National Science Foundation



4201 Wilson Boulevard Arlington, Virginia 22230

Office of Inspector General

MEMORANDUM

DATE:

TO: Bradley Poston, Interim Director

Division of Acquisition and Cooperative Support (DACS)

FROM: Deborah H. Cureton

Associate Inspector General for Audit

SUBJECT: NSF OIG Audit Report No. 06-1-011, Raytheon Polar Services Company's Failure

to File Required Cost Accounting Disclosure Statement

In response to your request for audit support of the Raytheon Polar Services Com pany (RPSC) Fiscal Year (FY) 2000 to 2004 incurred cost proposal subm ission of costs claim ed under Contract No. DACS-OPP-0000373, we have coordinated a series of audits to be performed by the Defense Contract Audit Agency (DCAA), Herndon Branch Office. Attached is the final audit report dated November 18, 2005, on RPSC's noncompliance with contractual and federal requirements to file a statement disclosing its cost accounting practices.

As background, previously we reported to you ¹ that DCAA found that RPSC did not com ply with Cost Accounting Standard 418, which requires that RPSC consistently classify costs on the United States Antarctic Program (USAP) contract as stated in its Co st Accounting Standards Board (CASB) Disclos ure Statement. RPSC was included in the Disclosure Statement of its parent company, Raytheon Technical Services Company (RTSC), and did not have a separate Disclosure Statement. However, since the inception of the USAP contract through December 31, 2004 (five years), RPSC did not comply with RTSC's disclosed accounting practices, resulting in RPSC incorrectly claim ing approximately for the period F iscal Years (FY) 2000-2002.²

In addition, as discussed in the attached audit report, DCAA found that, effective January 1, 2005, Raytheon rem oved RPSC from the RTSC pare nt company CASB Disclosure Statem ent. This removal resulted in RPSC performing the USAP contract without any CASB Disclosure Statement to describe its cost accounting practices, contrary to Federal Acquisition Regulations and the USAP contract. Without a Disclosure Statement, NSF lacks a common understanding with RPSC of the basis for determining the correctness and accuracy of billings to NSF.

_

¹ NSF OIG Audit Report No. 06-1-001 dated March 21, 2006—Audit of Raytheon Polar Services Company's Noncompliance with Cost Accounting Standard 418, Allocation of Direct and Indirect Costs for Fiscal Years 2000 to 2002

² The incorrect amount claimed for FY 2003 and 2004 will soon be reported to you in a separate NSF OIG Audit Report.

On April 5, 2006, subsequent to completing this audit, Defense Contract Management Agency (DCMA) cited RTSC with an initial fi nding of noncomplian ce with CASB 9903.202-1, Disclosure Statement General Requirements for failing to disclose the cost accounting practices of RPSC in a CASB Disclosure Statement. In response, Raytheon sub mitted on April 17, 200 6, an initial CASB Disclosure Statement for RPSC, retroactively effective to January 1, 2005.

However, despite the f act that this Disclosure Statement describes changes in disclosed and established cost accounting practices which RPSC proposes to use in the perform ance of the USAP contract, RPSC did not submit the associat ed cost impact proposal required by Federal regulations for any change in cost accounting practice. As a result, DCMA will request that RPSC submit a cost impact proposal that identifies the cost impact of the changes on the NSF contract from the time of change (January 1, 2005) until the anticipated completion of the contract.

We recommend that NSF's Direct or of the Division of Acqu isition and Cooperative Support (DACS) coordinate with and allow DCMA to take the lead in obtaining the required cost im pact proposal and in determining if the April 17, 2 006 Disclosure Statem ent adequately describes RPSC's cost accounting practices and complies with the Cost Accounting Standards.

We consider the issue in the DCAA audit report to be significant. Accordingly, to help ensure findings are resolved within six months of issu ance of the audit report, please coordinate with our office during the resolution period to develop a mutually agreeable audit resolution memorandum.

We are providing a copy of this m emorandum to the Director of the Office of Polar Program s. However, since the responsibility for audit resolution rests with DACS, we ask that no action be taken concerning the report's findings without first consulting DACS at (703) 292-8242.

OIG Oversight of Audit

To fulfill o ur responsibilities under Government Auditing Standards, the Office of Inspector General:

- Reviewed the audit rep ort prepared by DCAA to ensure compliance with Government Auditing Standards and Office of Management and Budget Circulars; and
- Coordinated issuance of the audit report to NSF.

