



National Science Foundation

4201 Wilson Boulevard
Arlington, Virginia 22230

Office of Inspector General

MEMORANDUM

DATE:

TO: David A. Elizalde, Director
Division of Acquisition and Cooperative Support (DACCS)

FROM: Deborah H. Cureton
Associate Inspector General for Audit

SUBJECT: NSF OIG Audit Report No. OIG-07-1-007, Audit of Compuware Corporation's Accounting System, Incurred Costs, and Indirect Cost Rates for Fiscal Years 2001 through 2004

In response to NSF's request for audit support, we contracted with the Defense Contract Audit Agency (DCAA), Great Lakes Branch Office, to perform an accounting system review and an incurred cost audit of Compuware Corporation (Compuware) for the period April 1, 2000 through March 31, 2004 [Fiscal Years (FYs) 2001 through 2004] on two NSF cost-plus-fixed-fee contracts: Contract No. DIS-9614054¹ which had claimed costs during the period of \$13,926,028 and is ready to close-out, and Contract No. DIS-0137903² which had claimed costs during the period of \$14,310,965 and is still active. The purpose of the contracts is to provide information technology support services for NSF, Division of Information Systems (DIS).

The objectives of the audit were to:

- Determine whether Compuware's accounting system and internal controls are adequate for accumulating and billing costs on government contracts, and for administering and monitoring its NSF contract in compliance with contract terms and federal requirements;
- Determine whether costs charged to both NSF contracts by Compuware are allowable, allocable and reasonable in accordance with contract terms and applicable government acquisition regulations; and

¹ Contract DIS-9614054 was in effect during FY 2001 and was completed in FY 2003.

² Contract DIS-0137903 started in FY 2002. There are three task orders under this contract that are still active and will expire on April 30, 2007.

- Recommend Contracting Officer-determined indirect cost rates for the years audited, FY 2001 through 2004.

DCAA issued two audit reports to address these objectives.³ The audits were performed in accordance with generally accepted government auditing standards. The DCAA audit reports are included as attachments to this memorandum.

DCAA found that Compuware’s accounting system was acceptable for accumulating and billing costs on government contracts, and Compuware’s internal controls were generally adequate except for determining allowable indirect costs. In addition, the entire [REDACTED] Compuware claimed on Contract No. DIS-9614054 was considered allowable, allocable and reasonable in accordance with contract terms and applicable government regulations, even though a portion of Compuware’s proposed overhead rates was questioned. Compuware properly used the contractually agreed-upon overhead ceiling rates to calculate its claimed overhead costs for this contract, and these ceiling rates were less than the audit-determined overhead rates after deducting questioned costs.

However, the auditors questioned a total of \$320,418 ([REDACTED]) of the [REDACTED] claimed on Contract No. DIS-0137903 for FYs 2002 through 2004, made up of \$250,525 in unallowable and unallocable overhead and \$69,893 of associated general and administrative (G&A) costs. A breakdown of questioned costs for Contract No. DIS-0137903 by FY is summarized below.

Questioned Costs for NSF Contract DIS-0137903				
	FY 2002	FY 2003	FY 2004	Total
Subcontractor Hourly Expense	2482	23926	76113	102521
Rebilled Expenses	2457	59629	31498	93584
Employee Welfare Costs	<u>3232</u>	<u>10294</u>	<u>11975</u>	<u>25501</u>
Overhead Questioned due to rate	8171	93849	119586	221606
Overhead Questioned due to base	<u>19804</u>	<u>9115</u>	<u>0</u>	<u>28919</u>
Total Overhead Questioned	27975	102964	119586	250525
Associated G&A Questioned	<u>3416</u>	<u>29561</u>	<u>36916</u>	<u>69893</u>
Total Questioned Costs	31391	132525	156502	320418

DCAA questioned Compuware’s proposed overhead rates for every FY audited, and for FY 2002 through 2004 the questioned overhead rates were [REDACTED], [REDACTED] and [REDACTED] respectively.⁴ Applying DCAA’s questioned overhead rates to Compuware’s proposed overhead base for this contract resulted in DCAA’s questioning \$221,606 of Compuware’s proposed overhead claim for this contract (i.e., questioned due to rate⁵). This \$221,606 was questioned because Compuware improperly included subcontractor hourly expense and rebilled expense costs in the

³ Report on Audit of FYs 2001, 2002, 2003, and 2004 Incurred Costs dated September 29, 2006, and Report on Audit of Postaward Accounting System Review dated November 24, 2006.

⁴ Reference Exhibit A of Report on Audit of FYs 2001, 2002, 2003 and 2004 Incurred Costs, dated September 29, 2006.

⁵ Questioned due to rate = Contractor proposed base x questioned rate.

Overhead pool (these are direct contract costs), and claimed unallowable employee welfare costs that were incurred for gifts, contributions, parties, and picnics. DCAA also questioned \$28,919 of Compuware's proposed Overhead for this contract because Compuware proposed applying its overhead rate to the subcontract labor which DCAA had reclassified to a category of non-overhead-bearing direct costs for this contract (i.e., questioned due to base⁶). DCAA found that it was not Compuware's practice to include subcontract labor in its overhead allocation base (direct labor dollars) and also found no causal or beneficial relationship between Compuware's overhead pool (which consists mainly of fringe benefits for Compuware employees) and this subcontract labor. Lastly, associated G&A questioned of \$69,893 was derived by applying Compuware's proposed/audit-determined G&A rates for each year to the questioned overhead costs.

DCAA considers the Contract No. DIS-0137903 participation in unallowable Employee Welfare Costs⁷ to be subject to penalties, because this contract provides for penalties if the contractor claims expressly unallowable costs⁸ and the Employee Welfare Costs questioned were specifically named and stated to be unallowable in FAR 31.205-13, *Employee morale, health, welfare, etc...* The total amount of penalty calculated by DCAA is \$25,074 (\$2,887 for FY 2002, \$10,207 for FY 2003 and \$11,990 for FY 2004)⁹, which represents the amount of expressly unallowable costs which Compuware allocated to Contract DIS-0137903. DCAA noted that penalties can be waived by the Contracting Officer under certain circumstances specified in FAR 42.709-5. DCAA's recommended assessment of penalties was not agreed to by Compuware and must be settled by NSF during negotiations with Compuware.

In recommending Contracting Officer-determined indirect cost rates, DCAA questioned a total of \$1,079,936 (████) out of █████ claimed for FYs 2001 through FY 2004 in the branch overhead pool because Compuware improperly included \$412,012 subcontractor hourly expense and \$396,748 rebilled expense costs in the overhead pool (these are direct contract costs), and claimed \$271,196 unallowable employee welfare costs that were incurred for gifts, contributions, parties, and picnics.¹⁰ As a result, the questioned overhead rates for FYs 2001 through 2004 are █████, █████, █████, and █████ respectively and the audit-determined overhead rates for FYs 2001 through 2004 are █████, █████, █████, and █████, respectively.¹¹ Compuware's proposed/audit-determined G&A rates for FYs 2001 through 2004 are █████, █████, █████, and █████, respectively.

