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The National Science Foundation Needs a Formal System for Followup on Audit Reports. HRD-78-147; B-133183. October 3, 1978. 7 pp. + 2 appendices (19 pp.).

Report to Richard C. Atkinson, Director, National Science Foundation; by Gregory J. Ahart, Director, Human Resources Div.

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Authority: National Science Foundation Act of 1950, as amended (42 U.S.C. 1861). OMB Circular A-73. Federal Management Circular 73-2.

Because of concerns over the effects of inflation on the research dollar and the propriety of costs charged to Federal funds by grantees and contractors, the effectiveness of the National Science Foundation's activities for ensuring that responsible officials act on audit reports assessing its operations and the expenditure of funds by contractors and grantees was reviewed. The Audit Office of the Office of Audit and Oversight is responsible for followup on reports which it issues to ensure that findings and recommendations are adequately considered and that corrective actions have been taken. Findings/Conclusions: The Foundation's informal approach to followup on audit reports resulted in a very low priority being assigned to followup. The Audit Office followed up on very few recommendations in its reports and did not follow up to determine whether the Division of Grants and Contracts acted on audit reports submitted by other audit agencies. The Division of Grants and Contracts closed its files on many audit reports concerning the Foundation's grantees and contractors without attempting to resolve the findings. Actions to resolve audit findings generally were not timely. Recommendations: The Director of the National Science Foundation should establish a formal system of followup on audit reports, providing for: control and accountability for audit reports, coordination with other agencies to act on audit reports involving more than one agency, reconciliation of differences or calling for a decision at a higher management level when officials disagree with audit findings and recommendations, schedules for assuring timely resolution of audit findings and followup action when improvements are promised, maintenance of records of actions taken and evidence to substantiate those actions, periodic reports to top management on the status of audit findings and

recommendations, evaluation of the effectiveness of the actions taken to resolve audit findings, and periodic evaluation of the effectiveness of the followup system. (RRS)

7917

REPORT BY THE U.S.

General Accounting Office

The National Science Foundation Needs A Formal System For Followup On Audit Reports

The National Science Foundation annually receives over 100 audit reports offering opportunities for improved Government operations and commenting on the propriety of expenditures.

GAO found that

- the Foundation did not follow up on the reports to make sure that recommendations were carried out,
- many findings and recommendations disputed by responsible officials were closed without resolution, and
- many reports questioning costs charged to grants and contracts were closed by the Foundation without action or actions taken were untimely.

The Foundation agreed with GAO's recommendation that it should establish formal policies and procedures for followup as required by the Office of Management and Budget.



HRD-78-147

OCTOBER 3, 1978



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

HUMAN RESOURCES
DIVISION

B-133183

The Honorable Richard C. Atkinson
Director, National Science
Foundation

Dear Dr. Atkinson:

We reviewed the effectiveness of the National Science Foundation's activities for ensuring that responsible officials act on audit reports assessing its operations and the expenditure of funds by grantees and contractors. The review was made because of concerns over the effects of inflation on the research dollar, as well as the propriety of costs charged to Federal funds by grantees and contractors.

We considered reports issued by both the Foundation's Audit Office and other audit agencies--primarily the Department of Health, Education, and Welfare's (HEW's) Audit Agency--as a result of their reviews at Foundation grantee and contractor locations. The findings are summarized below and are discussed in more detail in appendix I. Agency comments on the contents of the report are included as appendix II.

INTRODUCTION

Within the Foundation, the Audit Office, Office of Audit and Oversight, is responsible for followup on reports which it issues to ensure that findings and recommendations are adequately considered and that corrective action has been taken. These reports generally concern management and administration of Foundation programs and financial operations, although some reports also consider the acceptability of costs charged to Foundation grants and contracts. The Division of Grants and Contracts, Directorate for Administration, is responsible for resolving findings and recommendations in all audit reports concerning Foundation grantees and contractors. Most reports are received from HEW's Audit Agency.

Federal Management Circular 73-2 issued in September 1973 by the General Services Administration 1/ provides

1/Reissued on March 15, 1978, by the Office of Management and Budget (OMB) as Circular A-73 Revised. Agency responsibilities for acting on reports were not changed.

policies to be followed in auditing Federal operations and programs, including acting on audit reports. The circular requires that agencies designate officials responsible for followup on audit reports, establish time schedules for responding to and acting on audit recommendations, maintain records of actions taken, and issue periodic reports to management. In 1974 we also issued "Internal Auditing in Federal Agencies," which contained suggested procedures for followup on audit reports.

INFORMAL FOLLOWUP SYSTEM
NOT EFFECTIVE

Aside from designating officials responsible for followup, the Foundation has not developed formal policies and procedures to implement requirements of OMB Circular A-73 or procedures suggested by us. We found that the Foundation's informal approach to followup on audit reports resulted in the Audit Office and Division of Grants and Contracts assigning a very low priority to followup. The Audit Office followed up on very few recommendations in its reports and did not follow up to determine whether the Division of Grants and Contracts acted on audit reports submitted by other audit agencies. We found that the Division of Grants and Contracts closed its files on many audit reports concerning the Foundation's grantees and contractors without attempting to resolve findings. And actions to resolve audit findings generally were not timely.

