In the ARRA report for project 15192 (AST-0909166) for 12/31/2009, we noted that the reported Expenditure Amount was \$ [REDACTED] while the applicable Total Cost and Fee amount was \$5,422. The resulting difference was \$290 in unreported expenditures. SwRI stated that the difference affecting the Expenditure Amount for the 12/31/2009 ARRA report resulted from human error.

For the ARRA reporting timeframe prior to October 2010, SwRI stated that an early set of procedures were developed, [REDACTED] that would be affected by the ARRA reporting requirements related to the six noted ARRA/NSF grants. While the pre-October 2010 ARRA reporting procedures do not include [REDACTED] they do breakdown and identify the relevant areas affected by the ARRA reporting requirements, and the actions that need to be taken [REDACTED] s.

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