DCAA is responsible for the attached auditor's report on RPSC and the conclusions expressed in the report. The NSF OIG does not express any opinion on the conclusions presented in DCAA's audit report.

We also want to bring to your attention that DCAA has briefly discussed the results of several other audits performed at RTSC or Raytheon Corporate Headquarters beginning on page 6 of the attached DCAA report. Many of the reports have information that may be useful to NSF in

administering its USAP contract with RPSC. If NSF desires a copy of any of the referenced DCAA reports, please contact Kenneth Stagner at (303) 312-7655 or David Willems at (703) 292-4979.

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

Attachment: DCAA Report No. 6161-2005T19200303, dated November 18, 2005

cc: Thomas Cooley, Director, BFA Mary Santonastasso, Director, DIAS Karl Erb, Director, OPP



DEFENSE CONTRACT AUDIT AGENCY





Page

November 18, 2005

PREPARED FOR: Director

ATTN: DCMDE-GVOG (

DCMA - Virginia

10500 Battleview Parkway, Suite 200

Manassas, VA 20109-2342

PREPARED BY: DCAA Herndon Branch Office

171 Elden Street, Suite 315

Building 2, 3rd Floor Herndon, VA 20170

Telephone No. FAX No.

E-m ail Address

SUBJECT: Report on Audit of Noncompliance with Cost Accounting Standards

Board (CASB) 9903.202-1, Disclosure Statement General Requirements -

Raytheon Polar Services Company

CONTRACTOR: Raytheon Technical Services Company (Cage Code 05WG2)

12160 Sunrise Valley Drive

Reston, VA 20191

REPORT RELEASE RESTRICTIONS: See Page 18

		<u> 1 u50</u>
CONTENTS:	Subject of Audit	1
Executive	Summary	1
	Scope of Audit	1
	Results of Audit	2
	Contractor Organization and Systems	5
	DCAA Personnel and Report Authorization	17
	Audit Report Distribution and Restrictions	18
Appendix		20

SUBJECT OF AUDIT

By submitting a CAS disclosure statement, Raytheon Technical Services Company, (RTSC) asserts that its disclosed cost accounting practices used to estimate, accumulate, and report costs incurred or to be incurred on Government contracts comply with the CAS Board rules, regulations, and standards appearing in 48 C.F.R. Chapter 99. We examined the subject disclosure statement to evaluate whether the disclosed cost accounting practices comply with the CAS Board rules, regulations, and standards. We also examined the disclosed practices to evaluate whether they comply with applicable FAR Part 31 requirements. The contractor is responsible for compliance with CAS and FAR requirements. Our responsibility is to express an opinion on compliance based on our examination.

EXECUTIVE SUMMARY

RTSC disclosed and established cost accounting practices are in noncompliance with CASB 9903.202-1, Disclosure Statement General Requirements. Specifically, effective January 1, 2005, RTSC Raytheon Polar Services Company (RPSC) business unit does not have a separate disclosure statement to describe its unique cost accounting practices used to account for direct and indirect costs.

SCOPE OF AUDIT

We conducted our examination in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the contractor has complied with the requirements referred to above. An examination includes:

- evaluating the contractor's internal controls, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment;
- examining, on a test basis, evidence supporting the cost accounting practices;
- assessing the descriptions of the cost accounting practices which, when implemented, should be compliant with applicable requirements; and
- evaluating the overall disclosure statement presentation.

We evaluated the contractor's disclosed cost accounting practices using the applicable requirements contained in the:

- Federal Acquisition Regulation (FAR); and
- CAS Board rules, regulations, and standards.

Our examinations of RTSC's Control Environment, SAP Accounting System and EDP General Controls and Related Internal Controls resulted in adequate determinations. The control risk assessments for RTSC's Control Environment, SAP Accounting System and EDP General Controls and Related Internal Controls were found to have no bearing on the originating disclosure statement examination; accordingly, we assessed control risk as low with a minimum level of substantive testing. Incidentally, our control risk assessment was unchanged as a result of the completed internal control examinations discussed above. The scope of our examination reflects our assessment of control risk and includes audit tests designed to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on RTSC compliance with the specified requirements.

