

**NATIONAL SCIENCE FOUNDATION**  
4201 Wilson Boulevard  
ARLINGTON, VIRGINIA 22230



**OFFICE OF  
INSPECTOR GENERAL**

**MEMORANDUM**

**DATE:** March 15, 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 –  
American Museum of Natural History, Report Number OIG 11-1-007

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 American Museum of Natural History (AMNH or Museum) 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 AMNH had established an adequate internal control system for segregating and tracking the Museum's three Recovery Act grants totaling \$1.8 million and had submitted timely ARRA quarterly reports. However, the Museum lacked a thorough understanding of the intricacies of ARRA reporting requirements to ensure the most complete and accurate data was reported that is fully compliant with Section 1512 requirements. As a result, our review of the December 2009 and March 2010 quarterly reports disclosed that three of the eight data elements reviewed were incorrectly reported. Specifically, AMNH accurately reported the following five data elements: expenditures, funds received/invoiced, subaward amounts, project status, and final report status. However, the Museum had not established adequate processes to accurately report the number of jobs created/retained, quarterly

activities/project description, and vendor payments. In addition, as of March 2010, AMNH had overcharged \$3,072 or ██████████ of indirect costs on one of its three ARRA grants.

These exceptions occurred primarily because AMNH lacked a comprehensive understanding of the OMB reporting requirements and supplemental guidance. Given the volume and complexity of the OMB guidance, the last minute changes to the guidance each quarter, and the volume of ARRA data required to be reported within 10 days after the end of each quarter, this was understandably a difficult process for any ARRA grant recipient. Nevertheless, given the unprecedented accountability and transparency goals of the Recovery Act, the development of effective processes for ensuring ARRA data quality are critical factors for fulfilling the Museum's responsibilities under its NSF award agreements. Without complete and accurate reporting of ARRA project information and activities, the public and other stakeholders cannot clearly determine if Recovery Act funds are being spent as intended, thus undermining the integrity of the stimulus funding and refuting its promise of increased accountability and transparency.

A draft of this memorandum report was provided to AMNH management for review and comment. In addition, continuous verbal communication of our results was provided to Museum officials during the review so that AMNH could take timely actions to implement improvements needed to promote the highest degree of transparency and accountability over Recovery Act funds. AMNH concurred with audit recommendations 1.2, 2.1, and 2.2. Specifically, the Museum has updated its federal grant policies and procedures to include key aspects of ARRA reporting, including establishing internal data quality review processes to ensure the accuracy of its quarterly reports. It has also been exploring alternative indirect cost calculation and review procedures to ensure accurate application of the indirect cost rate to its federal grants.

With regard to recommendation 1.1, we have redirected the recommendation from NSF to AMNH in the final audit report. The recommendation directs the Museum to monitor evolving OMB and NSF Recovery Act guidance to ensure responsible officials acquire the necessary knowledge and expertise in ARRA reporting requirements. We have asked AMNH to provide its position on this new recommendation in its Corrective Action Plan during the formal NSF audit resolution process.

While AMNH concurred with the audit recommendations, the Museum did not agree that it had inaccurately reported the number of ARRA jobs. The Museum believed that because the OMB reporting guidance was not always clear and specific, its decision not to report any jobs for tenured faculty, small vendors, and student trainees was appropriate based on its best "reasonable judgment" in interpreting the OMB reporting requirements. We have provided our response to each of AMNH's comments after recommendation 1.2a to reaffirm our audit conclusions. The Museum's written comments in their entirety are included as 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 Corrective Action Plan. The Plan should detail specific AMNH actions taken and/or planned to address each audit

recommendation. Milestone dates should be provided for corrective actions not yet completed. Each audit recommendation should not be closed until NSF determines that AMNH has adequately addressed the recommendations and proposed corrective actions have been satisfactorily implemented.