⁶ Questioned due to base = Questioned base x auditor's recommended rate (proposed rate less questioned rate).

⁷ Participation is defined as this contract's direct labor as a percentage of Compuware's total direct labor (████ for FY 2002, █████ for FY 2003, █████ for FY 2004) multiplied by the unallowable Employee Welfare Costs claimed in Compuware's Overhead pool (\$98,362 in FY 2002, \$36,712 in FY 2003 and \$33,355 in FY 2004).

⁸ FAR 52.242-3, *Penalties for Unallowable Costs*, was incorporated into the contract by reference, and provides that the contractor shall not include in any proposal any cost which is unallowable as defined in Part 31 of the FAR.

⁹ Reference Schedules E-1 and G-1 of the DCAA audit report on incurred costs. The penalty for unallowable Employee Welfare claimed for FY 2002 was recommended for penalty, but was not presented in a separate schedule because it was below the \$10,000 waiver threshold specified in FAR 42,709-5.

¹⁰ Reference Note 3 to Exhibit A of *Report on Audit of FYs 2001, 2002, 2003, 2004 Incurred Costs*, dated September 29, 2006.

¹¹ Reference Exhibit A of *Report on Audit of FYs 2001, 2002, 2003, 2004 Incurred Costs*, dated September 29, 2006.

DCAA stated that the cause of the questioned costs was Compuware's lack of written policies and procedures to exclude the unallowable and unallocable indirect costs from the overhead pool as the claims to NSF are being prepared. This control weakness prevented Compuware from administering and monitoring its NSF contract in compliance with contract terms and federal requirements. However, DCAA reported that Compuware was in the process of taking corrective action to implement new procedures to correct this condition, as evidenced by its preparation of preliminary incurred cost submissions for FYs 2005 and 2006. Compuware told DCAA it would exclude the entire Employee Welfare Costs account from its incurred cost submissions to NSF. In addition, Compuware agreed to exclude from its indirect cost pools any Subcontractor Hourly Expenses and Rebilled Expenses that can be specifically identified to a contract as a direct cost, and classify these costs as non-Overhead-bearing direct costs as appropriate. DCAA did not confirm these statements by verifying Compuware's actual incurred cost submissions for FYs 2005 and 2006.

Compuware agreed with the findings in the DCAA reports, with the exception of the penalty charges. We consider the issues in the audit reports to be significant. The findings in the DCAA audit reports should not be closed until NSF verifies that our recommendations have been adequately addressed and proposed corrective actions have been satisfactorily implemented.

Recommendations

We recommend that the NSF Director of the Division of Acquisition and Cooperative Support:

1. Accept the FY 2001-2003 claimed costs for Contract DIS-9614054. The claimed, allowable and questioned amounts for each FY audited are shown in Exhibit J of the attached DCAA audit report on incurred costs.
2. Reduce the FY 2002-2004 claimed costs for Contract DIS-0137903 by \$320,418. The claimed, allowable and questioned amounts for each FY audited are shown in Exhibit J of the attached DCAA audit report on incurred costs.
3. Resolve the \$25,074 of penalties recommended by DCAA for claiming expressly unallowable costs on Contract DIS-0137903 (\$2,887 for FY 2002, \$10,207 for FY 2003, and \$11,990 for FY 2004).
4. Establish final indirect cost rates for FYs 2001 through 2004, making the reductions to Compuware's proposed rates as recommended and summarized in Exhibit A of the attached DCAA audit report on incurred costs.
5. Request Compuware to review and resubmit as needed its incurred cost submissions for FYs 2005 and 2006, and confirm to NSF that unallowable Employee Welfare Costs have been excluded from these submissions, and that any Subcontractor Hourly Expenses and Rebilled Expenses that can be specifically identified to a contract as a direct cost have been properly excluded from indirect cost pools and reclassified as non-Overhead-bearing direct costs when appropriate.

6. To prevent similar issues from recurring in the future, ensure that Compuware has established written policies and procedures requiring that unallowable Employee Welfare Costs are properly excluded from all billings, claims and proposals applicable to NSF contracts, and that any Subcontractor Hourly Expenses and Rebilled Expenses that can be specifically identified to a contract as a direct cost have been properly excluded from indirect cost pools and reclassified as non-Overhead-bearing direct costs whenever appropriate.

We are providing a copy of this memorandum to the OIRM Directorate/Division of Information Services (DIS). The responsibility for audit resolution rests with DACS. Accordingly, 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 our responsibilities under Government Auditing Standards, the Office of Inspector General:

- Reviewed DCAA's approach and planning of the audit;
- Monitored the progress of the audit at key points;
- Coordinated periodic meetings with DCAA and OIG management to discuss audit progress, findings and recommendations;
- Reviewed the audit report prepared by DCAA to ensure compliance with Government Auditing Standards and Office of Management and Budget Circulars; and
- Coordinated issuance of the audit report.

DCAA is responsible for the attached audit reports on Compuware and the conclusions expressed in the reports. The NSF OIG does not express any opinion on Compuware's incurred cost submissions, indirect cost rates, accounting system, or the conclusions presented in DCAA's audit reports.

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

Attachments: DCAA Audit Report on Compuware's Incurred Costs for FYs 2001 through 2004 for NSF Contracts DIS-9614054 and DIS-0137903

DCAA Audit Report on Compuware's Accounting System

cc: Carolyn Miller, IRM/DIS
Mary Santonastasso, Director, DIAS



DEFENSE CONTRACT AUDIT AGENCY
AUDIT REPORT NO. 2261-2006G 17740 016



November 24, 2006

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SUBJECT: Report on Audit of Postaward Accounting System Review

REFERENCES: Relevant Dates: See Page 5

CONTRACTOR: Compuware Corporation
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Detroit, MI 48226

REPORT RELEASE RESTRICTIONS: See Page **Error! Bookmark not defined.**

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SUBJECT OF AUDIT

As you requested on December 16, 2005, we examined Compuware Corporation's (CC) accounting system as of September 18, 2006, to determine whether it is adequate for accumulating costs under Government contracts and whether the billing procedures are adequate for the preparation of cost reimbursement claims, i.e., interim public vouchers and progress payments.

Compuware Corporation is responsible for establishing and maintaining an adequate accounting system for accumulating and billing costs under Government contracts. Our responsibility is to express an opinion on the adequacy of the accounting system based on our examination.

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 data and records examined are free of material misstatement. An examination includes:

- obtaining an understanding of internal control for accumulating and billing costs under Government contracts;
- examining, on a test basis, evidence supporting the amounts and disclosures in the data and records evaluated;
- assessing the accounting principles used and significant estimates made by the contractor; and
- evaluating the overall data and records presentation.

We evaluated the accounting system using the applicable requirements contained in:

- Federal Acquisition Regulation (FAR) and
- National Science Foundation Acquisition Regulations (NSFAR).

