

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



**OFFICE OF  
INSPECTOR GENERAL**

**MEMORANDUM**

**DATE:** March 31, 2011

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

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

**SUBJECT:** Limited Scope Review of Recovery Act Quarterly Reporting Processes at the University of Washington, Report Number OIG-11-1-015

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

**Results of Review**

Our review found that UW had properly segregated \$42 million in NSF funds awarded for 80 ARRA grants in its accounting system, submitted Recovery Act quarterly reports timely, established written ARRA reporting policies and procedures, and developed centralized ARRA reporting to ensure consistent application of federal and NSF reporting requirements. Specifically, the University established two dedicated Recovery Act teams with one team responsible for developing institutional ARRA policies and processes and the other team responsible for compiling and reporting the required data elements on a quarterly basis.

Additionally, UW developed a web-based system for collection of Recovery Act information from principal investigators (PI) and ARRA-funded subrecipients.

However, improvements are needed in the University's processes for compiling and reviewing the quarterly Recovery Act information to ensure all data elements reported are accurate, complete, and fully compliant with Section 1512 requirements. Specifically, our review disclosed that the University needs to improve its processes and oversight for the reporting of project status and jobs created/retained for subrecipients and vendors.

The exceptions identified during our review occurred primarily due to University official's interpretation of the Office of Management and Budget (OMB) guidance and inadequate policies on project status and jobs created/retained. Given the unprecedented accountability and transparency goals of the Recovery Act, the development of effective processes and oversight functions are critical factors for ensuring ARRA data quality and proper management of Recovery Act funds. 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.

We provided a draft of this report to UW management for its review and comment. In addition, at the conclusion of our on-site review, we presented a written outline to the University on the need to report all subrecipient and vendor jobs created/retained with ARRA funds. One month later, we also presented to UW our review results on accurately reporting project status so that the University could take timely actions to implement improvements needed to promote the highest degree of transparency and accountability over Recovery Act funds. UW concurred with the recommendations presented in the draft audit report.

In terms of the finding, UW requested that we rephrase a sentence used in the draft audit report (page 2, paragraph 2) that stated "The exceptions identified during our review occurred primarily due to University officials not fully understanding the Office of Management and Budget (OMB) guidance..." UW requested that this sentence be revised to read "The exceptions identified during our review occurred primarily due to the University official's interpretation of the Office of Management and Budget (OMB) guidance...." We agree with UW that the rephrasing of this sentence is a better connotation of why the exceptions occurred and have implemented this change in the final audit report. The University'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 UW actions taken and/or planned to address each report recommendation. Milestone dates should be provided for corrective actions not yet completed.

We appreciate the cooperation that was extended to us during our review. If you have any questions, please contact Jerel Silver at extension 8461 or Susan Crismon at 303-844-4345.

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

## Audit Finding and Recommendations

### **Improvements Needed in Reporting of ARRA Project Status and Job Estimates Reported**

A review of the December 2009 and March 2010 quarterly ARRA reports disclosed that six of eight ARRA data elements were correctly reported, one data element was inaccurately reported, and one data element had a systemic issue that could lead to inaccurate reporting. Specifically, the data elements reported correctly include: expenditures, quarterly activities/project description, vendor payments, funds received/invoiced, subaward amounts, and final report status. However, improvements are needed to ensure ARRA project status and the number of jobs created/retained are accurately and completely reported in full compliance with Section 1512 reporting requirements.

#### *Project Status Needs to Be Accurately Reported*

Our review of the December 2009 ARRA report found that UW reported project status incorrectly for two of its 80 Recovery Act grants. OMB reporting guidance<sup>1</sup> states that project status should be based on performance progress reports and other relevant non-financial performance information. Options for selection to report project status include (1) not started, (2) less than 50 percent complete, (3) completed 50 percent or more, and (4) fully completed.

PIs have the responsibility for reporting project status via the University's web-based ARRA reporting system. Our review identified the following two reporting exceptions:

- Project status on one grant was reported incorrectly due to a change in status that occurred between the time the PI initially submitted the data in the UW ARRA web-based system and the end of the reporting period. Specifically, the grant's project status was originally reported as "completed 50 percent or more." However, additional invoices were paid and all grant funds were expended, thus University officials stated that the project status should have been revised to "fully completed."
- Project status for the second grant was incorrectly reported due to PI misinterpretation of the OMB reporting guidance. The researcher incorrectly interpreted the project status percentage question to apply to the quarterly progress and not the cumulative status of the ARRA project. As a result, the project status was inaccurately report as "completed 50 percent or more" instead of "less than 50 percent complete" on the quarterly report.