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 Jennifer Miller at extension 8532.

cc: Mary Santonastasso, Division Director, DIAS  
Dale Bell, Deputy Division Director, DIAS  
Alex Wynnyk, Branch Chief, CAAR/DIAS

## **Audit Findings and Recommendations**

### 1. Improvements Needed in Reporting of ARRA Jobs, Quarterly Activities, and Vendor Payments

AMNH incorrectly reported several key data elements in its ARRA reports for the December 2009 and March 2010 reporting periods. For the December reporting period, the Museum did not establish adequate processes to correctly report number of jobs created/retained, quarterly activities, and vendor payments. The same reporting errors continued in the second reporting period except that AMNH did correct the vendor payment information.

#### Job Estimates Reported Need To Be Complete and Accurate

Section 5.2 of OMB Memorandum M-10-08<sup>1</sup> defines a job as one in which wages or salaries are paid for or reimbursed with Recovery Act funding. Using this definition, recipients are required to report an estimate of the number of jobs created or retained for each ARRA reporting quarter. Also, job estimates are required to be reported for vendors and subrecipients funded under Recovery Act projects.

However, contrary to OMB requirements, AMNH had not established and implemented adequate processes for ensuring that tenured faculty, vendors, and student trainees were included in the estimate of ARRA jobs created and/or retained. Consequently, no job activity was reported for any of its Recovery Act awards through the March 2010 reporting quarter. Specifically, our review disclosed the following job reporting errors:

- A tenured faculty member, who charged \$2,472 salary to an ARRA grant, was not included in the jobs reported because Museum officials believed tenured faculty did not fit the OMB criteria of an ARRA “job retained.”
- Vendor job estimates were not obtained during any of the ARRA reporting quarters for payments totaling \$21,540 because AMNH officials were not aware of the OMB requirement for reporting such jobs. Our review, however, did not identify that any of these small vendor payments likely resulted in any ARRA jobs that should have been reported. Nevertheless, establishing appropriate procedures for obtaining job estimates from vendors is particularly important given that one ARRA grant has significant funds budgeted for a major equipment purchase that could potentially require the reporting of a large number of ARRA vendor jobs.

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<sup>1</sup> OMB Memorandum M-10-08, *Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates*, was issued December 18, 2009.

- Reporting of jobs for ARRA-funded student trainees was not determined because AMNH did not consider whether such students should be included in the Recovery Act job estimates. As such, jobs were not reported for eight students who each received \$4,000 in stipend payments during the summer of 2009 for participating in the Research Experiences for Undergraduates (REU) program. Specifically, the Museum received a \$475,000 ARRA grant for the REU program for the five summers from 2009 through 2013. Officials stated that no jobs were reported for the eight student trainees because specific NSF Recovery Act guidance addressing this matter was not issued until May 2010.<sup>2</sup>

### Quarterly Project Activities Require Complete and Clear Reporting

OMB Memorandum M-09-21,<sup>3</sup> Section 2.1, requires recipients to provide descriptions of projects and activities funded by the Recovery Act. Accordingly, the quarterly activities/project description data field must be sufficiently clear to facilitate the general public's understanding of how Recovery Act funds are being spent. OMB supplemental guidance instructs recipients to include a description of the overall purpose of the project as well as the expected outcomes and results.

However, our review found that AMNH had not established sufficient processes to ensure that adequate descriptions of project activities were consistently provided in its quarterly reports. Specifically, our review of the December 2009 and March 2010 reports showed that while two of the three ARRA reports provided adequate descriptions of quarterly project activities, the remaining report only contained a project description. Discussions with the project's Principal Investigator disclosed that ARRA funds were used to fund travel to perform research at an offsite facility during both periods. However, the Museum failed to communicate to the public the current research endeavors underway at the offsite facility and the related project outcomes in either ARRA report. This occurred because the Museum did not provide any procedural guidance to its Principal Investigators, who were responsible for completing this data element, to ensure reporting compliant with OMB requirements.

### Vendor Payments Less than \$25,000 Need To Be Accurately Reported

OMB Memorandum M-09-21, Section 2.3, requires recipients to report on a cumulative basis the total number and dollar of vendor as well as subaward payments under \$25,000 in each quarterly ARRA report. However, our review found that AMNH mistakenly did not report any vendor payment information in its December 2009 report. Specifically, the Museum did not report five vendor payments totaling \$17,375 in the December 2009 report for two of three ARRA grants because cognizant officials thought such payment information was only required

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<sup>2</sup> OMB and NSF reporting guidance did not specifically address whether student trainees receiving stipend support should be included in ARRA jobs reported. However, NSF issued guidance in May 2010 clarifying that such trainees should be included in the ARRA job estimates.

<sup>3</sup> OMB Memorandum M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*, was issued June 22, 2009.

for subawards. When it became aware that such vendor information was required by OMB guidance, it took action to correct the information in the March 2010 report.

### Increased Public Scrutiny on the Use of Recovery Act Funds

As a result of the errors identified in three key ARRA data fields, AMNH had not effectively achieved the unprecedented accountability and transparency goals required by the Recovery Act. It is essential that the American public and other stakeholders be provided accurate information on the number of ARRA jobs created/retained as well as the total amount and ways funds have been expended on the Museum's three ARRA grants totaling \$1.8 million. Pursuant to its NSF grant terms and conditions, AMNH is obligated to provide accurate and complete quarterly reporting on how ARRA funds have been utilized to help stimulate the country's economic recovery.

Specifically, the lack of established AMNH processes for properly reporting job estimates for tenured faculty, vendors, and student trainees resulted in no reported job impact for any of the Museum's Recovery Act expenditures of \$110,770 as of March 31, 2010. ARRA job impact is perhaps one of the most scrutinized data elements and all stakeholders, including the media, are extremely interested in how the Recovery Act funding has helped reduce the rate of unemployment in our country. In the current economic downturn, every ARRA job created and retained and consequently reported makes a difference.

Also, AMNH had not fulfilled its obligation to provide information to the public on how Recovery Act funds were spent by not consistently providing a comprehensive description of quarterly project activities on all three of its ARRA grants. Financial information alone is not always a clear indicator of the progress of a research project, thus clear narrative descriptions of project activities is essential. For example, AMNH's March 2010 report for one ARRA grant did an excellent job communicating to the public that planning activities were in progress by describing that minor renovation work and the purchase of equipment would soon be underway. Such information could not be derived by looking at financial data elements because there were no reportable expenditures to date. AMNH should endeavor to maintain this level of transparency for all of its Recovery Act awards.

### Factors Contributing to Reporting Weaknesses

These reporting errors occurred because AMNH lacked (i) a thorough understanding of the intricacies of federal ARRA reporting requirements, (ii) formal established procedures for ARRA reporting, and (iii) an adequate data quality review process to preclude reporting errors. According to cognizant AMNH officials, the volume and vagueness of OMB reporting guidance were obstacles for developing a proficiency in ARRA reporting. As such, we found that Museum officials were unaware of the specific reporting requirements for key ARRA data fields.

Also, the Museum lacked adequate procedural guidance for its ARRA reporting process. Although AMNH had developed written non-ARRA grant management policies and procedures, it lacked sufficient formal procedures for reporting and complying with new ARRA grant requirements. Given the Museum has a relatively small number of Recovery Act awards, it is not expected that AMNH develop extensive policies and procedures for compiling and reporting

ARRA data. However, there does need to be some guidance, albeit limited guidance, established to provide adequate internal control measures to meet the enhanced accountability and transparency goals required by the Recovery Act.

Lastly, contrary to Section 4.2 of OMB Memorandum M-09-21,<sup>4</sup> AMNH had not established a sufficient formal data quality review process to ensure all ARRA data elements are accurate, complete, and fully compliant with Section 1512 reporting guidance. Essentially, the Manager of Restricted Funds, who was directly responsible for compiling and entering the financial ARRA data elements into the quarterly report, reviewed only the programmatic data elements completed by the Principal Investigators. However, AMNH did not have a review process to ensure the accuracy and completeness of the financial ARRA data elements by evaluating supporting documentation. Sound internal control requires that sufficient documentation be maintained with ARRA reports to show any calculations and supporting data used to compile and report key data fields.

Recommendations:

We recommend that the NSF Director of the Division of Institution and Award Support require AMNH to:

- 1.1 Establish and implement a policy to ensure staff members responsible for ARRA reporting stay informed of OMB and NSF changes and updates to Recovery Act reporting requirements and seek OMB and/or NSF technical assistance for clarification of any ambiguities.