Our examination included an evaluation to determine if the accounting system provides for the following procedures:

- direct and indirect costs are appropriately identified, accumulated, and reported;
- unallowable costs are appropriately identified and segregated;
- indirect costs are allocated equitably and consistently to contracts and other cost objectives;



Audit Report No. 2261-2006G 17740 016

- direct and indirect labor costs are identified to intermediate or final cost objectives by the timekeeping system and charged to appropriate cost objectives by the labor distribution system;
- indirect billing rates are acceptable to the contracting officer or contract auditor in accordance with FAR 42.704;
- cost information for billings is based on currently posted accounting data; and
- contract billings are reviewed by management to assure compliance with contract terms and provisions, e.g., frequency of billings, special withholding provisions, contract unallowables, etc.

Our examination was performed from June to September 2006.

We believe that our examination provides a reasonable basis for our opinion.

Our examination did not include tests to determine whether internal control is in operation or operating effectively. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, accounting system internal control is subject to the risk that the internal control may become inadequate because of changes in conditions.

RESULTS OF AUDIT

In our opinion, Compuware's accounting system is adequate for accumulating and billing costs under Government contracts. At your request, we have completed a Standard Form 1408, Pre-Award Survey of Prospective Contractor Accounting System (Appendix, see page 7).

Our examination was limited to determining whether Compuware's accounting system is adequate for accumulating and billing costs under Government contracts. We did not perform a comprehensive examination of the contractor's overall accounting system and its related internal control. Accordingly, we express no opinion on Compuware's system of internal control taken as a whole.

We discussed the results of our examination with [REDACTED], [REDACTED], [REDACTED], and [REDACTED], [REDACTED], in an exit conference held on September 18, 2006.

CONTRACTOR ORGANIZATION AND SYSTEMS

1. Organization

Compuware Corporation (CC) was incorporated in the state of Michigan in 1973. Compuware is primarily engaged in software development and information technology services. Revenue for the fiscal year ended March 31, 2004, was approximately [REDACTED] Million, of this amount, U.S. Government sales are less than [REDACTED] percent. Compuware maintains locations throughout the United States and worldwide. Compuware currently employs approximately [REDACTED] employees.

2. Accounting System

Compuware's accounting period is from April 1 to March 31. CC maintains a job order accounting system for contract costs. CC maintains an accounting system on the accrual basis in accordance with Generally Accepted Accounting Principles. CC's accounting system is posted on a current basis. Appropriate adjusting entries are made at the end of each month and year. The accounting firm of Deloitte & Touche, LLC audited CC's FY's 2001, 2002, 2003, and 2004 financial statements. The contractor currently uses the Oracle accounting software program. In our opinion, CC's accounting system is adequate, for the accumulation, reporting, and billing of costs on government contracts. In these reviews, the internal controls were evaluated to the extent necessary to make a determination of the allowability and allocability of the transactions tested.

Compuware maintains a job cost accounting system which is fully integrated in the overall accounting system, wherein contracts are assigned individual project numbers and direct costs are identified and charged to those numbers. Indirect costs are identified with and accumulated under individual departments, which in turn are identified to the various indirect cost pools. Indirect expenses are recorded and billed to projects using predetermined rates. The predetermined rates are adjusted to actual rates at year end. The following schedule describes Compuware's indirect cost pools and related allocation bases, and the type of effort normally charged direct and indirect:

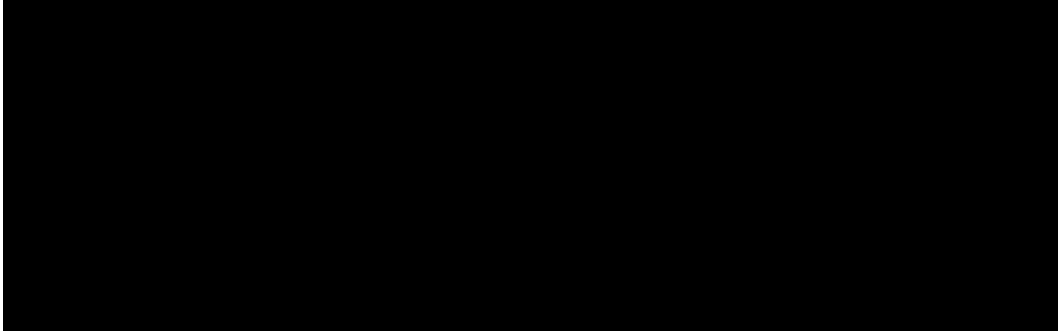
Indirect Cost Pools and Allocation Bases

<u>Indirect Cost Pool</u>	<u>Allocation Base</u>
[REDACTED]	[REDACTED]

The Following Effort Is Normally Charged Direct:

- Direct time of direct labor employees
- Premium (overtime, shift, field) time of direct labor
- Temporary help to perform direct effort

The Following Effort Is Normally Charged Indirect:



3. Billing System:

The billings for the NSF contracts are prepared at the branch location in Virginia and submitted directly to the NSF. Billings are prepared directly from the cost accounting records which are reconcilable by cost element for all cost-reimbursable work. Direct labor hours are included in the cost accounting records for all contracts. The contractor's indirect billing rates are established in accordance with FAR 42.704.



Audit Report No. 2261-2006G 17740 016

DCAA PERSONNEL

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

RELEVANT DATES

National Science Foundation Request for Audit Dated December 16, 2005; Received December 16, 2005.

AUDIT REPORT AUTHORIZED BY:

Brian M. Unsworth
/for/ RICHARD J. AHKAO
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AUDIT REPORT DISTRIBUTION AND RESTRICTIONS

DISTRIBUTION

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

PREAWARD SURVEY OF PROSPECTIVE CONTRACTOR ACCOUNTING SYSTEM	SERIAL NO. <i>(For surveying activity use)</i>	OMB No.: 9000-0011 Expires: 10/31/97
	PROSPECTIVE CONTRACTOR: Compuware Corporation, Detroit, Michigan	

Public reporting burden for this collection of information is estimated to average 24 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to FAR Secretariat (VRS), Office of Federal Acquisition and Regulatory Policy, GSA, Washington, DC 20405; and to the Office of Management and Budget, Paperwork Reduction Project (9000-0011), Washington, DC 20503.

SECTION I - RECOMMENDATION

1. PROSPECTIVE CONTRACTOR'S ACCOUNTING SYSTEM IS ACCEPTABLE FOR AWARD OF PROSPECTIVE CONTRACT
- YES NO (Explain in 2.)
- YES, WITH A RECOMMENDATION THAT A FOLLOW ON ACCOUNTING SYSTEM REVIEW BE PERFORMED AFTER
(Explain in 2. NARRATIVE)
2. NARRATIVE *(Clarification of deficiencies, and other pertinent comments. If additional space is required, continue on plain sheets of paper.)*

We consider the contractor's system to be adequate for the accumulation and billing of costs on government contracts.