Audit Office followup

The Audit Office issued 58 reports from January 1, 1974, through May 20, 1977, of which 27 identified deficiencies in Foundation operations. The reports contained 155 findings and recommendations. Foundation operations' officials disagreed with 50 findings and recommendations. So, the Audit Office closed these reports without further action. The Foundation does not have a procedure for resolving such differences at a higher management level. Of the remaining 105 findings and recommendations, the Audit Office advised us that followup was performed for 41. Workpapers were prepared to evidence the followup for 7 of the 41. As of December 31, 1977, the 114 findings and recommendations not followed up had been reported, on the average, about 2 years earlier. The time elapsed since reporting ranged from 7 months to 4 years.

The Audit Office annual work plans do not provide time for followup work. The Head of the Audit Office advised us that senior audit managers are expected to perform follow-up as time permits.

Division of Grants and
Contracts actions on
audit reports

At the time of our review the Division did not maintain central records of reports received. Using correspondence files and other Foundation records we determined that from January 1, 1974, through August 22, 1977, about 423 reports were received concerning Foundation grantees and contractors, of which 202 identified deficiencies such as questionable cost charges or lack of records to meet cost-sharing requirements. Many reports did not identify the amount of questionable costs because of the deficiency. However, 70 reports did identify questionable costs totaling over \$6 million. We selected 38 reports (27 closed and 11 open) to determine what actions the Foundation had taken to resolve the findings.

The review of Foundation files for 27 closed reports showed that:

- Thirteen were closed without any action to resolve the findings.
- Nine contained no evidence that any action was taken to resolve the findings or there was no evidence of final resolution of the findings.
- Four were settled with cash refunds or promises of corrective measures (followup was not scheduled).
- One file could not be located.

Also, nine reports closed without any action also concerned National Institutes of Health grants and contracts. That agency had either obtained settlements with the institutions involved or was negotiating settlements.

The review showed that actions taken to resolve audit findings were generally untimely. For example, the Audit Office initially reviews reports received and recommends actions for the Division of Grants and Contracts to resolve

findings. This initial step averaged 73 workdays for 22 of the 38 sample reports for which data was available to determine the time. For 7 of the 11 open audit reports 1 in the sample, the amount of time that elapsed before the Division of Grants and Contracts took its initial action was:

--An average of 128 days to write to the grantee for 3 reports.

--An average of 91 days to write to the Audit Office for 3 reports.

--278 days to contact the responsible audit agency about 1 report.

At the time the files were examined, 3 reports for which no action was indicated in the files had been on hand an average of 204 days. The file for the remaining report could not be found.

On May 16, 1977, a Post Award Projects Branch was established within the Division of Grants and Contracts to, among other purposes, emphasize adequate accountability for Federal funds including resolving findings concerning Foundation grantees and contractors. The information previously presented on resolving audit findings concerning Foundation grantees and contractors largely concerned reports received before the Branch was established.

Timeliness in acting on audit reports still appears to be a problem. The review of Foundation activities on all 24 reports received in the Branch from mid-May through November 1977 showed that:

--The Audit Office averaged 56 workdays to advise the Branch on a course of action.

--As of March 15, 1978, the files contained no information that the Branch had acted on 21 of the 24 reports.

1/We excluded the closed reports from this computation because so many were closed without any action or with no evidence that any action was taken.

As of December 1, 1977, the number of audit reports requiring action by the Division of Grants and Contracts had more than doubled since the Branch was created (from 38 to 83).

Reasons for this situation appear to be: (1) apparently, only one Branch staff member was working on resolving the findings (previously six grant managers were responsible, although they performed the task only as time permitted); and (2) the one Branch staff person spent considerable time trying to identify which audit reports were open because the Division had no central records controlling reports. As of June 1, 1978, controls still had not been developed to account for reports received.

As of April 5, 1978, the Branch had closed its files on five reports that identified deficiencies. Actions to resolve findings appear proper. However, since so few reports were closed that identified deficiencies and actions on two of those closed were started before the Branch was established, more reports identifying findings may need to be closed by the Branch before assessing its performance.

Assistance from the National Institutes of Health

In January 1978 you wrote the Director, National Institutes of Health, suggesting that its audit resolution staff resolve HEW's Audit Agency reports that concern Foundation grantees and contractors since most reports concern both the Foundation and the National Institutes of Health. As of August 30, 1978, an interagency committee for coordination and resolution of audit findings involving systems problems was established. The committee has agreed that, at the option of each agency, authority for resolving systems reports could be delegated to HEW. This procedure has not yet been finalized.

Reporting and evaluation of audit accomplishments

The Comptroller General's 1974 principles, standards, and concepts for internal auditing provide that procedures for followup on audit findings and recommendations should evaluate the effectiveness of the actions taken. Regular status reports on those actions should be prepared to keep management officials informed. In addition, OMB Circular A-73 Revised requires such periodic reports. Evaluations and reports are not being prepared even though

audit activities have resulted in over 100 reports for each of the past three fiscal years concerning the Foundation's operations.