If the reported project status is not correct, the public and other stakeholders do not have an accurate overview of the status of Recovery Act-funded projects. These reporting exceptions occurred because the University's Recovery Act Desk Manual did not include any specific procedures for compiling, reviewing, and reporting project status. As such, UW's data quality review process did not include a review of the PI-reported project status to ensure overall

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<sup>1</sup> Section 2.3 of OMB Memorandum M-09-21, Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009, issued on June 22, 2009.

accuracy and reasonableness. In order to be fully compliant with OMB reporting requirements,<sup>2</sup> UW needs to ensure its Recovery Act data quality review process is comprehensive and robust to verify all data elements are accurate, complete, and in compliance with Section 1512 reporting guidance.

*Job Estimates Reported Need to Be Complete and Accurate*

OMB reporting guidance<sup>3</sup> requires prime recipients to generate estimates of jobs impact by collecting the total number of jobs created or retained on Recovery Act-funded projects, including activities from subrecipients and vendors, regardless of the dollar amount of the subaward or vendor payment/contract. However, the University did not establish a process to ensure job estimates for subrecipients and vendors with contracts or payments less than \$25,000 were obtained and reported.

During our review, we noted that consulting service contracts can often be under the \$25,000 threshold, but do create jobs by the nature of the services being provided. For example, one grant incurred \$7,566 of contractual costs for transcription services, but no jobs were reported. Typically, people perform transcription services, thus it is reasonable to assume that some estimate of jobs, albeit a small number, should have been reported.

Additionally, UW has not established adequate processes and oversight measures to ensure subrecipient and vendor ARRA job estimates are completely reported. Officials stated that follow-up is not performed if such entities do not report any jobs in the University's ARRA web-based reporting system for each reporting quarter. In such cases, the University assumes no jobs are created/retained and accepts the zero jobs entered in the web-based system. Officials noted that there is currently no methodology to determine whether zero jobs reported in its ARRA web-based system are entered by subrecipients and vendors or University staff because no response was received from the subrecipient and vendor.

As a result of the weakness reported above, the University could be under-reporting job estimates, particularly given that UW has almost \$42 million of NSF Recovery Act grant funding. In addition, UW has not effectively achieved the unprecedented accountability and transparency goals required by the Recovery Act.

These weaknesses occurred because UW officials did not believe that job estimates were required for subrecipient and vendor payments/contracts less than \$25,000 because such numbers would be negligible. Thus, the University's procedures did not require job estimates to be

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<sup>2</sup> Section 4.2 and 4.3 of 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.

<sup>3</sup> Section 5.7 of Part 2 of OMB Memorandum M-10-08, Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates, issued on December 18, 2009.

reported for subawards and vendor payments less than \$25,000 and UW lacked appropriate contractual provisions requiring jobs reporting for subawards and vendor payments less than \$25,000. Also, the University's data quality review process did not include procedures for evaluating reasonableness when subrecipients and vendors did not report any ARRA jobs. Specifically, some high-level reasonableness check should be performed of the associated quarterly expenditures, project activities reported and funds received/invoiced. If such an assessment concludes that the reporting of no ARRA jobs does not appear reasonable, then follow-up should be initiated with the entity. Such comprehensive and robust data quality review procedures are essential in order to fulfill the unprecedented Recovery Act accountability and transparency goals.

Recommendations:

We recommend that the NSF Director of the Division of Institution and Award Support, coordinate with the cognizant audit agency, as needed, to require the University to:

- 1.1 Revise its Recovery Act Desk Manual to include specific procedures for compiling, reviewing, and reporting project status, including additional detailed guidance to PIs on how to report this data element on UW's web-based system.

UW Response

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UW concurred with the recommendation. Specifically, University officials stated that they have updated the Recovery Act Desk Manual to expand procedures for compiling, reviewing and reporting project status and added clarification language to the quarterly e-mail sent to each ARRA PI and his/her administrative contacts regarding the completion status percentage that should be reported for project status.

OIG Comment

UW's response met the intent of the recommendation.

- 1.2 Establish procedures and appropriate contractual provisions requiring jobs reporting for subawards and vendor payments/contracts under \$25,000.