IF CONTINUATION SHEETS
ATTACHED - MARK HERE

3. SURVEY MADE BY	a. SIGNATURE AND OFFICE <i>(Include typed or printed name)</i> //s// Judy Heater-Unsworth, Senior Auditor DCAA, Great Lakes Branch Office	b. TELEPHONE NO. 313/363-8046	c. DATE SIGNED 11/20/06
4. SURVEY REVIEWING OFFICIAL	a. SIGNATURE AND OFFICE <i>(Include typed or printed name)</i> //s// Norman S. Rea, Supervisory Auditor DCAA, Great Lakes Branch Office	b. TELEPHONE NO. 734/805-3083	c. DATE SIGNED 11/20/06

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SECTION II - EVALUATION CHECKLIST

MARK "X" IN THE APPROPRIATE COLUMN (<i>Explain any deficiencies in SECTION 1 NARRATIVE</i>)	YES	NO	NOT APPLICABLE
1. EXCEPT AS STATED IN SECTION I NARRATIVE, IS THE ACCOUNTING SYSTEM IN ACCORD WITH GENERALLY ACCPETED ACCOUNTING PRINCIPLES APPLICABLE IN THE CIRCUMSTANCES?	X		
2. ACCOUNTING SYSTEM PROVIDES FOR			
a. Proper segregation of direct costs from indirect costs.	X		
b. Identification and accumulation of direct costs by contract.	X		
c. A logical and consistent method for the allocation of indirect costs to intermediate and final cost objectives. (A contract is a final cost objective.)	X		
d. Accumulation of costs under general ledger control	X		
e. A timekeeping system that identifies employees' labor by intermediate or final cost objectives.	X		
f. A labor distribution system that charges direct and indirect labor to the appropriate cost objectives.	X		
g. Interim (at least monthly) determination of costs charged to a contract through routine posting of books of account.	X		
h. Exclusion from costs charged to government contracts of amounts which are not allowable in terms of FAR 31, Contract Cost Principles and Procedures, or other contract provisions.	X		
i. Identification of costs by contract line item and by units (as if each unit or line item were a separate contract) if required by the proposed contract.	X		
j. Segregation of pre-production costs from production costs.			X
3. ACCOUNTING SYSTEM PROVIDES FINANCIAL INFORMATION:			
a. Required by contract clauses concerning limitation of cost (FAR 52.232-20 and 21) or limitation on payments (FAR 52.216-16).	X		
b. Required to support requests for progress payments.	X		
4. IS THE ACCOUNTING SYSTEM DESIGNED, AND ARE THE RECORDS MAINTAINED IN SUCH A MANNER THAT ADEQUATE, RELIABLE DATA ARE DEVELOPED FOR USE IN PRICING FOLLOW-ON ACQUISITIONS?	X		
5. IS THE ACCOUNTING SYSTEM CURRENTLY IN FULL OPERATION? (If not, describe in Section I Narrative which portions are (1) in operation, (2) set up, but not yet in operation, (3) anticipated, or (4) nonexistent.)	X		

Item 2.j.: This is not applicable as the contractor is in the service industry, not manufacturing.



DEFENSE CONTRACT AUDIT AGENCY



AUDIT REPORT NO. 2261-2001G10100003
AUDIT REPORT NO. 2261-2002G10100007
AUDIT REPORT NO. 2261-2003G10100014
AUDIT REPORT NO. 2261-2004G10100039

September 29, 2006

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SUBJECT: Report on Audit of FY's 2001, 2002, 2003, and 2004 Incurred Costs

REFERENCES: CO: NSF OIG 0541756
Relevant Dates: See Page 22

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REPORT RELEASE RESTRICTIONS: See Page 23

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SUBJECT OF AUDIT

As you requested on December 16, 2005, we examined the Compuware Corporation's (CC) incurred cost proposals and related books and records for reimbursement of FY's 2001, 2002, 2003, and 2004, incurred costs. The purpose of the examination was to determine allowability of direct and indirect costs and recommend contracting officer-determined indirect cost rates for the periods April 1, 2000, through March 31, 2001, (FY 2001); April 1, 2001, through March 31, 2002, (FY 2002); April 1, 2002, through March 31, 2003, (FY 2003); and April 1, 2003, through March 31, 2004, (FY 2004). The proposed rates apply primarily to the flexibly-priced contracts listed in Exhibit I, page 18. A copy of Compuware's Certificates of Final Indirect Costs, all dated October 5, 2005, are included as the Appendix to the report (see page 24).

The proposals are the responsibility of the contractor. Our responsibility is to express an opinion based on our examination.

SCOPE OF AUDIT

We conducted our examinations in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the examinations to obtain reasonable assurance about whether the data and records examined are free of material misstatement. 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 amounts and disclosures in the data and records evaluated;
- assessing the accounting principles used and significant estimates made by the contractor;
- evaluating the overall data and records presentation; and
- determining the need for technical specialist assistance.

We evaluated the proposals using the applicable requirements contained in the:

- Federal Acquisition Regulation (FAR); and
- National Science Foundation Acquisition Regulation (NSFAR).

For FY's 2001, 2002, 2003, and 2004, we considered Compuware's accounting system to be adequate for accumulating, reporting, and billing costs on Government contracts, as described in the Contractor Organization and Systems section of this report (page 21). Our assessment of control risk reflects that we have not specifically tested the effectiveness of Compuware's systems and related internal controls. The scope of our examination reflects our assessment of control risk and includes tests of compliance with laws and regulations that we believe provide a reasonable basis for our opinion.

The concurrent verification of labor was omitted in this examination.



RESULTS OF AUDIT

Indirect Rates

In our opinion, the contractor's proposed indirect rates are acceptable as adjusted by our examination. The examination results and recommendations are presented below.

Indirect Category	Contractor's Claimed Costs			Questioned Rate	Reference
	Pool	Base	Rate		
FY 2001:					
Overhead (a)					Exhibit A
G&A (b)					Exhibit B
FY 2002:					
Overhead (a)					Exhibit C
G&A (b)					Exhibit D
FY 2003:					
Overhead (a)					Exhibit E
G&A (b)					Exhibit F
FY 2004:					
Overhead (a)					Exhibit G
G&A (b)					Exhibit H
Allocation Bases:					

Direct Costs

In our opinion, claimed direct costs are acceptable and are provisionally approved, pending final acceptance. Final acceptance of amounts proposed under Government contracts does not take place until performance under the contract is completed and accepted by the cognizant authorities and the audit responsibilities have been completed.

Indirect Costs Subject to Penalty

Penalties for Unallowable Costs. For FY's 2001 and 2002, the examination found expressly unallowable costs subject to penalty of \$102,767 and \$98,362, respectively, in the Overhead pools. Of those amounts \$0 and \$2,887, respectively, were allocable to the contracts specified in FAR 42.709(b). This amount is recommended for penalty, but is less than the \$10,000 waiver threshold discussed in FAR 42.709-5. Additional information regarding the penalties will be provided upon request.

Audit Report Nos. 2261-2001G10100003, 2261-2002G10100007, 2261-2003G10100014, & 2261-2004G10100039

For FY's 2003 and 2004, indirect costs questioned in this examination are believed to be subject to the penalties provided in FAR 42.709-1(a)(1). Our recommendations for each questioned item are included in the notes to Exhibits E and G and their supporting schedules. Affected contracts are identified in Exhibit I, page 18. Our recommendations concerning the interest to be recovered on unallowable costs paid will be furnished when we have received your determination on penalties to be assessed.