CONCLUSIONS

A formal followup system considering the 1974 principles, standards, and concepts provided by GAO and the requirements contained in OMB Circular A-73 Revised is needed. The system should consider reports issued by the Foundation's Audit Office and externally prepared audit reports that concern the Foundation's operations and the expenditure of its funds.

The proposed procedures for obtaining help from the National Institutes of Health to resolve findings in audit reports prepared by HEW's Audit Agency is a positive step. Meanwhile, the Foundation should act to resolve findings of many reports on hand in the Division of Grants and Contracts. If the proposed procedures are implemented, the Foundation will still need to include reports of other auditing agencies in a formal followup system. Foundation management and audit staff need to know the results of audits of Foundation grantees and contractors to assess that part of their operations and to ensure that effective followup action is taken when deficiencies are identified.

RECOMMENDATION

We recommend that the Director of the Foundation establish a formal system of followup on audit reports. The system minimally should provide for:

- Control and accountability for audit reports.
- Coordination with other agencies to act on audit reports involving more than one agency.
- Reconciliation of differences or calling for a decision at a higher management level when operating officials disagree with audit findings and recommendations.
- Schedules for assuring timely resolution of audit findings and followup action when improvements are promised.

- Maintenance of records of actions taken and evidence to substantiate those actions.
- Periodic reports to top management on the status of audit findings and recommendations, and the results of actions taken.
- Evaluation of the effectiveness of the actions taken to resolve audit findings.
- Periodic evaluation of the effectiveness of the followup system.

AGENCY COMMENTS


By letter dated August 30, 1978, the Foundation advised us that it is taking action to develop a formal system of followup which will give recognition to the requirements of OMB Circular A-73, the procedures we recommended, and prior guidance by the Comptroller General's 1974 publication, "Internal Auditing in Federal Agencies." (See app. II.)

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. We are sending copies of the report to these committees; and to the House and Senate Subcommittees on HUD-Independent Agencies; House Committee on Science and Technology, and its Subcommittee on Science, Research and Technology; Senate Committee on Human Resources, and its Subcommittee on Health and Scientific Research.

We appreciate the courtesy and cooperation given to our representatives during the review.

Sincerely yours,


Gregory J. Ahart
Director

THE NATIONAL SCIENCE FOUNDATIONNEEDS A FORMAL SYSTEM FORFOLLOWUP ON AUDIT REPORTSINTRODUCTION

The National Science Foundation is an independent Federal agency established under the National Science Foundation Act of 1950, as amended (42 U.S.C. 1861 et seq.), 1970. The agency's general mission is to strengthen U.S. science by supporting both basic research and science education programs and applied research on selected national problems. The Foundation's fiscal year 1978 budget is \$864.9 million, of which about \$560 million is for research and development support (generally financed through grants) to universities and colleges. The Foundation ranks second only to HEW in providing research funds to universities and colleges.

Recently, there has been much concern over the alleged mishandling of research funds at colleges and universities and over the effects of inflation on the research dollar. Annually, the Foundation receives numerous audit reports which generally assess the efficiency and effectiveness of its program and administrative operations, or determine the propriety of financial operations, including those of its grantees and contractors. We examined the effectiveness of the Foundation's activities for ensuring that responsible officials act on audit reports.

Federal Management Circular 73-2 issued in September 1973 by the Office of Federal Management Policy, General Services Administration, provided requirements for auditing Federal operations and programs by executive departments and agencies. By requiring that each agency establish policies for acting on the findings and recommendations of audit reports, the circular recognized the importance of timely followup. Specifically, agency policies were to provide for (1) designating officials responsible for followup, (2) maintaining records of actions taken, (3) establishing time schedules for action, and (4) issuing periodic reports to management on actions taken. ^{1/} In 1974, GAO issued "Internal Auditing in Federal Agencies," which provides basic principles, standards, and concepts for developing and operating

^{1/}Circular 73-2 was reissued on March 15, 1978, by OMB as Circular A-73 Revised. Agency responsibilities for acting on reports were not changed.

internal audit organizations including suggested procedures for followup on audit reports.

Within the Foundation the responsibility for followup on audit reports is shared by the Audit Office in the Office of Audit and Oversight, Office of the Director, and the Division of Grants and Contracts in the Directorate for Administration.

Generally, the Audit Office is responsible for followup on the reports which it issues--referred to as internal audit reports--to ensure that recommendations are adequately considered and corrective action has been taken. Audit Office evaluations include the Foundation's programs, grant and contract policies, and the adequacy of accounting procedures and management controls within Foundation components and at grantee and contractor institutions.