UW Response

UW concurred with the recommendation. Specifically, University officials stated that the contractual provisions currently specify reporting requirements in accordance with Section 1512 of the Recovery Act and that all subrecipients are required to provide quarterly reports, including information of jobs created/retained. Additionally, University officials stated that every purchase made with ARRA funds will be reviewed by purchasing personnel and if in the professional judgment of the buyer, there is a reasonable potential for job creation/retention, then wherever practicable, the buyer will request job reporting information from the vendor.

OIG Comment

UW's response met the intent of the recommendation.

- 1.3 Revise its Recovery Act data quality review processes to require a high-level reasonableness check of subrecipients and vendors that do not report any jobs in the web-based ARRA reporting system and follow-up with such entities as needed.

UW Response

UW concurred with the recommendation. Specifically, University officials stated that the web-based system currently allows the University to review all subrecipient data. Additionally, University officials stated that purchasing staff will follow-up and document all attempts to confirm that any non-response is in fact zero jobs created/retained.

OIG Comment

UW's response met the intent of the recommendation.

**Background, Objectives, Scope and Methodology**

**Background:**

*Recovery Act Reporting Requirements:*

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

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

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

*NSF Recipient Information*

The University of Washington (UW) is a public research university, founded in 1861 in Seattle, Washington. UW is the largest university in the Northwestern United States and one of the oldest universities on the West Coast. The University's research budget consistently ranks among the top five in both public and private universities in the United States. UW is also the largest recipient of federal research funding among public universities and second among all public and private universities in the country, a position that the university has held each year since 1974. Accordingly, as of FY 2009, the University had federal grant and contract funds of \$799 million, of which \$103 million or about 13 percent was provided by NSF. In addition, as of March 28, 2010, UW had received 439 total Recovery Act grants and subawards totaling \$193 million. Of these awards, 80 grants totaling \$42 million were NSF funded and had total expenditures of \$6.1 million, or 14.5% of the total NSF ARRA funding.

UW established several key positions, two dedicated teams, and a web-based reporting system to compile, review, and report quarterly ARRA data. Specifically, the “CORE ARRA Team” was responsible for developing and documenting the University policies and procedures for ARRA reporting to ensure full compliance with OMB and various federal sponsoring agency requirements. This CORE Team would communicate with NSF for clarification on any issues as required. Secondly, “Team ARRA” was responsible for compiling, reviewing, and reporting all data elements required under the Recovery Act. The Team was required to perform 23 different ARRA-related tasks to ensure that UW reporting was fully compliant with all OMB and sponsoring agency reporting requirements. Additionally, the University developed a web-based system for the collection of ARRA information from PIs and subrecipients.

### **Review Objectives:**

Our review objectives were to determine whether UW 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 UW’s reporting periods ending December 31, 2009, and March 31, 2010. We reviewed the University’s processes for compiling and reporting Recovery Act data elements. Of the 99 data fields required to be reported for each ARRA grant, we selected key elements that were either deemed critical to ensuring transparency or that were considered more at risk of being reported inconsistently or inaccurately. Accordingly, our review focused on the following eight data elements; the estimated number of jobs created/retained, funds received/invoiced, expenditures, vendor payments, sub-award amounts, quarterly activities/project description, project status, and final report status. To gain an understanding of UW’s processes for compiling and reporting of the ARRA data elements, we conducted a limited review of internal controls related to our audit objectives. Our review included the following steps:

- Reviewed criteria for ARRA reporting, including Section 1512 of the Recovery Act and OMB and NSF guidance.
- Reviewed UW’s policies, procedures, and processes for collecting, compiling, reviewing, and reporting ARRA data.
- Interviewed cognizant UW 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 UW’s Recovery Act reporting processes and related controls. This included the process for

reporting quarterly activities/project description, project status, final report status; and ensuring ARRA funds are not awarded to debarred or suspended parties.

- Performed non-statistical sampling procedures to determine the reasonableness of the reported data elements when compared to supporting documentation for number of jobs created/retained, funds received/invoiced, expenditures, vendor payments, and sub-award amounts.
- Discussed fieldwork results with UW management officials.

The onsite review work at the University was performed from May 4 - 6, 2010, with additional information obtained through July 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.

UNIVERSITY OF WASHINGTON

March 9, 2011

Dr. Brent M. Baker  
Assistant Inspector General for Audit  
National Science Foundation  
4201 Wilson Boulevard  
Arlington, Virginia 22230

Subject: Draft Report on Limited Scope Review of the University of Washington  
Recovery Act Quarterly Reporting Process

Dear Dr. Baker:

In response to your letter received by Ms. Carol Rhodes on or about February 24, 2011, we are responding to the draft report of your review of the University of Washington's Recovery Act reporting processes, as follows:

- 1.1 Revise its Recovery Act Desk Manual to include specific procedures for compiling, reviewing, and reporting project status, including additional detailed guidance to PIs on how to report this data element on UW's web-based system.

UW Response:

We agree with this recommendation and the following changes have been implemented.

- 1) Updated the Recovery Act Desk Manual, section 13.3.2.2.6, to expand procedures for compiling, reviewing and reporting project status as follows:
    - a. Check budgets listed in SharePoint to see if they are valid. Contact PI to ensure his/her correct understanding of % complete status of project. If PI erroneously marked status as complete, reset the report to make the correct entry. If a report should be complete based on expiration date and award spent but is not marked complete, follow up with PI to see if a correction is needed. If the report is marked not started but expenditure has been incurred, follow up with PI to clarify and make corrections if necessary.
  - 2) Added clarification language regarding Completion Status Percentage effective for the October 2010 Report Submission. This clarification is included in a quarterly email that is sent to each ARRA PI and his/her administrative contacts. Training sessions continue to be held for the University campus on the correct way to report completion of an ARRA project. The last training was provided in January 2011.
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- 1.2 Establish procedures and appropriate contractual provisions requiring jobs reporting for subawards and vendor payments/contracts under \$25,000.

Seattle, Washington 98195

UW Response:

We agree with this recommendation.

Contractual provisions specify ARRA – reporting requirements in accordance with Section 1512, Term #2 of the Recovery Act. All subrecipients, regardless of award amount, are contacted individually after full – execution of the subaward agreement to establish credentials to gain access to an on-line webform to complete quarterly Jobs Created / Retained information (FTE and job descriptions). All subrecipients, regardless of award amount, are required to provide quarterly reports.

Every purchase made with ARRA funds will be reviewed by purchasing personnel regardless of amount and, if in the professional judgment of the buyer, there is a reasonable potential for job creation/retention, then wherever practicable, the buyer will request job reporting from the vendor.

- 1.3 Revise its Recovery Act data quality review processes to require a high-level reasonableness check of sub recipients and vendors that do not report any jobs in the web-based ARRA reporting system and follow-up with such entities as needed.

UW Response:

We agree with this recommendation.

The webform reporting vehicle allows for institutional review of subrecipient data. In addition, the UW Purchasing staff will follow up on every instance of a request for job creation/retention and document the response to confirm that any non-response is in fact zero jobs created/retained. (Please note: This procedure has been implemented and in effect since the initial draft report was issued)

University of Washington Comments:

We respectfully request that the following changes be made to the Report:

- 1) Page 2, Paragraph 3, please replace:

The exceptions identified during our review occurred primarily due to University officials not fully understanding the Office of Management and Budget (OMB) guidance and inadequate policies and procedures on project status and jobs created/retained.

With

The exceptions identified during our review occurred primarily due to the University official's interpretation (as well as other Higher Education Institutions) of the Office of Management and Budget (OMB) guidance and limited policies and procedures on project status and jobs created/retained.

- 2) Page 3, Paragraph 6, please replace:

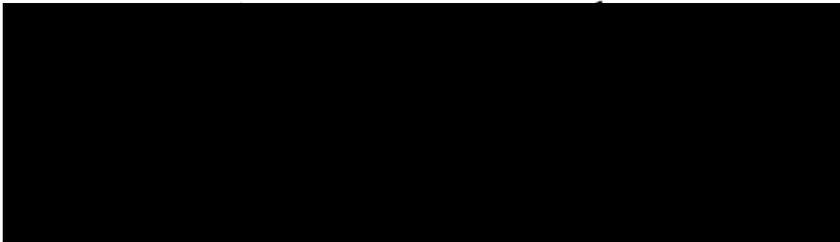
These reporting exceptions occurred because the University's Recovery Act Desk Manual did not include any specific procedures for compiling, reviewing, and reporting project status.

With

These reporting exceptions occurred because the University's Recovery Act Desk Manual included limited procedures for compiling, reviewing, and reporting project status.

In compliance with your request, we will email a copy of this letter to both Jerel Silver and Susan Crismon, along with a postmarked hard copy of this letter to you. Please let us know if you have any questions or concerns, as we are more than happy to assist you.

Sincerely,



cc: Jerel B. Silver, NSF  
Susan I. Crismon, CPA, Audit Manager, NSF / OIG  
Peter Harris, Senior Auditor, Internal Audit Department, UW  
Mary Santonastasso, Director, Division of Insitution and Award Support, NSF