Cumulative Allowable Cost Worksheet (CACWS). The costs noted on the schedule of cumulative allowable costs in Exhibit I, page 18, represent costs that are considered allowable under the listed contracts and are, therefore, reimbursable. For those contracts identified as "Ready to Close," the information on the CACWS should be used to close out contracts. Individual contract audit closing statements will only be issued if requested by the ACO. However, please note that the information on the Prior Years Settled Costs was not available to us at the time of the audit review. Therefore, the CACWS does not include prior year's settled or billed costs for Contract No. 9614054.

We discussed the results of our examination with [REDACTED], [REDACTED], [REDACTED], and [REDACTED], [REDACTED], in an exit conference held on September 18, 2006. In response to our findings, the contractor has concurred with the questioned items. We provided a draft copy of the Results of Audit Summary Schedules to the contractor's representatives at the exit conference.

**SUMMARY OF CONTRACTOR'S CLAIMED
FY 2001 OVERHEAD RATE
AND RESULTS OF AUDIT REVIEW**

Compuware Corporation
Detroit, Michigan

	Proposed (Note 1)	Questioned Costs			Note
		Total	Concurred	Non- Concurred	
Labor Overhead		\$ -	\$ -	\$ -	2
Branch Overhead:					
All Other Expenses		-	-	-	2
Subcontractor Hourly Expense		39,123	39,123	-	3
Rebilled Expenses		21,577	21,577	-	3
Employee Welfare		102,767	102,767	-	3
Total Branch Overhead Expenses		\$ 163,467	\$ 163,467	\$ -	
Total OH Pool (a)		\$ 163,467	\$ 163,467	\$ -	
Direct Labor Base (b)		\$ -	\$ -	\$ -	4
Overhead Rate (a/b)				0.00%	
Overhead Rate Claimed - Contract Ceiling Rate					5

Government Participation in the Allocation Base:

Cost Type Contracts	
Fixed Price & Commercial Contracts	
Total	

Minor differences due to rounding

EXPLANATORY NOTES

1. The contractor's proposed costs, as shown, are the net effect after numerous voluntary deletions for unallowable and unallocable costs. These voluntary deletions are too numerous to show in this audit report. However, they are available upon request.

2. Labor Overhead & All Other Expenses

a. Summary of Conclusions:

We take no exception to the proposed labor overhead other indirect expenses.

b. Basis of Contractor's Costs:

The contractor's based their claimed branch overhead expenses on the amounts accumulated by Compuware in the respective general ledger accounts and expenses assigned/reclassified to the branch overhead pool for the Washington DC branch. The labor overhead pool consists primarily of fringe benefits. The branch overhead pool consists primarily of utilities, depreciation, and facility type costs.

c. Audit Evaluation:

We verified the proposed costs to the FY 2001, 2002, 2003, and 2004 general ledgers for the period ended March 31, 2001, March 31, 2002, March 31, 2003, and March 31, 2004, respectively. We reviewed prior year account balances to judgmentally select indirect accounts for testing. We randomly and judgmentally selected transactions for testing and traced costs to source documents, including vendor invoices, purchase orders, agreements and policies. We did not note any costs that are considered to be unallowable, unreasonable, or not allocable to the overhead pool. The internal controls were considered in our determination of the allowability and allocability of the costs reviewed. Therefore, we have taken no exception to these claimed indirect expenses.

3. Subcontractor Hourly Expense, Rebilled Expenses, & Employee Welfare Costs

a. Summary of Conclusions:

We have taken exception to the following indirect expenses:

	Questioned Costs				
	FY 2001	FY 2002	FY 2003	FY 2004	Total
Subcontractor Hourly Expense	\$ 39,123	\$ 75,557	\$ 85,329	\$ 212,003	\$ 412,012
Rebilled Expenses	21,577	74,784	212,654	87,733	396,748
Employee Welfare Costs	102,767	98,362	36,712	33,355	271,196
Total	\$ 163,467	\$ 248,703	\$ 334,695	\$ 333,091	\$ 1,079,956

The questioned costs relate to the contractor's failure to exclude Subcontractor Hourly Expense and Rebilled Expense costs, which are direct contract costs and not allocable to indirect costs in accordance with FAR 31.202. Costs claimed for Employee Welfare were incurred for gifts, contributions, parties, and picnics, which are unallowable in accordance with the provisions of FAR 31.205-13. We consider the questioned Employee Welfare costs to be subject to penalties under the provisions of FAR 42.709-1(a)(1).



b. Basis of Contractor's Costs:

The contractor based their claimed branch overhead expenses on the amounts accumulated by Compuware in the respective general ledger accounts and expenses assigned/reclassified to the branch overhead pool for the Washington DC branch. The Subcontractor Hourly Expenses are for subcontractor direct labor and expenses. The Rebilled Expenses represent those expenses that are "re-billed" and paid for by clients. The Employee Welfare costs are primarily for gifts to employees, flowers for employees, the Compuware Christmas party, and summer picnics.

c. Audit Evaluation:

We verified the allocations and reconciled the costs claimed to the contractor's books and records. We performed transaction testing of selected high risk accounts and traced selected items to source documents. We performed combined transaction testing of FY's 2001, 2002, 2003, and 2004. Our performance of transaction testing in FY 2002 noted that the contractor had included costs for Subcontractor Hourly Expense and Rebilled Expenses in the Branch Overhead pool. These costs are directly identifiable to a final cost objective and should have been removed from the indirect expenses at the time of rate submission preparation. However, the contractor failed to exclude these costs. We then evaluated these accounts for the other fiscal years under review and noted that these accounts had been included in the overhead pools for all four years. As these costs are directly identifiable, they cannot be claimed as indirect costs. Therefore, we have taken exception to these costs, in accordance with FAR 31.202, which states that "...Direct costs of the contract shall be charged directly to the contract. All costs specifically identified with other final cost objectives of the contractor are direct costs of those cost objectives and are not to be charged to the contract directly or indirectly."

Additionally, our transaction testing of FY 2002 Branch Overhead noted that the contractor had included costs for Employee Welfare that were incurred for gifts to employees, contributions in lieu of gifts, the Compuware Christmas party and summer picnic. These costs are not allowable per the requirements of FAR 31.205-13(b) and (c). Further, these costs are expressly unallowable and are subject to penalties under the provisions of FAR 42.709-1(a)(1). Our analysis of the entire Employee Welfare account for FY 2002 noted that approximately [REDACTED] percent were allowable costs in accordance with FAR 31.205-13. Therefore, we have questioned [REDACTED] percent of the costs claimed in this account as unallowable Employee Welfare costs.

In our opinion, the questioned costs are a result of the contractor's lack of policies and procedures to exclude these types of costs at the time of indirect rate preparation. However, the contractor has taken corrective action and implemented new procedures to correct these conditions, as evidenced by their preparation of FY's 2005 and 2006 preliminary incurred cost submissions.

d. Contractor's Reaction:

The contractor's representative has concurred with the questioned costs.