RESULTS OF AUDIT

In our opinion, during this period (January 1, 2005 through the current date) the contractor was in noncompliance with CASB 9903.202-1, Disclosure Statement General Requirements. As of the date of this report, the condition causing the noncompliance has not been corrected.

This report is limited to the cited instance of noncompliance. Accordingly, we express no opinion on whether other practices are proper, approved, or agreed to for pricing proposals, accumulating costs, or reporting contractor performance data.

STATEMENT OF CONDITION AND RECOMMENDATION

Our examination identified a disclosed and established contractor practice which we believe is in noncompliance with the Cost Accounting Standards, as follows:

CONDITION:

. While we agree with this change, RTSC has not yet submitted a separate disclosure statement effective January 1, 2005, for Raytheon Polar Services Company (RPSC) cost accounting practices in order to comply with CASB Part 9903.202-1, General Requirements. Specifically, CASB Part 9903.202-1(b) (1) states:

"Any business unit that is selected to receive a CAS-covered contract or subcontract of \$50 million or more shall submit a Disclosure Statement before award."

Furthermore, CASB Part 9903.202-1(c) states:

"When a Disclosure Statement is required, a separate Disclosure Statement must be submitted for each segment whose costs included in the total price of any CAS covered contract or subcontract exceed \$500,000, unless (i) The contract or subcontract is of the type that is exempted by 9903.201-1 or (ii) in the most recently completed cost accounting period the segment's CAS-covered awards are less than 30 percent of total segment sales for the period and less than \$10 million."

RECOMMENDATION:

We recommend that the contractor formally submit a disclosure statement for RPSC. The significance of RTSC not submitting a separate disclosure statement for RPSC to disclose the cost accounting practices that differ from those of all other RTSC business units resulted in recent questioned costs and a CAS 418 noncompliance that were identified during our incurred cost audits for RPSC for FY 2000 through FY 2002. Should the contractor continue to fail to submit a separate disclosure statement for RPSC, additional questioned costs may result from our incurred cost audits for RPSC for FY 2003 and FY 2004 scheduled for performance later this fiscal year.

CONTRACTOR'S REACTION:

The contractor's written response to our condition and recommendation is included as an appendix to this report, and summarized within this section of the report.

The contractor indicated that RTSC and its customer, National Science Foundation (NSF), are in the process of discussing the DCAA audit findings; the construct of the 'Polar Services' contract; and the practices of accumulating and billing of costs. The contractor also indicated its intention not to submit an RPSC disclosure statement until after discussions with NSF are complete. No timeframe was provided for anticipated submission.

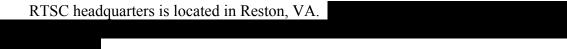
AUDITOR'S RESPONSE:

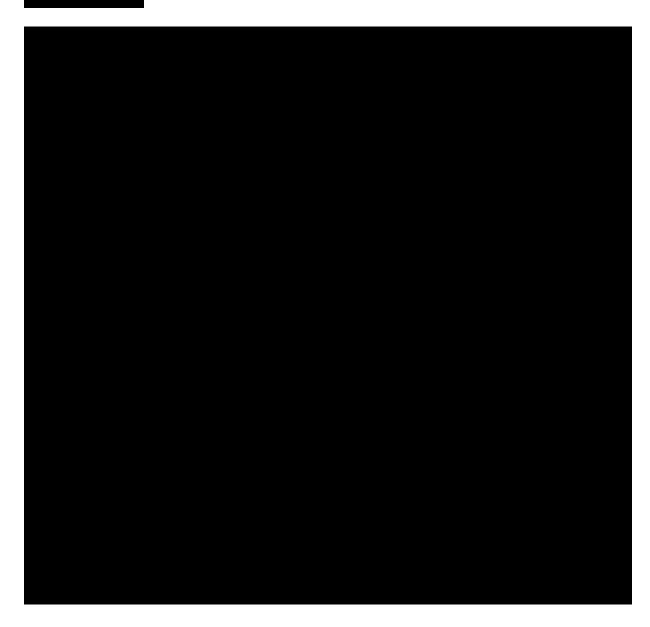
The contractor's response did not include any information to change our opinion. Accordingly, we continue to recommend the contractor formally submit a separate disclosure statement for RPSC in accordance with the express general requirements enumerated within CASB Part 9903.202-1.