The Division of Grants and Contracts is responsible for acting on all audit reports concerning the propriety of costs charged to Foundation grants and contracts. Most of these reports result from reviewing grants and contracts administered by institutions of higher education and are generally performed by HEW's Audit Agency under the provisions of Federal Management Circular 73-6. To avoid confusion and unnecessary work for educational institutions receiving grants and contracts from more than one Federal agency, the circular provides for one Federal agency to do all necessary auditing of Federal funds at a single institution. Audit results are furnished by the cognizant audit agency to the agencies concerned. HEW's Audit Agency is responsible for nearly all institutions of higher education. Participating agencies reimburse HEW for this service.

From January 1, 1974, through May 20, 1977, the Foundation's Audit Office issued 58 audit reports. We determined that from January 1, 1974, through August 22, 1977, the Foundation received about 423 audit reports from other agencies--principally HEW--concerning their reviews of grants and contracts at educational institutions. During fiscal years 1974 through 1977, salaries and travel expenses of the Foundation's Audit Office were about \$1.8 million and total billings received for services by other audit agencies were over \$2.3 million.

Scope of review

We evaluated the system used by the Foundation to ensure that findings and recommendations in audit reports are acted upon. We considered reports issued by the Foundation's Audit Office and audit reports issued by other audit agencies-- primarily, HEW's Audit Agency--as a result of their reviews at Foundation grantee and contractor institutions. In the evaluation we:

- Examined policies and procedures that the Foundation used to follow up on audit reports.
- Examined Audit Office records for 27 reports, disclosing deficiencies, issued from January 1, 1974, through May 20, 1977, for evidence of followup action on reports.
- Examined Division of Grants and Contracts records for 67 reports received from January 1, 1974, through November 22, 1977, to determine what actions were taken to resolve audit findings and recommendations.
- Interviewed Foundation officials responsible for acting on audit reports.
- Interviewed National Institutes of Health officials to determine what followup action they had taken on certain audit reports which concerned their grants and contracts.

FOUNDATION'S INFORMAL FOLLOWUP
SYSTEM IS INEFFECTIVE

In a July 7, 1976, letter, the Foundation was asked to identify its policies for acting on audit reports in accordance with the followup provisions of Federal Management Circular 73-2. On July 20, 1976, the Foundation's Acting Director, Office of Planning and Resources Management, advised that no written procedures had been issued to provide guidance to the Audit Office or the Division of Grants and Contracts for followup. The letter stated:

"The NSF [National Science Foundation] Audit Office is comprised of a staff of 12 professionals and 2 secretarial. Because of its small size the office operates essentially on the basis of informal procedures, relying

to a large extent on the close supervision of its audit staff. Consequently, no formal procedures have been issued for follow-up of audit report recommendations. Recently, however, I have requested that the office provide for a more systematic follow-up on audit report recommendations. The Senior Audit Managers are now summarizing findings and recommendations on each of their audits and will document the periodic follow-ups * * *."

The letter also stated that the Audit Office acts as the focal point for recommendations included in audit reports from other Federal audit agencies (primarily HEW's Audit Agency) and periodically follows up with the Division of Grants and Contracts to determine what actions have been taken.

Audit Office followup efforts

From January 1, 1974, through May 20, 1977, the Audit Office issued 58 audit reports. An examination of the reports showed that 28 did not identify deficiencies or contain recommendations and 3 concerned the correct balances of Foundation accounting records which the Audit Office staff reviews annually. We determined whether or not the Audit Office followed up on the remaining 27 reports which identified deficiencies in Foundation operations and recommended corrective actions. The 27 reports contained 155 recommendations or findings involving questioned costs which needed followup action. These matters concerned weaknesses in (1) administering grants and contracts, (2) procuring consultant services, (3) accounting records and controls, and (4) various other management matters.

The audit reports stated that responsible officials disagreed with 50 of the Audit Office's findings and recommendations, but the reports did not deal with the disagreements. In 1972 the Comptroller General issued "Standards for Audit of Governmental Organizations, Programs, Activities & Functions," which is intended to apply to all levels of Government. Concerning the preparation of audit reports the standards provide:

"Comments on report drafts should be objectively considered and evaluated, and the report presentations and conclusions should

give appropriate recognition to them. The advance comments and analyses of them should be fairly presented in the text of reports. An agency promise of corrective action should be noted in proper context but should not be accepted as justification for dropping a significant point or a related recommendation.

"When the advance comments oppose the auditor's findings or conclusions and are not, in his opinion, meritorious, the auditor should state his reasons for rejecting them. Conversely, he should drop a point or modify a position if he finds the argumentation to be meritorious."

An Audit Office official advised that disputed recommendations are considered closed when the report is issued. There are no procedures for resolving differences at higher management levels and the Audit Office does not follow up on disputed recommendations. The Comptroller General's 1974 principles, standards, and concepts for internal auditing states:

"Where operating officials disagree with the internal auditor's recommendations, mechanism(s) should be established to reconcile the differences or to call for a decision at a higher management level.

"Thus, reporting a finding, observation, or recommendation should not end an internal auditor's concern with the matter. From time to time he should ascertain whether his recommendations have received serious management consideration and whether satisfactory corrective action has been taken."