4. Direct Labor Allocation Base

a. Summary of Conclusions:

We take no exception to the contractor's claimed direct labor allocation base.

b. Basis of Contractor's Costs:

The contractor based their claimed overhead direct labor allocation base on the total direct labor incurred at the Washington DC branch.

c. Audit Evaluation:

We have evaluated the contractor's claimed direct labor allocation base by reconciling the costs claimed to the contractor's general ledger for the fiscal year ended March 31, 2001. We also evaluated the allocation base to determine if the base was in accordance with the provision of FAR 31.203(c), and took no exceptions.

5. Contract Ceiling Rates

Contract Number 9614054 contains indirect ceiling rates of [REDACTED] percent for Overhead; [REDACTED] percent for G&A at NSF (or Branch G&A); and [REDACTED] percent for G&A at Compuware (or Corporate G&A). This contract has costs incurred in FY's 2001, 2002, and 2003. For each of these three fiscal years, we have questioned a portion of the contractor's proposed overhead rate. However, the contractor has only claimed the Overhead contract ceiling rate. Therefore, while the proposed rate may be questioned, there is no impact on the amount of questioned costs, as the contractor has claimed the Overhead ceiling rate. Please see Exhibit J, page 19, for the calculation of the questioned costs by contract. Additionally, the contractor's proposed G&A rates are less than the contract ceiling rates for all three of these fiscal years. Please note that Contract Number 0137903 does not contain indirect ceiling rates.



**SUMMARY OF CONTRACTOR'S CLAIMED
FY 2001 G&A RATE
AND RESULTS OF AUDIT REVIEW**

Compuware Corporation
Detroit, Michigan

	Proposed (Note 1)	Questioned Costs			
		Total	Concurred	Non- Concurred	Note
Branch G&A		\$ -	\$ -	\$ -	2
Corporate G&A		-	-	-	2
Total G&A Pool (a)		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Cost Input Base (b)		\$ -	\$ -	\$ -	3
G&A Rate (a/b)		<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	

Government Participation in the Allocation Base:

Cost Type Contracts	
Fixed Price & Commerical Contracts	
Total	

Minor differences due to rounding

EXPLANATORY NOTES

1. The contractor's proposed costs, as shown, are the net effect after numerous voluntary deletions for unallowable and unallocable costs. These voluntary deletions are too numerous to show in this audit report. However, they are available upon request.

2. Branch G&A and Corporate G&A Expenses

a. Summary of Conclusions:

We take no exceptions to the contractor's claimed G&A expenses.

b. Basis of Contractor's Costs:

The proposed costs are general and administrative expenses accumulated by Compuware in the respective general ledger accounts. The claimed costs consist primarily of fringe benefits, utilities, depreciation, and facility costs, as well as corporate expenses.

c. Audit Evaluation:

We judgmentally verified the allocations and reconciled the costs claimed to the contractor's books and records. We performed transaction testing of selected high risk accounts and traced selected items to source documents and have accepted the costs, as claimed. We performed combined transaction testing of FY's 2001, 2002, 2003, and 2004. The internal controls were considered in our determination of the allowability and allocability of the costs reviewed. Therefore, we have taken no exception to these claimed indirect expenses.

3. Total Cost Input Allocation Base

a. Summary of Conclusions:

We take no exception to the contractor's claimed total cost input allocation base.

b. Basis of Contractor's Costs:

The contractor based their claimed G&A total cost input allocation base on the total costs incurred at the Washington DC branch.

c. Audit Evaluation:

We evaluated the contractor's claimed total cost input allocation base by reconciling the costs claimed to the contractor's general ledger for the fiscal years ended March 31, 2001; March 31, 2002; March 31, 2003; and March 31, 2004. We also evaluated the allocation base to determine if the base was in accordance with the provision of FAR 31.203(c), and took no exceptions.

**SUMMARY OF CONTRACTOR'S CLAIMED
FY 2002 OVERHEAD RATE
AND RESULTS OF AUDIT REVIEW**

Compuware Corporation
Detroit, Michigan

	Proposed (Note 1)	Questioned Costs			Note
		Total	Concurred	Non- Concurred	
Labor Overhead		\$ -	\$ -	\$ -	2
Branch Overhead:					
All Other Expenses		-	-	-	2
Subcontractor Hourly Expense		75,557	75,557	-	3
Rebilled Expenses		74,784	74,784	-	3
Employee Welfare		98,362	98,362	-	3
Total Branch Overhead Expenses		\$ 248,703	\$ 248,703	\$ -	
Total OH Pool (a)		\$ 248,703	\$ 248,703	\$ -	
Direct Labor Base (b)		\$ -	\$ -	\$ -	4
Overhead Rate (a/b)				0.00%	
Overhead Rate Claimed on Contract No. 9614054:					
Contract Ceiling Rate					5
Government Participation in the Allocation Base:					
Cost Type Contracts					
Fixed Price & Commercial Contracts					
Total					

Minor differences due to rounding

EXPLANATORY NOTES

See the Explanatory Notes to Exhibit A, page 4.

**SUMMARY OF CONTRACTOR'S CLAIMED
 FY 2002 G&A RATE
 AND RESULTS OF AUDIT REVIEW**

Compuware Corporation
 Detroit, Michigan

	Proposed (Note 1)	Questioned Costs			Note
		Total	Concurred	Non- Concurred	
Branch G&A		\$ -	\$ -	\$ -	2
Corporate G&A		-	-	-	2
Total G&A Pool (a)		\$ -	\$ -	\$ -	
Total Cost Input Base (b)		\$ -	\$ -	\$ -	3
G&A Rate (a/b)		0.00%	0.00%	0.00%	

Government Participation in the Allocation Base:

Cost Type Contracts	
Fixed Price & Commercial Contracts	
Total	

Minor differences due to rounding

EXPLANATORY NOTES

See the Explanatory Notes to Exhibit B, page 8.

**SUMMARY OF CONTRACTOR'S CLAIMED
FY 2003 OVERHEAD RATE
AND RESULTS OF AUDIT REVIEW**

Compuware Corporation
Detroit, Michigan

	Proposed (Note 1)	Questioned Costs		
		Total	Concurred	Non- Concurred Note
Labor Overhead		\$ -	\$ -	\$ - 2
Branch Overhead:				
All Other Expenses		-	-	- 2
Subcontractor Hourly Expense		85,329	85,329	- 3
Rebilled Expenses		212,654	212,654	- 3
Employee Welfare		36,712	36,712	- 3
Total Branch Overhead Expenses		\$ 334,695	\$ 334,695	\$ -
Total OH Pool (a)		\$ 334,695	\$ 334,695	\$ -
Direct Labor Base (b)		\$ -	\$ -	\$ - 4
Overhead Rate (a/b)				0.00%
Overhead Rate Claimed on Contract No. 9614054:				
Contract Ceiling Rate				5
Government Participation in the Allocation Base:				
Cost Type Contracts				
Fixed Price & Commercial Contracts				
Total				

Minor differences due to rounding

EXPLANATORY NOTES

See the Explanatory Notes to Exhibit A, page 4.

SCHEDULE OF UNALLOWABLE COSTS SUBJECT TO PENALTY

April 1, 2002 through March 31, 2003

Compuware Corporation
 Detroit, Michigan

FY 2003:

<u>Cost Element</u>	<u>Costs Questioned</u>	<u>Level One Penalty</u>	<u>Reference</u>
Employee Welfare	36,712	36,712	Exhibit E, Note 3
Total	<u>\$ 36,712</u>	<u>\$ 36,712</u>	

Participation of Contracts Subject to Penalty Clause

	<u>Total</u>	<u>Subject to Penalty</u>	<u>Not Subject to Penalty</u>
Allocation Base	\$ 12,825,397	\$ 3,565,996	\$ 9,259,401
Percent of Base	[REDACTED]		

Questioned Costs Subject to Level One
 Penalty (\$36,712 x 27.80%)

\$ 10,207

Minor differences due to rounding



**SUMMARY OF CONTRACTOR'S CLAIMED
 FY 2003 G&A RATE
 AND RESULTS OF AUDIT REVIEW**

Compuware Corporation
 Detroit, Michigan

	Proposed (Note 1)	Questioned Costs			Note
		Total	Concurred	Non- Concurred	
Total G&A Pool (a)		\$ -	\$ -	\$ -	2
Total Cost Input Base (b)		\$ -	\$ -	\$ -	3
G&A Rate (a/b)		<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	

Government Participation in the Allocation Base:

Cost Type Contracts	
Fixed Price & Commerical Contracts	
Total	

Minor differences due to rounding

EXPLANATORY NOTES

See the Explanatory Notes to Exhibit B, page 8.

**SUMMARY OF CONTRACTOR'S CLAIMED
 FY 2004 OVERHEAD RATE
 AND RESULTS OF AUDIT REVIEW**

Compuware Corporation
 Detroit, Michigan

	Proposed (Note 1)	Questioned Costs		
		Total	Concurred	Non- Concurred Note
Labor Overhead		\$ -	\$ -	\$ - 2
Branch Overhead:				
All Other Expenses		-	-	- 2
Subcontractor Hourly Expense		212,003	212,003	- 3
Rebilled Expenses		87,733	87,733	- 3
Employee Welfare		33,355	33,355	- 3
Total Branch Overhead Expenses		\$ 333,091	\$ 333,091	\$ -
Total OH Pool (a)		\$ 333,091	\$ 333,091	\$ -
Direct Labor Base (b)		\$ -	\$ -	\$ - 4
Overhead Rate (a/b)				0.00%

Government Participation in the Allocation Base:

Cost Type Contracts	
Fixed Price & Commercial Contracts	
Total	

Minor differences due to rounding

EXPLANATORY NOTES

See the Explanatory Notes to Exhibit A, page 4.

SCHEDULE OF UNALLOWABLE COSTS SUBJECT TO PENALTY

April 1, 2003 through March 31, 2004

Compuware Corporation
 Detroit, Michigan

FY 2004:

<u>Cost Element</u>	<u>Costs Questioned</u>	<u>Level One Penalty</u>	<u>Reference</u>
Employee Welfare	33,355	33,355	Exhibit G, Note 3
Total	<u>\$ 33,355</u>	<u>\$ 33,355</u>	

<u>Participation of Contracts Subject to Penalty Clause</u>			
	<u>Total</u>	<u>Subject to Penalty</u>	<u>Not Subject to Penalty</u>
Allocation Base	\$ 11,393,351	\$ 4,095,422	\$ 7,297,929
Percent of Base	[REDACTED]		

Questioned Costs Subject to Level One
 Penalty (\$33,355 x 35.95%) \$ 11,990

Minor differences due to rounding



**SUMMARY OF CONTRACTOR'S CLAIMED
 FY 2004 G&A RATE
 AND RESULTS OF AUDIT REVIEW**

Compuware Corporation
 Detroit, Michigan

	Proposed (Note 1)	Questioned Costs			Note
		Total	Concurred	Non- Concurred	
Total G&A Pool (a)		\$ -	\$ -	\$ -	2
Total Cost Input Base (b)		\$ -	\$ -	\$ -	3
G&A Rate (a/b)		<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	

Government Participation in the Allocation Base:

Cost Type Contracts	
Fixed Price & Commercial Contracts	
Total	

Minor differences due to rounding

EXPLANATORY NOTES

See the Explanatory Notes to Exhibit B, page 8.

COMPUWARE CORPORATION
DETROIT, MICHIGAN

SCHEDULE OF CUMULATIVE DIRECT AND INDIRECT COSTS CLAIMED AND BILLED
ON COST/FLEXIBLY PRICED AND T&M CONTRACTS AND SUB CONTRACTS
Fiscal Years 2001, 2002, 2003 & 2004

Contract No.	Subject To Penalty Clause	Prior Years Settled Total Costs	Currently Claimed				Total Claimed (Note)	Less Contract Limitations Rebates/Credits	Net Cumulative Claimed (Note)	FV No.	Cumulative Billed		Over (Under) Billing	Physically Complete
			FYE 3/31/2001 Costs	FYE 3/31/2002 Costs	FYE 3/31/2003 Costs	FYE 3/31/2004 Costs					Date Cost Billed Through	Amount (Note)		
Cost Type & Flexibly Priced:														
Contract # 9614054	No	(Note)	[REDACTED]								3/31/2004	[REDACTED]		Yes
Contract # 0137903	Yes	-	[REDACTED]								3/31/2004	[REDACTED]		
Subtotal- Cost & Flexibly Priced Contracts			[REDACTED]									[REDACTED]		
Time & Material														
N/A														
Subtotal- Time & Material Contracts			-				-		-			-		-
Total- Cost/Flexibly Priced and Time & Material Contracts			[REDACTED]				[REDACTED]		[REDACTED]			[REDACTED]		

Note: The prior years settled amounts for Contract No. 9614054 were not available to us at the time of audit review. Therefore, both the cumulative column and billed column represent costs for FY's 2001 through 2004 only.

Minor differences due to rounding



SCHEDULE OF ALLOWABLE COSTS BY CONTRACT
 Compuware Corporation
 Detroit, Michigan

Cost Category	FY 2001			FY 2002			FY 2003			FY 2004			FY 01 - FY 04 Total Allowable	Notes
	Claimed	Allowable	Questioned	Claimed	Allowable	Questioned	Claimed	Allowable	Questioned	Claimed	Allowable	Questioned		
<u>Contract No. 9614054 (Ceiling Rates Apply):</u>														
Direct Labor			\$ -			\$ -			\$ -	\$ -	\$ -	\$ -		
Overhead			-			-			-	-	-	-		
Subtotal			\$ -			\$ -			\$ -	\$ -	\$ -	\$ -		
G&A			-			-			-	-	-	-		
Total			\$ -			\$ -			\$ -	\$ -	\$ -	\$ -		
<u>Contract No. 0137903:</u>														
Direct Labor	\$ -	\$ -	\$ -			\$ -			\$ -			\$ -		
Overhead	-	-	-			27,975			102,964			119,586		
Subcontract Labor	-	-	-			-			-			-		
Subtotal	\$ -	\$ -	\$ -			\$ 27,975			\$ 102,964			\$ 119,586		
G&A	-	-	-			3,416			29,561			36,916		
Total	\$ -	\$ -	\$ -			\$ 31,391			\$ 132,524			\$ 156,503		
Grand Total			-			\$ 31,391			\$ 132,524			\$ 156,503		

Minor differences due to rounding



EXPLANATORY NOTE

Subcontractor Labor

a. Summary of Conclusions:

We have taken exception to the contractor's inclusion of applied overhead to their subcontract labor incurred in FY's 2002 and 2003 on Contract No. 0137903, as this labor has not been included in their direct labor allocation base. Additionally, as the overhead expense pool consists of mainly fringe benefit type costs, we do not see a causal beneficial relationship to include the subcontract labor in the direct labor allocation base.

b. Basis of Contractor's Costs:

The contractor based their subcontract labor costs on amounts billed to Compuware for contract specific subcontract work.

c. Audit Evaluation:

We transaction tested the Subcontract Labor costs and reconciled the costs back to the vendor invoices and timesheets. We have taken no exception to the costs incurred for FY's 2002 and 2003. However, we noted that the contractor had included the costs in their direct labor amounts and had applied overhead to them. We have taken exception to the contractor's inclusion of overhead on these costs, as they have not been included in the contractor's direct labor allocation base used to calculate the overhead rate. Further, as the pool expenses are primarily fringe benefit type expenses, we do not see a causal beneficial relationship, as required by FAR 31.203(c). The contractor has not incurred subcontract labor for FY's 2001 and 2004.

In our opinion, the questioned costs are a result of the contractor's lack of policies and procedures to exclude these types of costs at the time of indirect rate preparation. However, the contractor's has taken corrective action and implemented new procedures to correct these conditions, as evidenced by their preparation of FY's 2005 and 2006 preliminary incurred cost submissions.

d. Contractor's Reaction:

The contractor's representative has concurred with the questioned costs.

CONTRACTOR ORGANIZATION AND SYSTEMS

1. Organization

Compuware Corporation (CC) was incorporated in the state of Michigan in 1973. Compuware is primarily engaged in software development and information technology services. Revenue for the fiscal year ended March 31, 2004, was approximately [REDACTED], of this amount, U.S. Government sales are less than one percent. Compuware maintains locations throughout the United States and worldwide. Compuware currently employs approximately [REDACTED] employees.

2. Accounting System

Compuware's accounting period is from April 1 to March 31. CC maintains a job order accounting system for contract costs. CC maintains an accounting system on the accrual basis in accordance with Generally Accepted Accounting Principles. CC's accounting system is posted on a current basis. Appropriate adjusting entries are made at the end of each month and year. The accounting firm of Deloitte & Touche, LLC audited CC's FY's 2001, 2002, 2003, and 2004 financial statements. The contractor currently uses the Oracle accounting software program.

We performed an accounting system review in conjunction with the incurred cost reviews, under Audit Assignment Number 2261-2006G17740016, which will be issued in the near future. In our opinion, CC's accounting system is adequate, for the accumulation, reporting, and billing of costs on government contracts. In these reviews, the internal controls were evaluated to the extent necessary to make a determination of the allowability and allocability of the transactions tested.

Audit Report Nos. 2261-2001G10100003, 2261-2002G10100007, 2261-2003G10100014, & 2261-2004G10100039

DCAA PERSONNEL

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

RELEVANT DATES

NSF Request for Audit Dated December 16, 2005; Received December 16, 2005.

AUDIT REPORT AUTHORIZED BY:

Norman S. Rea
/for/ RICHARD J. AHKAO
Branch Manager
DCAA Great Lakes Branch Office

AUDIT REPORT DISTRIBUTION AND RESTRICTIONS

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Compuware Corporation One Campus Martius Detroit, MI 48226 (Copy furnished thru ACO)	

RESTRICTIONS

[Redacted]

[Redacted]

[Redacted]

[Redacted]

Compuware Corporation
Detroit, MI

Certificate of Final Indirect Costs
Fiscal Year 2001

This is to certify that I have reviewed this proposal to establish final indirect cost rates and to the best of my knowledge and belief:

1. All costs included in the proposals # 9614054
to establish final indirect cost rates for Fiscal Year 2001

are allowable in accordance with the cost principles of the Federal Acquisition Regulation (FAR) and its supplements applicable to the contracts to which the final indirect cost rates will apply; and

2. This proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements.

Firm: Compuware Corporation

Signature: [Redacted]

Name of Certifying Official: [Redacted]

Title: [Redacted]

Date of Execution: October 5, 2005

Compuware Corporation
Detroit, MI

Certificate of Final Indirect Costs
Fiscal Year 2002

This is to certify that I have reviewed this proposal to establish final indirect cost rates and to the best of my knowledge and belief:

1. All costs included in the proposals # 9614054 and #0137903
to establish final indirect cost rates for Fiscal Year 2002

are allowable in accordance with the cost principles of the Federal Acquisition Regulation (FAR) and its supplements applicable to the contracts to which the final indirect cost rates will apply; and

2. This proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements.

Firm: Compuware Corporation

Signature: [Redacted]

Name of Certifying Official: [Redacted]

Title: [Redacted]

Date of Execution: October 5, 2005

Compuware Corporation
Detroit, Mi

Certificate of Final Indirect Costs
Fiscal Year 2003

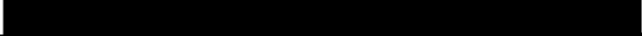
This is to certify that I have reviewed this proposal to establish final indirect cost rates and to the best of my knowledge and belief:

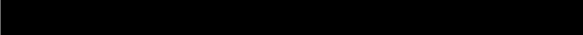
1. All costs included in the proposals # 9614054 and #0137903
to establish final indirect cost rates for Fiscal Year 2003

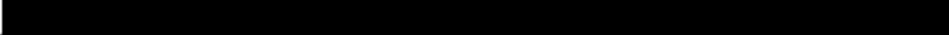
are allowable in accordance with the cost principles of the Federal Acquisition Regulation (FAR) and its supplements applicable to the contracts to which the final indirect cost rates will apply; and

2. This proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements.

Firm: Compuware Corporation

Signature: 

Name of Certifying Official: 

Title: 

Date of Execution: October 5, 2005

Compuware Corporation
Detroit, MI

Certificate of Final Indirect Costs
Fiscal Year 2004

This is to certify that I have reviewed this proposal to establish final indirect cost rates and to the best of my knowledge and belief:

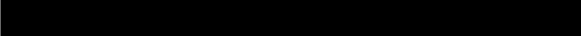
1. All costs included in the proposals #0137903
to establish final indirect cost rates for Fiscal Year 2004

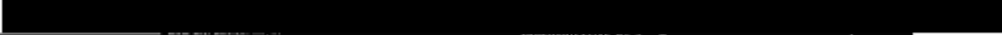
are allowable in accordance with the cost principles of the Federal Acquisition Regulation (FAR) and its supplements applicable to the contracts to which the final indirect cost rates will apply; and

2. This proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements.

Firm: Compuware Corporation

Signature: 

Name of Certifying Official: 

Title: 

Date of Execution: October 5, 2005