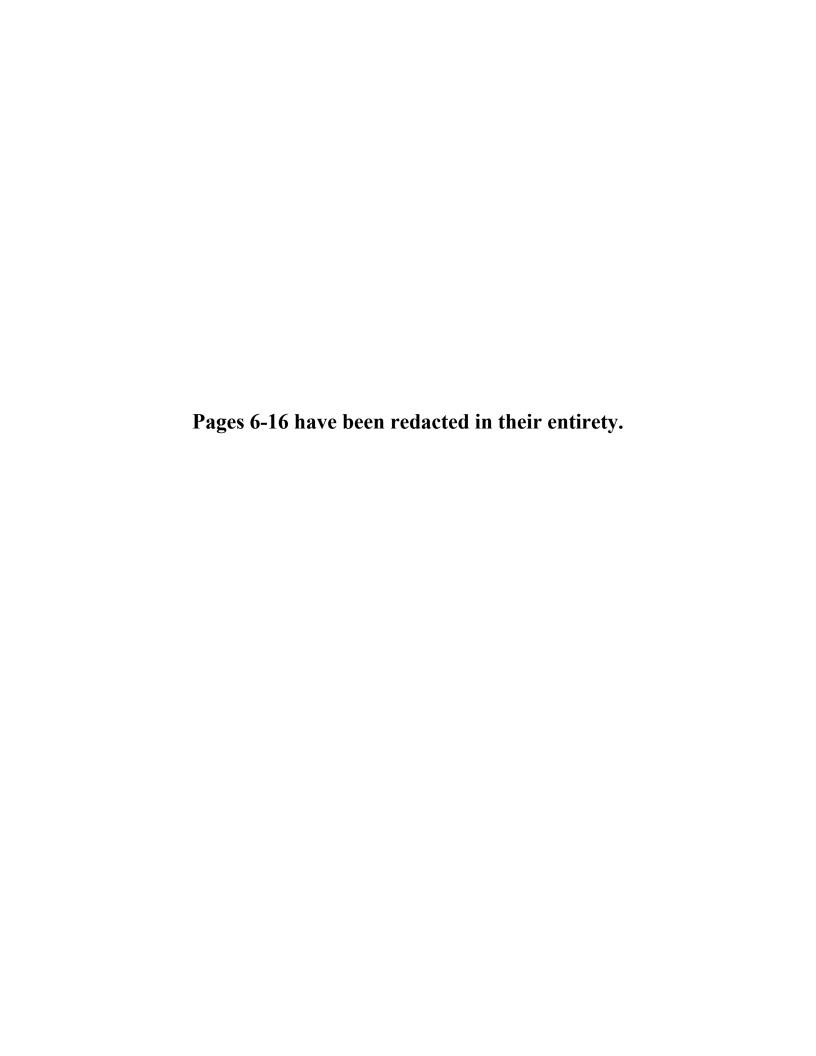
We discussed the results of our examination with RTSC Business Governance Manager, in an exit conference held on September 19, 2005. We provided a draft copy of the Statement of Condition and Recommendation to the RTSC Controller on August 16, 2005. In response to our findings, the contractor neither agreed nor disagreed that RTSC is in noncompliance with CAS. The Contractor's Reaction section of this report includes a synopsis of the contractor's response. Also, the complete text of the contractor's response dated September 14, 2005 is included as an appendix to this report.

CONTRACTOR ORGANIZATION AND SYSTEMS

I. <u>Organization</u>







DCAA PERSONNEL

Telephone	No.
Primary contacts regarding this audit:	
	<u></u>
Other contact regarding this audit report:	
	<u></u>
	<u>FAX No.</u>
Herndon Branch Office	
	E-mail Address
Herndon Branch Office	