According to Audit Office officials, the responsible officials agreed with the remaining 105 findings and recommendations. However, we noted that reports did not always contain the responsible officials' comments when they agreed with the auditor's findings and recommendations. Audit Office officials advised that 41 of the 105 findings and recommendations were followed up. However, workpapers were prepared to evidence followup action for only 7 of the 41. Auditing standards issued by the Comptroller General in 1972 state:

"Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditor's opinions, judgments, conclusions, and recommendations."

OMB Circular A-73 Revised also requires that each Federal agency establish policies for following up on recommendations in audit reports which include " * * * maintaining a record of the action taken on recommendations * * *."

The following shows the time that had elapsed, as of December 31, 1977, since the findings and recommendations not followed up had been reported.

<u>Age in months</u>	<u>Findings and recommendations</u>		<u>Total</u>
	<u>Responsible officials agreed</u>	<u>Responsible officials disagreed</u>	
7-12	8	19	27
13-18	10	-	10
19-24	25	12	37
25-30	1	16	17
31-36	2	1	3
37-42	11	2	13
43-48	<u>7</u>	<u>-</u>	<u>7</u>
Total	<u>64</u>	<u>50</u>	<u>114</u>

The findings and recommendations not followed up had been reported, on the average, about 2 years earlier. Time elapsed since reporting ranged from about 7 months to 4 years.

The Head of the Audit Office advised that senior audit managers were responsible for followup, which was to be done as time permitted. There are three senior audit managers who are responsible for auditing assigned components of the Foundation. We noted that the annual work plans prepared by the Audit Office for fiscal years 1974 through 1978 did not budget any staff-days for followup work. In addition, time schedules were not established for followup on audit recommendations, as required by OMB Circular A-73 Revised.

Division of Grants and
Contracts efforts to act on
audit reports

At the time of our review the Division did not maintain central records of reports received. Using correspondence files and other Foundation records we determined that from January 1, 1974, through August 22, 1977, the Division of Grants and Contracts received about 423 audit reports concerning Foundation grantees and contractors. According to Foundation records about 221 reports did not identify any deficiencies; in 70, costs totaling over \$6 million charged to Foundation grants and contracts were questioned; in 132, procedural and/or accounting systems weaknesses were identified.

For the most part, reports disclosing procedural weaknesses identified such matters as failure to submit required technical and fiscal reports, lack of equipment or property records, and lack of records necessary to meet Foundation cost sharing requirements. Reports disclosing accounting systems' weaknesses concerned the institutions' financial management systems and involved deficiencies such as improper allocation of salary and wage costs to Federal grants and contracts. The weaknesses reported applied to the institutions' administration of all Federal grants and contracts. The reports disclosing procedural weaknesses and/or accounting systems' deficiencies did not identify the specific grant charges being questioned.

We reviewed the Division of Grants and Contracts records to determine the actions taken to resolve 38 of the 202 reports (about 19 percent) which contained audit findings. A table of random digits was used to select 21 reports that concerned questioned costs or procedural problems. The number of reports discussing accounting systems' weaknesses was not readily available from Foundation records. Therefore, we selected for examination the first 17 reports that concerned accounting systems' weaknesses as they were identified from correspondence files. As of August 12, 1977, 27 of 38 report files had been closed by the Division of Grants and Contracts and 11 were open.

Analyses of closed reports

Of the 27 reports for which files were closed, 13 pertained to accounting system weaknesses, 4 questioned cost charges totaling \$107,238, and 10 identified procedural weaknesses.

For the 13 reports concerning accounting systems' weaknesses:

- Eleven reports were closed by the Division of Grants and Contracts without any action being taken.
- One report was settled for the Foundation by another agency. As a result of that agency's negotiations with the university, the Foundation received a cash refund of \$39,755.
- One report received in April 1974 was closed without any action being taken. However, the Division of Grants and Contracts reopened the case in March 1976 when the audit agency that prepared the report sent the Foundation a letter stating that amounts applicable to HEW projects had been resolved. The letter showed that questioned costs applicable to Foundation grants totaled \$18,645. In December 1976 the Division wrote the grantee allowing charges of \$14,732, requesting a refund of \$3,016, and asking that a correction of \$897 be made to an ongoing project. As of May 1, 1978, the Division's file contained no evidence that the grantee had responded to the letter.

Nine of the 11 system reports closed by the Division of Grants and Contracts without action also applied to grants and contracts funded by the National Institutes of Health. During the periods covered by these audit reports, the Foundation awarded 1,503 grants or contracts (totaling over \$73.3 million) to the 8 institutions. As of November 25, 1977, the National Institutes of Health:

- Had negotiated settlements with the institutions on findings included in 4 reports, with cash refunds totaling \$280,000.
- Was still negotiating with the institutions on findings in three reports.
- Had resolved matters discussed in one report.
- Closed the file on 1 report, according to National Institutes' records, because corrective actions were taken and the small amount of National Institutes'

funding. (For the period covered by the audit report, the Foundation awarded 180 grants or contracts totaling \$8.4 million to the same institution.)

The review of the 4 closed reports involving questionable costs of \$107,238 charged to Foundation grants showed that:

- The Division of Grants and Contracts files contained no evidence of any action being taken for 2 of the reports which questioned costs totaling \$104,042.
- For 1 report, the Division wrote the institution on January 28, 1977, stating that the Foundation sustained the reported disallowance of \$2,918 and asking to be notified that the grant had been adjusted. The file contained no evidence that the grant was adjusted.
- The fourth audit report questioned costs of \$278 charged to a Foundation grant. On March 12, 1974, the grantee was requested to submit a revised fiscal report showing either an adjustment to the grant or to reflect proper accounting. The grantee replied on March 15, 1975, by sending a check for \$278 and a revised fiscal report. Although the grantee took a year to reply, the file showed no evidence of Foundation followup.

Examining 10 reports involving procedural weaknesses showed that:

- The problems identified in two reports were settled with the grantees. These reports cited procedural weaknesses involving (1) documentation for cost sharing, (2) equipment management, (3) purchase discounts, and (4) financial reporting. Although both grantees outlined corrective measures they had taken, no followup audits were requested by the Foundation to evaluate the effectiveness of the indicated measures in correcting reported weaknesses.
- The Division of Grants and Contracts wrote to the grantee in February 1977 about one report. The file contained no evidence that the grantee had replied.

- Files on two reports were closed by the Division without any action being taken.
- Division files contained no record that any action had been taken on four reports.
- The Division's file for one report could not be located.

Untimely actions to resolve audit findings

Audit reports are received in the Foundation's Audit Office. For reports identifying deficiencies the Audit Office prepares a memorandum to the Division of Grants and Contracts highlighting the findings and recommending the action to be taken. For 22 of the 38 sample reports, the Audit Office averaged 73 workdays to prepare the memoranda and send the reports to the Division of Grants and Contracts. Sufficient data was not available to determine this time factor for the other 16 reports.

After receiving an audit report, the Division of Grants and Contracts begins the necessary action to resolve the report's findings. Such actions may involve (1) writing the grantee or contractor requesting comments or additional information, (2) contacting the auditing agency to obtain additional information or clarification, and (3) contacting other agencies funding grants or contracts with the same institution. An Audit Office official informed us that the Audit Office did not follow up to determine if the Division of Grants and Contracts acted on audit reports submitted by other audit agencies.

We determined the number of working days that elapsed after receiving an audit report by the Division of Grants and Contracts before action was taken for the 11 open audit reports included in the sample. 1/ We noted that:

- The time taken to write the grantee averaged 128 days (3 reports).

1/We did not determine the number of working days that elapsed for the closed reports in the sample because of the high percentage closed with no action or with no evidence that any action was taken (19 out of 27, or 70 percent).

- The time required to advise the Audit Office about the report averaged 91 days (3 reports).
- The time taken to contact the responsible audit agency totaled 278 days (1 report).
- Three reports for which no action was indicated in the files had been on hand an average of 204 days, at the time we examined the files.
- The file for the remaining report could not be found.

As of December 1, 1977, it was determined that the Division of Grants and Contracts had 83 reports on hand with unresolved audit findings. The analysis showed that 24 reports, or about 29 percent, had been with the Division for over 1 year. The amount of time that reports had been in the Division were:

<u>Age in months</u>	<u>Number of reports</u>
0-3	17
4-6	17
7-12	25
13-18	12
19-24	7
25 or over	<u>5</u>
Total	<u>83</u>

Division officials said that audit reports were worked on only as time permitted and that time schedules were not established for acting on audit reports.

Actions on assist audit reports

Assist reports result from reviews made by other audit agencies responding to requests by the Audit Office that specific grants be reviewed as part of an Audit Office examination of a particular Foundation research program. Other audit agencies' findings are included as a part of an overall Audit Office report to Foundation management. After the Audit Office report is issued, the individual assist audit reports are sent by the Audit Office to the Division of Grants and Contracts for resolution.

We selected 3 Audit Office reports that included findings based on 16 assist audit reports to determine the actions taken by the Division of Grants and Contracts to resolve the reported findings. 1/ These 3 reports identified 29 procedural weaknesses and 21 instances of questioned costs and involved 20 grantee institutions or contractors. In December 1977, the review of both Audit Office and Division of Grants and Contracts records showed that action had been taken by the Division to resolve 19 questioned items (11 procedural weaknesses and 8 questioned costs). At that time, 18 procedural weaknesses and 13 items of questioned costs still had not been resolved. These findings were included in reports that, as of December 1977, had been issued from 21 to 34 months earlier.

An Audit Office official informed us that there is no followup with the Division of Grants and Contracts to determine whether action has been taken on these audit reports. Once the Audit Office report is issued, the Audit Office considers action on individual reports dealing with grantee institutions to be the responsibility of the Division and the Audit Office does nothing further.

Establishing the Post Award Projects Branch

Effective May 16, 1977, the Directorate for Administration established a Post Award Projects Branch within the Division of Grants and Contracts, to strengthen grant administration and to increase emphasis on assuring adequate accountability for Federal funds. The assigned tasks included the Division's responsibilities for acting on audit reports. Prior to creating the new Branch, various grant managers within the Division of Grants and Contracts had this responsibility.

Audit reports received in the Division of Grants and Contracts after the new Branch was established were examined to determine whether situations previously identified--untimely actions and inappropriate closing of files on issued reports--had improved.

1/The Audit Office reports also included findings resulting from three audits at grantee institutions that the Audit Office made. The Division of Grants and Contracts is also responsible for acting on these findings.

Timeliness in acting on audit reports still appears to be a problem. Twenty-four audit reports requiring action that were received by the Branch from mid-May through November 1977, were examined. The Audit Office averaged 56 workdays to prepare memoranda and send these reports to the Division of Grants and Contracts. As of March 15, 1978, letters were written to grantees concerning findings in 3 reports; however, no information in the files showed that any action had been taken by the Branch for 21 reports.

We estimate there were about 38 audit reports requiring action by the Division of Grants and Contracts when the new Branch was established in May 1977. As of December 1, 1977, the number of open audit reports totaled about 83--an increase of 45 reports during more than 6 months.

Several reasons contributed to the backlog of audit reports not acted on. For the most part, only one person in the Branch is responsible for acting on audit reports, whereas previously six grant managers were responsible for resolving audit findings. In addition, when the Branch was established, the Division of Grants and Contracts had no central record of open audit reports and considerable time was spent identifying reports which required action by the Branch.

As of April 5, 1978, the Branch had closed its files on five reports that identified deficiencies. The Branch's actions to resolve the findings appear proper. However, since few reports were closed that identified deficiencies and the actions on two were started before the Branch was established, more reports identifying findings may need to be closed by the Branch before assessing its performance.

Control over audit reports

Prior to establishing the Post Awards Project Branch, records of audit reports received by the Division of Grants and Contracts were not maintained to show the status and disposition of the reports. Although the Audit Office established a file for each report received and assigned a number before forwarding the report to the Division, the Division did not keep such records.

The reports were distributed to one of several grants managers responsible for resolving audit findings. Reports to management on resolving audit findings were not prepared. The Audit Office did not follow up to determine the Division's action, although it received copies of correspondence concerning the Division's actions.

The Branch spent considerable time identifying audit reports that had unresolved findings when it was established. As of June 1, 1978, controls still had not been developed to account for reports received. Control numbers are not assigned, central records or logs of reports are not maintained, and periodic reports to management on the status of each report are not prepared.

The Branch prepared a December 1, 1977, listing of unresolved audit findings by institution. The listing does not identify audit reports. Comparing the listing with a schedule of audit reports containing findings unresolved as of August 12, 1977, and reports closed since that time showed that findings in 19 reports were not listed.

Proposed settlement of audit reports
by the National Institutes of Health

In January 1978 the Foundation's Director wrote to the Director, National Institutes of Health, suggesting that its audit resolution staff resolve HEW's Audit Agency reports that concern Foundation grantees and contractors. The letter stated that most audit reports which concern the Foundation also involve the National Institutes of Health. As of August 30, 1978, an interagency committee for coordination and resolution of audit findings involving systems problems was established. The committee has agreed that, at the option of each agency, authority for resolving systems reports could be delegated to HEW. This procedure has not yet been finalized.

Reporting and evaluating
audit accomplishments

The Comptroller General's 1974 principles, standards, and concepts for internal auditing states:

"Primary responsibility for action and followup on audit recommendations rests with management. A good control system will include procedures under which management officials will evaluate the effectiveness of actions taken on audit recommendations.

"A desirable procedure is to have regular status reports prepared for the information of management officials and the internal auditors, as to actions taken on audit recommendations. Also, provision

should be made for regular inquiry into whether proposed corrective actions have, in fact, been taken and their effectiveness. The responsibility for such followup should be that of management officials, but the internal auditors should participate."

In addition, OMB Circular A-73 Revised provides that each Federal agency will establish policies for submitting periodic reports to agency management on action taken on audit recommendations.

The Foundation has not established policies for routine reporting to higher level management on the effectiveness of actions taken on audit findings and recommendations. No periodic formal reports to the Foundation's Director on results of Audit Office activities or reviews being conducted by other audit agencies concerning the Foundation's grantees and contractors exist. These audit activities resulted in over 100 reports concerning the Foundation's operations for each of the past 3 fiscal years.

CONCLUSIONS

Aside from fixing responsibility for acting on audit reports, the Foundation has not established policies and procedures to establish an effective followup system for resolving audit findings and recommendations and assuring the adequacy of corrective measures promised by responsible officials. A formal followup system considering the 1974 principles, standards, and concepts issued by GAO and the requirements provided by OMB in Circular A-73 Revised is needed. The system should consider all reports issued by the Audit Office and externally prepared audit reports that concern the Foundation's operations and the expenditure of its funds.

We believe the proposed procedures for HEW to resolve findings in audit reports prepared by its Audit Agency for all agencies is a positive step. While this proposal is under consideration, the Foundation should act to resolve the findings of the many reports on hand in the Division of Grants and Contracts. Also, if proposed procedures are implemented, we believe the Foundation will still need to include other auditing agencies' reports in the formal followup system. Foundation management and audit staff need to know the results

of audits of Foundation grantees and contractors to assess that part of their operations and to ensure that effective followup action is taken when deficiencies are identified.

RECOMMENDATION

We recommend that the Director of the Foundation establish a formal system of followup on audit reports. The system minimally should provide for:

- Control and accountability for audit reports.
- Coordination with other agencies to act on audit reports involving more than one agency.
- Reconciliation of differences or calling for a decision at a higher management level when operating officials disagree with audit findings and recommendations.
- Schedules for assuring timely resolution of audit findings and followup action when improvements are promised.
- Maintenance of records of actions taken and evidence to substantiate those actions.
- Periodic reports to top management on the status of audit findings and recommendations, and the results of actions taken.
- Evaluation of the effectiveness of actions taken to resolve audit findings.
- Periodic evaluation of the effectiveness of the followup system.

NATIONAL SCIENCE FOUNDATION

WASHINGTON, D.C. 20560

OFFICE OF AUDIT
AND OVERSIGHT

August 30, 1978

Mr. Gregory J. Ahart
Director
Human Resources Division
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Ahart:

This is in response to the GAO draft report entitled, "The National Science Foundation Needs a Formal System for Followup on Audit Reports."

The Foundation agrees with the report's primary recommendations to establish a formal system of followup on audit reports. We have taken action to develop a formal system of followup which will give recognition to the requirements of Office of Management and Budget Circular A-73 and the procedures suggested by the General Accounting Office in the draft audit report and its 1974 publication, "Internal Auditing in Federal Agencies."

In the past the Foundation's followup system operated essentially on an informal basis. We recognized, however, that improvements were needed to expedite the resolution of audit report findings. Consequently, actions were taken in this respect which included a reorganization in May 1977 in the Division of Grants and Contracts to establish the Award Accountability Branch initially named the "Post Award Projects Branch," and efforts to have DHEW audit resolution staff resolve the HEW audit agency reports that also concern Foundation grantees and contractors.

Other efforts currently under way or planned by the Foundation to establish a followup system to assure appropriate and timely disposition of audit report recommendations include (1) the issuance of an NSF Circular setting forth the requirements for formal followup on audit reports, (2) development by the Office of Audit and Oversight of a computerized data base to provide NSF management timely information on the status of audit reports, (3) establishment by DGC of an inventory of audit reports received indicating the nature of audit findings, and

(4) monthly meetings between the Foundation Director and the Director, Office of Audit and Oversight, to review audit and oversight problems, including the resolution of audit report findings and recommendations. The proposed NSF Circular will provide for procedures suggested by GAO in the draft audit report as follows:

- control and accountability for audit reports,
- coordination with other agencies to act on audit reports involving more than one agency,
- reconciling differences or calling for a decision at a higher management level when operating officials disagree with audit findings and recommendations,
- schedules for assuring timely resolution of audit findings and followup action when improvements are promised,
- maintaining records of the action taken and evidence to substantiate the actions,
- periodic reports to top management on the status of audit findings and recommendations, and the results of actions taken,
- evaluation of the effectiveness of the actions taken to resolve audit findings, and
- periodic evaluation of the effectiveness of the followup system.

While many of the specific findings cited in the audit report have not been addressed in this response, we believe the actions taken to date, together with those planned for establishing a formal followup system, will result in the improvements desired by both the GAO and Foundation.

As a matter of information, we are pleased to report that considerable progress has been made with respect to our coordination efforts with the DHEW audit resolution staff. The staff recently established an interagency committee for coordination and resolution of audit finding involving systems problems. NSF is represented on this committee by Kenneth B. Foster, Director, Division of Grants and Contracts. At a meeting on July 21, 1978, the committee agreed, at the option of each agency, that authority for resolving systems audits could be delegated to DHEW. We believe this effort represents a major step in the

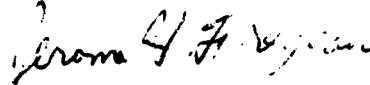
resolution of audit report findings involving more than one Government agency.

We also note that a regular end-of-the-month status report was instituted after GAO staff informally brought to our attention the apparent delays in the Audit Office in analyzing audit reports from other agencies; since last April, no such status report has shown an audit report backlogged by as much as four weeks.

The Foundation management recognizes that much remains to be done; we believe the final audit report should recognize the constructive steps that have been taken to resolve audit findings and the NSF efforts with DHEW to have a single agency negotiate settlements with grantee institutions.

We appreciate the efforts of the GAO audit team and will make a concerted effort to implement the report recommendations.

Sincerely yours,



Jerome H. Fregeau
Director
Office of Audit
and Oversight