OIG Comments:

This recommendation was redirected from NSF to AMNH in the final audit report. Therefore, the Museum should provide its position on the new recommendation and any actions taken and/or planned in its Corrective Action Plan to NSF during the formal audit resolution process.

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<sup>4</sup> 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 June 22, 2009) 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 performing data quality reviews to identify reporting errors and making appropriate and timely corrections.

1.2 Improve internal control measures for ARRA reporting as follows:

- a. Develop policies and procedures covering key aspects of ARRA reporting, including at minimum processes for reporting jobs for faculty, vendors, and student trainees; complete quarterly activities; and vendor payment information.

American Museum of Natural History Response:

AMNH concurred with the recommendation and stated it has updated its policy and procedures covering key aspects of ARRA reporting, including those mentioned above. However, the Museum disagreed with our audit finding that it had not accurately reported ARRA jobs. AMNH believed that because the OMB reporting guidance was not clear, the Museum's decision not to report any jobs for tenured faculty, small vendors, and student trainees was appropriate based on its best "reasonable judgment" in interpreting the OMB reporting requirements.

OIG Comments:

Although the Museum disagreed with certain aspects of the audit finding, AMNH actions taken to develop formal ARRA reporting policies and procedures are fully responsive to the audit recommendation. Such written guidance will help ensure accurate, complete, and compliant ARRA reporting in the future and clearly document AMNH interpretation of any ambiguity in the OMB reporting requirements to meet the specific needs of its ARRA grants.

With regard to AMNH's disagreement with our audit finding on ARRA jobs reporting, we offer the following comments to reaffirm our conclusions:

- AMNH disagreed with our assessment that jobs should have been reported for a tenured faculty member who charged salary to an ARRA grant. The Museum believed that the OMB guidance, effective during the September 2009 reporting quarter, allowed the Museum to use "reasonable judgment" in not reporting the faculty member as a "job retained." However, NSF supplemental guidance,<sup>5</sup> effective during the September 2009 reporting quarter, explicitly stated that any personnel costs charged to an ARRA project should be reported as a "job retained." Therefore, we reaffirm that the tenured faculty member working on the ARRA project should have been included in the reported jobs estimate.
- AMNH stated that in reporting vendor jobs that "basing the job estimate on cumulative amounts is inconsistent with ARRA job reporting requirements which are not cumulative in nature." The Museum has misunderstood our statement in this regard; as we are not suggesting that vendor job estimates be based on cumulative vendor payments. Rather, our position is that AMNH needed to

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<sup>5</sup> Data field 31, *Number of Jobs*, of NSF's ARRA Recipient Quarterly Reporting Instructions (dated September 28, 2009) states that "Recipients are advised that if an individual works on the NSF funded project, and the recipient charges associated personnel costs to the ARRA project, this should be reported as a job retained. . ."

establish formal policies and procedures to ensure jobs estimates were obtained from vendors, as required by OMB guidance, because the Museum lacked any written ARRA reporting procedures at the time of our review. However, we have revised the applicable sentence in the audit finding to provide clarification so that other readers will not similarly misunderstand our statement on this matter.

- AMNH stated that because OMB guidance, effective for the September 30, 2009 reporting period, did not clearly define student support as a reportable ARRA job, the Museum exercised appropriate “reasonable judgment” in not reporting any jobs for the eight student trainees funded under the ARRA project. While we agree with the Museum that neither OMB nor NSF guidance at the time explicitly addressed whether such student trainees should be included in ARRA job estimates, we did not find any evidence that AMNH had taken any actions to contact either NSF or OMB for clarification on this matter. Good business practices dictate that the Museum should have contacted NSF for clarification in this regard. This was particularly important given that one of the major purposes of Recovery Act funding was to create jobs and eight students were a relatively large number of individuals participating on an ARRA grant. As such, proactive actions were warranted to ensure the enhanced ARRA accountability and transparency goals were achieved.
- b. Establish a formal data quality review process to ensure its ARRA quarterly reports are accurate and complete.

American Museum of Natural History Response:

AMNH concurred with the recommendation and agreed that data quality review is an important part of ensuring complete and accurate reporting. As such, AMNH officials stated that since June 2010, the Museum has implemented updated procedures for internal reviews of reports prior to uploading to Federalreporting.gov and has amended its policy to formally require these internal reviews prior to quarterly reporting.

OIG Comments:

AMNH actions taken are responsive to the recommendation.

## 2. Improvements Needed to Ensure Indirect Charges on Recovery Act Awards are Allowable

Federal grant regulations<sup>6</sup> allow recipients to charge direct and indirect costs to sponsored projects. For NSF's Research Experiences for Undergraduates (REU) Program, the Foundation has limited indirect costs to 25 percent of participant support stipend amounts. To ensure proper management of participant support costs on its federal grants, established AMNH policies and procedures require that such costs be segregated in its accounting system using a unique code and subcode.

However, our review found that AMNH had not established adequate controls to ensure indirect costs were properly charged on its ARRA grants. As a result, review of the Museum's three Recovery Act grants disclosed that AMNH had overcharged \$3,072 or ██████████ of total indirect costs to REU grant 0850543 as of March 31, 2010. This occurred because contrary to its NSF grant agreement, the Museum did not properly limit the indirect costs to only stipend amounts but mistakenly included subsistence allowances for its eight REU participants. According to AMNH officials, the subject error we identified was corrected by the Museum during preparation of its June 2010 ARRA quarterly report.

### Recommendations:

We recommend that the NSF Director of the Division of Institution and Award Support:

- 2.1 Resolve the \$3,072 in questioned indirect costs charged to NSF grant 0850543.

#### American Museum of Natural History Response:

AMNH concurred with the recommendation and has already netted the overcharge of indirect costs against its cash drawdown of September 8, 2010.

#### OIG Comments:

AMNH actions taken are responsive to the recommendation.

- 2.2 Require AMNH to establish appropriate controls to ensure accurate application of the indirect cost rate to the proper cost categories.

#### American Museum of Natural History Response:

AMNH concurred with the recommendation and agreed that control processes could be further strengthened to ensure accurate application of the indirect cost rate to its federal grants. Thus, it is currently exploring other indirect cost calculation and review methods. However, the Museum noted that its existing review controls identified the indirect calculation error on NSF grant 0850543. Accordingly, it discontinued the practice that resulted in the overcharging of the indirect costs to the subject ARRA grant in June 2010.

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<sup>6</sup> Section A.1 of OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, provides that the total cost of an award is the sum of the allowable direct and allocable indirect costs less any applicable credits.

OIG Comments:

AMNH proposed corrective actions are responsive to the recommendation.

## Background, Objectives, Scope, and Methodology

### Background:

*Recovery Act Reporting Requirement:* 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 Federal agency responsible for providing Section 1512 reporting guidance used by Federal agencies, grant recipients, and grant sub-recipients. The Federal guidance clearly establishes that recipients have primary responsibility for the quality of data that is 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 activities/project description; funds received/invoiced; expenditures; number of and description of jobs created/retained; number and dollar of subawards and vendor payments; project status; and final report status.

*NSF Recipient Information:* The American Museum of Natural History is a nonprofit, educational corporation known as one of the world's preeminent scientific and cultural institutions. In 2006, the Museum established the Richard Gilder Graduate School and became the only museum within the United States to award the Ph.D. degree. As a leading research institution, the Museum houses a world class collection of nearly 32 million specimens and is home to more than 200 scientists who work across broad disciplines of anthropology, biology, paleontology, and earth and planetary sciences. During the 2009 fiscal year, the Museum had total federal grant expenditures of \$8.4 million, of which \$4.1 million or 49 percent was charged to NSF awards.

As of March 31, 2010, AMNH had been awarded three ARRA grants totaling \$1.8 million, which accounted for 8 percent of its NSF grant portfolio of \$22.8 million and 61 awards. ARRA expenditures totaled \$110,770 or 6 percent of total Recovery Act awards as of March 31,

2010. At the time of our review, AMNH had neither issued nor received any subawards funded by the Recovery Act.

#### Review Objectives:

Our review objectives were to determine whether AMNH 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 AMNH's December 2009 ARRA report, but included review of its March 2010 report to assess the Museum's progress and improvements made in reporting processes. 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: number of jobs created/retained, funds received/invoiced, expenditures, vendor payments, subaward amounts, quarterly activities/project description, project status, and final report status. To gain an understanding of AMNH'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 applicable to Section 1512 reporting requirements, including OMB and NSF guidance.
- Reviewed AMNH policies, procedures, and processes for collecting, compiling, reviewing, and reporting ARRA data.
- Interviewed cognizant AMNH 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 AMNH's Recovery Act reporting processes and related controls. This included the processes for reporting quarterly activities/project description, project status, and final report status; and ensuring ARRA funds were not awarded to debarred or suspended parties.
- Determined 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/retained to payroll records to determine the reasonableness of the number of jobs reported.
- Discussed fieldwork results with AMNH management officials.

The onsite AMNH review work was performed from June 1 – 4, 2010, with additional information obtained through September 2010. 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.

AMNH Comments to Draft Report

Dr. Brett M. Baker  
Assistant Inspector General for Audit  
Office of Inspector General  
National Science Foundation  
4201 Wilson Boulevard  
Arlington, VA 22230

February 10, 2011

Subject: NSF OIG Draft Report on Recovery Act Reporting

Dear Dr. Baker:

The American Museum of Natural History (AMNH) acknowledges its responsibility to report accurately, timely and consistently on the disbursement and administration of ARRA funds and is fully capable of doing so.

AMNH will continue to apply appropriate internal resources to fulfill its ARRA obligations and has responded to the findings and recommendations made by the NSF Office of Inspector General below.

1. Improvements Needed in the Reporting of ARRA jobs, Quarterly Activities and Vendor Payments

Job Estimates Need to be Complete and Accurate

**OIG Finding:** "A tenured faculty member, who charged \$2,472 salary to an ARRA grant, was not included in the jobs reported..."

**AMNH Response:** AMNH is aware that OMB M-10-08, issued December 18, 2009, defines a job as one in which wages or salaries are paid for or will be reimbursed with Recovery Act funding. However, because the salary support referenced above was for activity within the September 30, 2009 report period, we believed the relevant OMB guidance for that period was OMB Memorandum M-09-21, issued June 22, 2009. Section 5.2 of M-09-21 defines a "job retained" as "an existing position that would not have been continued to be filled were it not for Recovery Act funding." In keeping with OMB's then-current definition of a job retained, and based on the "reasonable judgment" directed by M-09-21 guidance, AMNH did not at that time consider payment to a tenured faculty member to qualify as a job retained.

**OIG Finding:** "Vendor job estimates were not obtained for cumulative payments totaling \$21,540..."

**AMNH Response:** The \$21,540 amount is a cumulative figure representing five different vendors and ten months of activity. While AMNH agrees that insight into the job estimate can be gained by reviewing cumulative payment amounts, we believe basing the job estimate on cumulative amounts is inconsistent with ARRA job reporting requirements which are not cumulative in nature. The cumulative figure above, spanning multiple ARRA reporting periods and multiple vendors, is misleading in its relevance to the job estimate. AMNH considered each vendor payment within its period of applicability and determined that these payments were immaterial towards a useful job estimate consistent with "reasonable judgment" as expressed in Section 5.2 of OMB guidance M-10-08. AMNH has subsequently established a clear vendor payment threshold for pursuing vendor job retention and creation data, and AMNH will also monitor vendor payment trends across multiple quarters as well as vendor types to ensure accurate vendor job calculations.

**OIG Finding:** "Reporting of jobs for ARRA-funded student trainees was not determined because AMNH did not consider whether such students should be included in the Recovery Act job estimates...."

**AMNH Response:** AMNH considered all expense activity when preparing quarterly reports, including the support of ARRA-funded student trainees for the job calculation. However, consistent with then current guidance in OMB Memorandum M-09-21, which we believed did not clearly define student support as job reportable, and in keeping with our best "reasonable judgment," AMNH determined that student support was not job reportable. That judgment is consistent with AMNH's interpretation of IRS regulations with respect to student stipend support and AMNH's standard treatment of student trainees. Further guidance on student trainee job inclusion and its applicability to ARRA reporting was not offered until NSF's Recovery Act guidance issued in May 2010, at which time AMNH revised its interpretation and reporting practices.

Quarterly Project Activities Require Complete and Clear Reporting

**OIG Finding:** "...AMNH has not established sufficient processes to ensure that adequate descriptions of project activities are consistently provided in its quarterly reports...."

**AMNH Response:** In recognition of ARRA's transparency goals, AMNH will review its current processes and revise them accordingly to ensure that descriptions of project activities are consistently provided in its quarterly reports. This process will include working with Principal Investigators towards providing more descriptive reports of programmatic activity during the reporting period.

Vendor Payments Less than \$25,000 Need to be Accurately Reported

**OIG Finding:** "...our review found that AMNH mistakenly did not report any vendor payment information in its December 2009 report..."

**AMNH Response:** AMNH recognizes this inaccuracy and as stated in the OIG report, AMNH has already adjusted its interpretation of the ARRA reporting template regarding vendor payments and has correctly reported vendor payments on subsequent reports.

Recommendations

**1.2 a. OIG Recommendation:** "Require AMNH to improve internal control measures for ARRA reporting as follows: a. Develop abbreviated policies and procedures covering key aspects of ARRA reporting, including at a minimum processes for jobs reporting for faculty, vendors, and student trainees; complete quarterly activities; and vendor payment information."

**AMNH Response:** AMNH has updated its policy and procedures covering key aspects of ARRA reporting, including those mentioned above. AMNH will continue to monitor ARRA reporting requirements and evolving OMB and NSF guidance and interpretation and review its own internal ARRA policy for consistency with NSF and OMB guidance and interpretation.

**1.2 b. OIG Recommendation:** "Require AMNH to improve internal control measures for ARRA reporting as follows: b. Establish a formal data quality review process to ensure its ARRA quarterly reports are accurate and complete."

**AMNH Response:** AMNH agrees that data quality review is an important part of ensuring complete and accurate reporting and as such since June 2010 has implemented updated procedures for internal reviews of reports prior to their upload to reporting.gov. AMNH has amended its policy to formally require these internal reviews prior to quarterly reporting.

2. Improvements Needed to Insure Indirect Charges on Recovery Act Awards are Allowable

**OIG Finding:** "...our review found that AMNH has not established adequate controls to ensure indirect costs were properly charged in its ARRA grants...AMNH had overcharged \$3,072... of indirect costs..."

**AMNH Response:** While AMNH recognizes that an error in the indirect calculation and an overcharge to NSF did occur, it was AMNH's controls and review that detected and corrected for the error on the June 30 2010 quarterly report. AMNH will continue to monitor ways to improve this process.

Recommendations

**2.1 OIG Recommendation:** "We recommend that the NSF Director of the Division of Institution and Award Support: 2.1 Resolve the \$3,072 in questioned indirect costs charged to NSF grant 0850543."

**AMNH Response:** AMNH agrees and already corrected its calculation of indirect costs during its preparation of the June 30, 2010 Federal Financial Report (FFR). AMNH has also corrected its reporting of indirect costs via submission of that FFR on July 30, 2010 and netted the overcharge of indirect costs against its cash drawdown of September 8, 2010. AMNH did not at any time maintain a surplus of cash drawn from NSF.

**2.2 OIG Recommendation:** "We recommend that the NSF Director of the Division of Institution and Award Support: 2.2 Require AMNH to establish appropriate controls to ensure accurate application of the indirect cost rate to the proper cost categories."

**AMNH Response:** Though it was AMNH's existing controls and its review of indirect costs that captured and corrected the indirect calculation error on NSF 0850543, AMNH agrees that the control process can be further strengthened and as such is currently exploring other indirect calculation and review methods to ensure accurate application of the indirect cost rate. Additionally, the practice of co-mingling participant stipend and participant per diem amounts which led to the overstatement of the indirect cost base and subsequently the overcharge of indirect costs was discontinued upon its discovery in June 2010.

Thank you for the opportunity to respond and for your consideration.



02/10/11