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

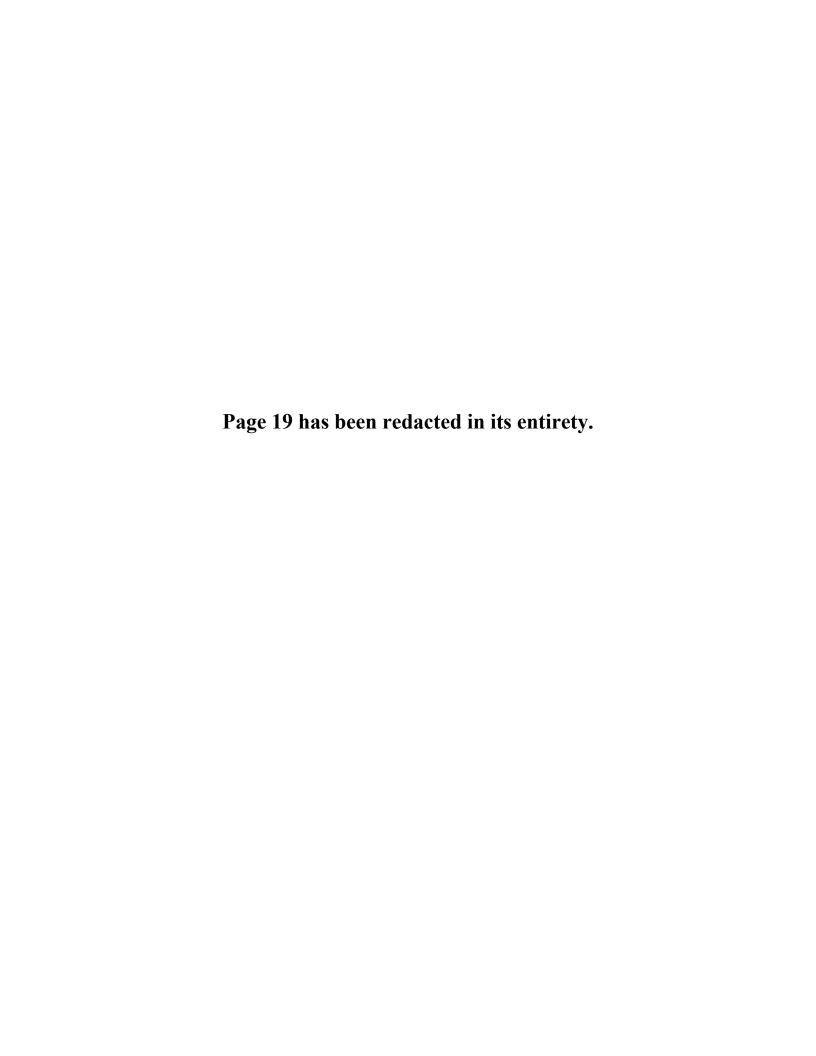
AUDIT REPORT AUTHORIZED BY:

/Signed/

Branch Manager DCAA Herndon Branch Office

AUDIT REPORT DISTRIBUTION AND RESTRICTIONS

DISTRIBUTION	
E-m	ail Address
Director	
ATTN: DCMDE-GVOG (
DCMA - Virginia	
10500 Battleview Parkway, Suite 200	
Manassas, VA 20109-2342	
Defense Corporate Executive	
ATTN: , DCMDI-RO/Raytheon	
Defense Contract Management Agency (DCMA)	
2 Wayside Road	
Burlington, MA 01803-0901	
Raytheon Corporate Resident Office	
ATTN: , CAS Technical Specialist	
47 Foundry Avenue	
Waltham, MA 02453-8313	
N-4:1 C-:	
National Science Foundation	
ATTN:	
Associate Inspector General for Audit	
4201 Wilson Boulevard	
Arlington, VA 22230	
Raytheon Technical Services Company	(Copy furnished through the DACO)
	,
RESTRICTIONS	



APPENDIX

Raytheon Technical Services Company Reston, Virginia

CONTRACTOR'S WRITTEN RESPONSE



Raytheon Technical Services Company

12160 Suprise Valley Drive Reston, Virginia 20191-3461 USA

September 14, 2005

To: Defense Contract Audit Agency

Attn : 17 1 Elden Street
Her ndon, VA 20170

Subject: Adequacy and Compliance Examination

RTSC Business Unit Disclosure Statement Revision 12 dated March 23, 2005, and DRAFT

Revision 12a dated August 15, 2005, both effective January 1, 2005

Reference: Report 05-03L-031, dated August 16, 2005

6161-2005T19200301

Over the past six months RTSC has been in discussion with the National Science Foundation (NSF) regarding the DCAA audit findings. The major topic has been the construct of the contract and the practices of accumulating and billing of costs. The discussions have been very positive and we believe that the basic understanding is forthcoming.

We believe that it is most efficient to complete the discussions with the NSF prior to submitting the RPSC Disclosure Statement. We will keep you informed as we progress in the process.

RTSC appreciates your patience in this matter.

If you have any questions please feel free to contact me.

Sincerely,



Cc:

