



National Science Foundation
4201 Wilson Boulevard
Arlington, Virginia 22230

Office of Inspector General

MEMORANDUM

DATE: SEP 19 2006

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

FROM: *Deborah H. Cureton*
Deborah H. Cureton
Associate Inspector General for Audit

SUBJECT: NSF OIG Audit Report No. OIG-06-1-014, Audit of Mayatech Corporation's Incurred Costs for Fiscal Years 1999 through 2003

In response to NSF's request for audit support, we contracted with the Defense Contract Audit Agency (DCAA), Herndon Branch Office, to perform an incurred cost audit of Mayatech Corporation's (Mayatech's) cost-plus-fixed-fee Contract No. ESI-9911665 for the total claimed amount of \$7,083,076 for Fiscal Years (FYs) 1999 through 2003 (September 1, 1999 to August 31, 2003). The contractor provided technical support for the "Presidential Awards for Excellence in Mathematics and Science Teaching" (PAEMST) for NSF's Division of Elementary, Secondary and Informal Education (ESIE).

The objectives of the audit were to determine whether:

- Mayatech's accounting system was adequate for accumulating and billing costs for use on government contracts; and
- Costs charged to the NSF contract were allowable, allocable and reasonable in accordance with contract terms and applicable government acquisition regulations.

The DCAA audit was performed in accordance with Generally Accepted Government Auditing Standards. The DCAA audit report is included as an attachment to this memorandum.

DCAA found that Mayatech's accounting system was acceptable for accumulating and billing costs under government contracts, but questioned a total of \$14,089 in claimed costs. This amount is comprised of \$12,000 of unallowable costs for alcoholic beverages provided to PAEMST candidates and [REDACTED] of associated general and administrative (G&A) costs. The costs for alcoholic beverages were included in Mayatech's proposal and records in an account entitled "Meeting Expenses."

Mayatech incurred costs for dinner cruises for four years (FYs 2000 through 2003). The cruise was one of the events held for PAEMST candidates during their week-long visit to Washington, DC. Invoices supporting the costs of the cruises showed that "beer, wine, juice and soda" were provided, and were billed at ten dollars per person for 500 people, including candidates and their spouses.

DCAA asked Mayatech to identify the amount of beverage costs for alcohol, and Mayatech stated that about 60% of the costs were for alcoholic beverages. DCAA accepted Mayatech's estimate as reasonable and accordingly, questioned \$3,000¹ for each of the four years Mayatech incurred alcohol costs for the cruises.

Mayatech disagreed with the DCAA finding that the costs for alcoholic beverages were unallowable for two reasons: 1) the costs were incurred solely for candidates of the PAEMST award, and 2) Mayatech was directed by the NSF Contracting Officer under the contract terms to incur these costs. Mayatech also stated that NSF had provided the contractor with documentation which stated that it was legal to serve alcohol on the cruises.

In its response to Mayatech, DCAA agreed that the alcohol costs were incurred for candidates of the PAEMST award, and noted that it does appear that Mayatech was instructed to incur these costs, but stated that its audit opinion must follow the Federal Acquisition Regulation (FAR). FAR Part 31.205-51 states that, "Costs of alcoholic beverages are unallowable." The contract made no specific provision for the costs of alcoholic beverages. The DCAA report remained unchanged.

NSF indicated that it was its intent to authorize and approve the costs for alcoholic beverages for this contract as evidenced by discussions with NSF's Program and Contracting Officers; a Mayatech budget which included costs for alcoholic beverages; a February 1995 (pre-contract) legal opinion from NSF's Office of General Counsel (OGC) which refers to NSF's specific statute (42 U.S. Code Annotated 1881b) and states that NSF is allowed to use its regular appropriations for entertainment, including alcohol; and a June 2006 legal opinion from NSF's OGC which concludes that the costs for alcohol for PAEMST candidates is an allowable cost in accordance with NSF's statute.

However, this intent to allow the costs for alcoholic beverages was not confirmed in the contract between Mayatech and NSF. The contract Statement of Work provided for "suitable transportation, meals, receptions, awards ceremony, and educational tours for awardees and guests during recognition events;" but the contract failed to state that NSF is allowed by its statute and intended this contract with Mayatech to fund entertainment, including alcohol. Whenever it is NSF's intent to have alcoholic beverages paid for by NSF funds, the contract or advance agreement with the contractor should cite the statutory authority under which costs for alcoholic beverages will be considered allowable, and also identify a reasonable ceiling amount for alcohol costs.

¹ The calculation is \$10 per person times 500 people times 60 percent equals \$3,000.

The findings in the DCAA audit report should not be closed until NSF verifies that our recommendations have been adequately addressed and proposed corrective actions have been satisfactorily implemented.

We discussed our conclusions with the NSF Contracting Officer prior to issuance of this report.

Recommendations

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

1. Resolve the questioned costs in the DCAA audit report;
2. For current and future PAEMST program contracts, where NSF considers it appropriate to allow alcoholic beverages as a direct cost of an NSF contract:
 - a. Clarify in the contract or in an advance agreement with the contractor that alcoholic beverages will be considered an allowable cost under the contract up to a specified ceiling amount; and
 - b. State the statutory authority under which costs for alcoholic beverages will be considered allowable.

We are providing a copy of this memorandum to the Office of Education and Human Resources (EHR)/Division of ESIE. 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 auditor's report on Mayatech and the conclusions expressed in the report. NSF-OIG does not express any opinion on Mayatech's proposal, accounting system, or the conclusions presented in DCAA's audit report.

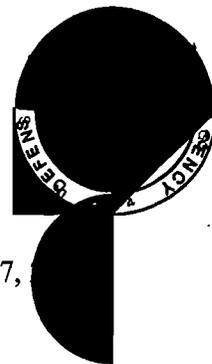
We thank you and your staff for the assistance extended to us during the audit. If you have any questions about this report, please contact Jannifer Jenkins at (703) 292-4996 or David Willems at (703) 292-4979.

Attachment: DCAA Audit Report of Mayatech Corporation's Incurred Costs
for Fiscal Years 1999 through 2003

cc: Celestine Pea, Program Director, EHR/ESIE



DEFENSE CONTRACT AUDIT AGENCY
AUDIT REPORT NO. 06221-2005M17900007



April 7,

PREPARED FOR: National Science Foundation
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Arlington, VA 22230

PREPARED BY: DCAA Silver Spring Branch Office
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SUBJECT: Audit of Cost Incurred under Contract No. ESI-9911665

REFERENCES: Relevant Dates: See Page 20

CONTRACTOR: MayaTech Corporation (Cage Code 03AT2)
1100 Wayne Avenue, Suite 900
Silver Spring, MD 20910

REPORT RELEASE RESTRICTIONS: See Page 21

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SUBJECT OF AUDIT

As requested by the National Science Foundation in an undated memorandum received April 15, 2005 and as discussed subsequently with your office, we examined MayaTech, Inc. (MayaTech) costs incurred on cost plus fixed fee Contract No. ESI-9911665. The costs incurred are for the period of September 1, 1999 to August 31, 2003. We have also been requested to comment on MayaTech's accounting system.

The proposal and related cost or pricing data are the responsibility of the contractor. Our responsibility is to express an opinion on the proposal 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:

- 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 proposed costs using the applicable requirements contained in the:

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

The contractor claims exemption under 48 CFR 9903.201-1(b) (3) from the practices required by the Cost Accounting Standards Board rules and regulations because it considers itself a small business concern.

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;



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- 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;
- 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 on December 7 and 8, 2005.

This assignment represents our first experience with MayaTech Corporation. Therefore, we have no previous experience with examining MayaTech's accounting system and related internal controls. The contractor is a small business concern with limited resources to be applied to compliance procedures and testing. The scope of our examination reflects this assessment of control risk and includes those tests of compliance with applicable laws and regulations that we believe provide a reasonable basis for our opinion.

RESULTS OF AUDIT

In our opinion, the contractor's claimed costs are acceptable as adjusted by our examination. We questioned \$14,089 of costs proposed under Contract No. ESI-9911665. The \$14,089 of questioned costs include questioning \$12,000 of direct meeting expenses in which MayaTech incurred costs to provide alcohol to participants of NSF's Presidential Awards for Excellence in Mathematics and Science Teaching (PAEMST) Program. We have also questioned [REDACTED] of applicable G&A costs that were applied to the unallowable alcohol costs. Claimed costs are under the ceiling. Our results of audit are presented in the Exhibit below.

In our opinion, MayaTech's accounting system is acceptable for accumulating and billing costs under government contracts. We have completed and attached a Standard Form 1408, Pre-award Survey of Prospective Contractor Accounting System, as the Appendix to this report.

Our examination of MayaTech's accounting system was limited to determining whether MayaTech'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 controls. Accordingly, we express no opinion on MayaTech's system of internal controls taken as a whole.

We discussed the results of our audit with [REDACTED] in an exit conference held on February 28, 2006. We provided a draft copy of our Note 7 for meeting expenses to the contractor's representative on March 9, 2006. MayaTech provided its reaction to our exit conference on March 28, 2006. Please refer to our Note 7 which outlines MayaTech's response to our audit findings.

MayaTech Corporation
 Contract No. ESI-9911665
 Summary of Costs Incurred and Results of Audit
 All Years

<u>Cost Element</u>	<u>Claimed</u>	<u>Questioned</u>	<u>Note</u>
Direct Labor	\$ 700,079	\$ -	1
Fringe Benefits	[REDACTED]	-	2
Overhead	[REDACTED]	-	2
Staff Travel	3,863	-	3
Subcontractors	1,583,107	-	4
Participant Lodging	1,095,749	-	5
Honor / Flat Fee	2,215	-	6
Meeting Expense	1,452,924	12,000	7
Other Direct Expense	301,895	-	8
Subcontract Overhead	[REDACTED]	-	2
G&A	[REDACTED]	[REDACTED]	9
Subtotal	[REDACTED]	[REDACTED]	
Fee	[REDACTED]		
Total	[REDACTED]		



MayaTech Corporation
Contract No. ESI-9911665
Summary of Costs Incurred and Results of Audit
Fiscal Year 2003

<u>Cost Element</u>	<u>Claimed</u>	<u>Questioned</u>	<u>Note</u>
Direct Labor	\$135,099	\$-	1
Fringe Benefits	[REDACTED]	-	2
Overhead	[REDACTED]	-	2
Staff Travel	462	-	3
Subcontractors	359,352	-	4
Participant Lodging	341,304	-	5
Honor / Flat Fee	-	-	6
Meeting Expense	438,247	3,000	7
Other Direct Expense	60,340	-	8
Subcontract Overhead	[REDACTED]	-	2
G&A	[REDACTED]	[REDACTED]	9
Subtotal	[REDACTED]	[REDACTED]	
Fee	[REDACTED]	[REDACTED]	
Total	[REDACTED]	[REDACTED]	



MayaTech Corporation
 Contract No. ESI-9911665
 Summary of Costs Incurred and Results of Audit
 Fiscal Year 2002

<u>Cost Element</u>	<u>Claimed</u>	<u>Questioned</u>	<u>Note</u>
Direct Labor	\$ 131,106	\$ -	1
Fringe Benefits	[REDACTED]	-	2
Overhead	[REDACTED]	-	2
Staff Travel	804	-	3
Subcontractors	377,238	-	4
Participant Lodging	331,786	-	5
Honor / Flat Fee	886	-	6
Meeting Expense	377,800	3,000	7
Other Direct Expense	56,716	-	8
Subcontract Overhead	[REDACTED]	-	2
G&A	[REDACTED]	[REDACTED]	9
Subtotal	[REDACTED]	[REDACTED]	
Fee	[REDACTED]		
Total	[REDACTED]		



MayaTech Corporation
Contract No. ESI-9911665
Summary of Costs Incurred and Results of Audit
Fiscal Year 2001

<u>Cost Element</u>	<u>Claimed</u>	<u>Questioned</u>	<u>Note</u>
Direct Labor	\$ 197,761	\$ -	1
Fringe Benefits	[REDACTED]	-	2
Overhead	[REDACTED]	-	2
Staff Travel	932	-	3
Subcontractors	288,391	-	4
Participant Lodging	224,937	-	5
Honor / Flat Fee	443	-	6
Meeting Expense	323,932	3,000	7
Other Direct Expense	77,910	-	8
Subcontract Overhead	[REDACTED]	-	2
G&A	[REDACTED]	[REDACTED]	9
Subtotal	[REDACTED]	[REDACTED]	
Fee	[REDACTED]	[REDACTED]	
Total	[REDACTED]	[REDACTED]	

MayaTech Corporation
 Contract No. ESI-9911665
 Summary of Costs Incurred and Results of Audit
 Fiscal Year 2000

<u>Cost Element</u>	<u>Claimed</u>	<u>Questioned</u>	<u>Note</u>
Direct Labor	\$ 213,814	\$ -	1
Fringe Benefits	[REDACTED]	-	2
Overhead	[REDACTED]	-	2
Staff Travel	1,434	-	3
Subcontractors	470,665	-	4
Participant Lodging	197,722	-	5
Honor / Flat Fee	886	-	6
Meeting Expense	284,065	3,000	7
Other Direct Expense	106,521	-	8
Subcontract Overhead	[REDACTED]	-	2
G&A	[REDACTED]	[REDACTED]	9
Subtotal	[REDACTED]	[REDACTED]	
Fee	[REDACTED]		
Total	[REDACTED]		



MayaTech Corporation
 Contract No. ESI-9911665
 Summary of Costs Incurred and Results of Audit
 Fiscal Year 1999

<u>Cost Element</u>	<u>Claimed</u>	<u>Questioned</u>	<u>Note</u>
Direct Labor	\$ 22,299	\$-	1
Fringe Benefits	[REDACTED]	-	2
Overhead	[REDACTED]	-	2
Staff Travel	231	-	3
Subcontractors	87,461	-	4
Participant Lodging	-	-	5
Honor / Flat Fee	-	-	6
Meeting Expense	28,880	-	7
Other Direct Expense	408	-	8
Subcontract Overhead	[REDACTED]	-	2
G&A	[REDACTED]	-	9
Subtotal	[REDACTED]	\$-	
Fee	[REDACTED]		
Total	[REDACTED]		

Explanatory Notes:

1. Direct Labor

a. Summary of Conclusions:

We take no exception with MayaTech's direct labor costs.

b. Basis of Contractor's Costs:

The contractor's costs are based on the direct labor costs incurred on Contract No. ESI-9911665 from September of 1999 to August of 2003.

c. Audit Evaluation:

We reconciled the contractor's direct labor costs incurred to MayaTech's trial balance and job cost ledgers. We then judgmentally selected months in which MayaTech incurred a relatively high amount of direct labor costs and traced the incurred costs to MayaTech's labor distribution report. The labor distribution report for Contract No. ESI-9911665 showed all



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employees who charged this contract, the amount of hours charged by each employee, and the hourly rate charged for each employee. From the labor distribution we judgmentally selected employees and obtained their timecards in order to verify that the hours accumulated on MayaTech's labor distribution report reconciled to the employees' timecards. We also obtained payroll data to verify that the hourly rate being charged to this final cost objective was the same hourly rate being paid to the employees.

During our testing of MayaTech's labor costs we verified that internal controls were in place to ensure the MayaTech's labor costs were accurate. We were able to determine that MayaTech's labor system is designed so that employees' timecards were to be signed at the end of the pay period, then submitted to their supervisor for review and signature, and finally reviewed by accounting personnel during the processing of labor. As indicated in our completed SF 1408, we feel that MayaTech's labor system is acceptable.

d. Contractor's Reaction:

The contractor's representative agreed with our results.

2. Fringe Benefits, Overhead, and Subcontractor Overhead

a. Summary of Conclusions:

We take no exception with MayaTech's fringe benefits, overhead, and subcontractor overhead costs.

b. Basis of Contractor's Costs:

MayaTech's costs are based on its final indirect rates for FYs 1999, 2000, 2001, 2002 and 2003. MayaTech had final rates for each FY that were determined by the Department of Health & Human Services (HHS).

c. Audit Evaluation:

We obtained documents which showed the final determine rates for each fiscal year between MayaTech and HHS. We then verified that MayaTech has correctly applied all its final determined indirect rates to its costs incurred each fiscal year of this contract.

MayaTech's fringe benefit rate is applied to its direct labor costs incurred. The overhead rate is applied to direct labor plus applicable fringe. Subcontract overhead rate is only applied to MayaTech's costs incurred by subcontractors.

d. Contractor's Reaction:

The contractor's representative agreed with our results.

3. Staff Travel

a. Summary of Conclusions:

We take no exception with MayaTech's incurred costs for staff travel.

b. Basis of Contractor's Costs:

MayaTech's staff travel costs are based on its costs incurred during the performance of this contract.

c. Audit Evaluation:

We traced the costs incurred for staff travel to MayaTech's trial balance for each year in which costs were incurred. We also obtained MayaTech's job cost ledger for this contract and reconciled the costs that were incurred.

d. Contractor's Reaction:

The contractor's representative agreed with our results.

4. Subcontractors

a. Summary of Conclusions:

We take no exception with MayaTech's incurred costs for subcontractors.

b. Basis of Contractor's Costs:

MayaTech's subcontractor costs are based on its costs incurred during the performance of this contract. Specifically, MayaTech engaged the effort of three main subcontractors: the Association of State Supervisors of Mathematics, Council of State Science Supervisors, and Matthews Media Group.

c. Audit Evaluation:

We coordinated with NSF personnel to determine if any assist audits should be requested for MayaTech's subcontractors. Matthews Media Group was MayaTech's largest subcontractor, incurring approximately \$729,000 during the entire performance of this contract. Discussions were held with NSF personnel regarding obtaining an assist audit for Matthews, but it was determined that assist audits would not be requested.

We traced the subcontractor costs to MayaTech's trial balance and job cost ledger. We also judgmentally selected certain months in which MayaTech incurred a relatively significant

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amount of subcontractor costs and obtained MayaTech's job cost detail for these months. This analysis allowed us to see all transactions booked to this account.

Since assist audits were not being performed for MayaTech's subcontract costs, we corresponded with MayaTech in order to determine the type of services being performed by Matthews Media Group. MayaTech informed us that Matthews performed the following services:

"Matthews Media was subcontracted to develop and implement a comprehensive communications plan for the PAEMST Program. Specific areas of responsibility includes message development, preparation of bio-book (sketches of each awardee "class"), preparation of press releases, media outreach, preparation of media materials and information kits, tracking media and outreach activities, and reporting. "

d. Contractor's Reaction:

The contractor's representative agreed with our results.

5. Participant Lodging

a. Summary of Conclusions:

We take no exception with MayaTech's incurred costs for participant lodging.

b. Basis of Contractor's Costs:

MayaTech's participant lodging costs are based on the costs incurred during the performance on this contract. A majority of the lodging costs were incurred for candidates of the PAEMST. Candidates would come from all over the United States to Washington, DC for a week long conference which was held each year for the PAEMST Program. MayaTech accumulated the lodging costs for these candidates in this account.

c. Audit Evaluation:

To verify MayaTech's participant lodging costs, we obtained a listing of the costs incurred each year. We reconciled the total amount incurred each year to MayaTech's trial balance and also the job cost ledger for this contract. We then obtained a breakdown of MayaTech's billed costs by cost element for each month during the performance of this contract. From this breakdown we judgmentally selected months in which MayaTech incurred a relatively significant amount of participant lodging costs and obtained MayaTech's job cost detail for this month. The job cost detail showed all transactions booked to this account during that month.

From the job cost detail we judgmentally selected high dollar transaction and obtained source documents to verify the costs were allowable and allocable to this contract. We obtained

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invoices and cancelled checks to verify the participant lodging costs we selected. The costs that we verified were hotel charges for the participants staying in Washington, DC.

During our transaction testing of participant lodging costs we determined that MayaTech has internal controls in place in regards to participant lodging expenses. When MayaTech would bill costs to NSF the invoice would be prepared from an employee in the Accounting Department. The invoice would then be reviewed and signed by an employee in the Contracts Department and also the program manager. Finally the President and CFO of MayaTech would sign the invoice. Having various employees review the invoices submitted to NSF is a good internal control to prevent unallowable costs from being billed to the Government.

MayaTech informed us that NSF was involved in the arranging of hotel costs for the participants staying in Washington, DC. NSF would help MayaTech in the selection process of choosing a hotel company.

d. Contractor's Reaction:

The contractor's representative agreed with our results.

6. Honor / Flat Fee

a. Summary of Conclusions:

We take no exception with MayaTech's incurred costs for honor / flat fee.

b. Basis of Contractor's Costs:

MayaTech's costs are based on the costs incurred during the performance of this contract.

c. Audit Evaluation:

We traced the costs incurred for honor / flat fee to MayaTech's trial balance for each year in which costs were incurred. We also obtained MayaTech's job cost ledger for this contract and reconciled the costs that were incurred.

d. Contractor's Reaction:

The contractor's representative agreed with our results.

7. Meeting Expenses

a. Summary of Conclusions:

We are taking exception to a portion of the contractor's proposed meeting expenses. Our results are based on questioning alcohol costs that were incurred during dinner cruises for participants of NSF's Presidential Awards for Excellence in Mathematics and Science Teaching (PAEMST) Program. The alcohol costs were not incurred by MayaTech's employees.

b. Basis of Contractor's Costs:

The contractor's costs are based on its costs incurred from FY 1999 – 2003. A majority of the meeting expense costs were incurred for various dinners and events for candidates of the PAEMST Program. Typically, the costs are not incurred by MayaTech employees.

c. Audit Evaluation:

We obtained a listing of MayaTech's costs billed each year by cost element. We traced the meeting expenses billed to MayaTech's trial balance for each year. We also traced the meeting expenses billed each year to MayaTech's respective job cost ledger for this contract.

We then obtained a listing of MayaTech's monthly invoices that were billed to NSF for this contract. We judgmentally selected high dollar invoices and obtained MayaTech's job cost detail for that specific month. This selection allowed us to see all transactions booked to the meeting expense account for that month. From the job cost detail we judgmentally selected high dollar transactions and obtained source documents to verify that the costs were allowable and allocable to this contract.

During our transaction testing we determined that MayaTech was incurring costs each year (FYs 2000 – 2003) for a dinner cruise. This dinner cruise was not for employees of MayaTech, rather, the cruise was for the candidates of PAEMST. The cruise was one of the events held for these candidates during their week-long visit to Washington, DC. The invoices we obtained supporting the costs for the cruise indicated that beverages such as "beer, wine, juice, and soda" were available to the candidates during this cruise. All costs for alcohol are unallowable per FAR 31.205-51. Specifically, the invoices indicated the beverages were billed at ten dollars a person and 500 candidates were on the cruise. We spoke with MayaTech's representatives in order to determine the amount of beverage costs associated with the unallowable alcohol. MayaTech informed us that approximately 60% of the beverage cost was for the unallowable alcohol. Therefore, we have questioned \$3,000 for each year that MayaTech incurred these costs.

MayaTech informed us that all events were closely coordinated with NSF personnel. We spoke with personnel at NSF who were aware that alcohol was provided on this dinner cruise. NSF even provided our office with documents from its lawyers saying that it was acceptable to have alcohol served on this cruise.

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For the purposes of our audit we must follow the guidelines outlined in the Federal Acquisition Regulation (FAR). FAR 31.205-51 specifically states that the costs of all alcoholic beverages are unallowable. Therefore, in order for our report to be in accordance with the FAR, we are treating the alcohol costs as unallowable.

Again, this cruise was not an event for the employees of MayaTech. This was an event for candidates of PAEMST.

d. Contractor's Reaction:

MayaTech's representatives provided the following response:

"Please, also, bear in mind that these dinner expenses were incurred to cover Presidential award programs under the referenced contract. The MayaTech Corporation, as a contractor, was duly directed under the terms of the contract by the NFS Contracting Officer to incur these expenses. Moreover, as you rightly indicated, none of MayaTech's personnel benefited from these expenses. It will therefore be unjustified to disallow these costs under the conditions explained and consequently disagree with your opinion".

e. Auditor's Response:

We have been able to determine that MayaTech did incur these costs for candidates of the PAEMST award. Also, based on discussions with NSF and documents we obtained from NSF, it does appear that MayaTech was instructed to incur these costs. However, our audit opinion must follow the guidelines outline in the FAR. FAR 31.205-51 clearly states that "costs of alcoholic beverages are unallowable".

8. Other Direct Expenses

a. Summary of Conclusions:

We take no exception with MayaTech's incurred costs for other direct expenses.

b. Basis of Contractor's Costs:

MayaTech's costs are based on the costs incurred during the performance of this contract.

c. Audit Evaluation:

We obtained a listing of the total amount of other direct expenses incurred by MayaTech during each year of its contract. We reconciled the total amount incurred each year to MayaTech's trial balance and also the job cost ledgers. We then obtained a breakdown of MayaTech's billed other direct expenses for each month during the performance of this contract. From this breakdown we judgmentally selected months in which MayaTech incurred a relatively

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significant amount of other direct expenses and obtained MayaTech's job cost detail for the appropriate month. The job cost detail showed all transactions booked to this account during that month.

From the job cost detail we judgmentally selected high dollar transactions and obtained source documents to verify the costs were allowable and allocable to this contract. We obtained invoices and cancelled checks to verify the participant lodging costs we selected. In order to verify that the costs were allocable to this contract, we reviewed the scope of work outlined in the contract. This analysis allowed us to verify that MayaTech was incurring costs for services outlined in the scope of work.

d. Contractor's Reaction:

The contractor's representative agreed with our results.

9. G&A

a. Summary of Conclusions:

We take exception to a portion of MayaTech's incurred G&A expenses. We have questioned the G&A costs that were applied to the unallowable alcohol costs that are discussed in Note 7 of our report.

Our application of MayaTech's G&A rate to our audit determined base costs for each year of this contract is shown below:

Description	Rates			Bases		Total Proposed	Questioned		
	Proposed (1)	Per DCAA (2)	Quest. (3)	Proposed (4)	Quest. (5)		Due to Rate (6)	Due to Base (7)	Total (8)
FY 2000 G&A			(1 - 2) 0.0%		\$ 3,000	(1)*(4)	(3)*(4) \$0	(2)*(5)	(6)+(7)
Description	Proposed (1)	Per DCAA (2)	Quest. (3)	Proposed (4)	Quest. (5)	Total Proposed	Due to Rate (6)	Due to Base (7)	Total (8)
FY 2001 G&A			(1 - 2) 0.0%		3,000	(1)*(4)	(3)*(4) \$0	(2)*(5)	(6)+(7)
Description	Proposed (1)	Per DCAA (2)	Quest. (3)	Proposed (4)	Quest. (5)	Total Proposed	Due to Rate (6)	Due to Base (7)	Total (8)
FY 2002 G&A			(1 - 2) 0.0%		3,000	(1)*(4)	(3)*(4) \$0	(2)*(5)	(6)+(7)



Description	Rates			Bases		Total Proposed	Questioned		
	Proposed (1)	Per DCAA (2)	Quest. (3)	Proposed (4)	Quest. (5)		Due to Rate (6)	Due to Base (7)	Total (8)
FY 2003 G&A	[REDACTED]		0.0%	[REDACTED]	3,000	[REDACTED]	\$0	[REDACTED]	
			(1 - 2)			(1)*(4)	(3)*(4)	(2)*(5)	(6)+(7)

b. Basis of Contractor's Costs:

MayaTech's G&A costs are based on applying its final G&A for FYs 1999, 2000, 2001, 2002 and 2003 to its total costs incurred on the contract except for subcontractor costs, subcontractor overhead costs, and G&A costs. MayaTech had final rates for each FY that were determined by the Department of Health & Human Services (HHS).

c. Audit Evaluation:

We obtained documents which verified the final determined G&A rates for each fiscal year between MayaTech and HHS. We then verified that MayaTech has correctly applied its final determined G&A rate to its costs incurred each fiscal year of this contract. We also verified that its G&A was not applied to subcontractor costs, subcontractor overhead costs, and G&A costs.

As discussed in Note 7 of our report, we have questioned \$3,000 of unallowable alcohol expenses that were incurred each year in FYs 2000, 2001, 2002, and 2003. Therefore, all G&A costs applied to this unallowable alcohol are also unallowable.

d. Contractor's Reaction:

Please refer to Note 7 which outlines the contractor's response to our questioned alcohol costs.

e. Auditor's Response:

Please refer to Note 7 which outlines the auditor's response to contractor's reaction.

10. Accounting System and Internal Controls

a. Summary of Conclusions:

We consider MayaTech's accounting system and selected internal controls to be adequate.

b. Basis of Contractor's Cost:



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MayaTech uses Deltek for its accounting system. Also, MayaTech uses Deltek Time and Expense system for the employees' timecard system.

c. Audit Evaluation:

We performed audit steps to verify that MayaTech's accounting system is acceptable for use on government contracts based on the conditions outlined in the SF 1408 which is attached as the Appendix to this report. Specifically, we verified that MayaTech uses the accrual basis of accounting. We verified that accrual accounts exist which MayaTech properly uses.

In order to verify that controls exists to prevent direct costs from being charged direct and vice versa, we reviewed MayaTech's policies and procedures relating to its accounting system. We determined that MayaTech has established policies and procedures for describing when a cost should be charged direct. We then verified that MayaTech's accounting system has assigned specific charge numbers for direct costs and specific charge numbers for indirect costs.

In order to verify that MayaTech properly maintains a job cost ledger in its accounting system we obtained MayaTech's job cost ledger for each year of Contract No. ESI-9911665. MayaTech's accounting system assigns a unique four digit code for each of its contracts. MayaTech can then label this four digit code on all direct costs to ensure direct costs are charged to the appropriate cost objective. From MayaTech's job cost ledger for this contract we obtained supporting documentation which allowed us to determine the nature of the expenses being charged to Contract No. ESI-9911665. Based on the supporting documentation we obtained we were able to verify that the costs being accumulated in MayaTech's job cost ledger for this contract were allocable to the contract as a direct cost. We also wanted to verify that MayaTech's job cost ledgers are reconciled to the general ledger. We obtained MayaTech's trial balance for each fiscal year and were successfully able to reconcile the cost elements shown on the job cost ledger to the trial balance.

We obtained a written description of MayaTech's accounting system which included a description of the indirect rates used by MayaTech. The description described all the indirect rates used by MayaTech and the bases used to allocate the pool expenses. The written description would define each indirect expense and also describe the type of costs which should be included in each indirect rate. This description allows accounting personal to label the appropriate code on all indirect expenses. This description is a good internal control because the written descriptions make each accounting employee aware of where each cost should be assigned and charged. Therefore, throughout the entire accounting cycle if a cost is being assigned to the incorrect pool, a member of the Accounting Department should be able to identify and correct the error.

In order to verify that MayaTech properly handles labor costs we performed audit tests of MayaTech's labor system. We selected costs listed on MayaTech's job cost ledger for Contract No. ESI-9911665 and traced these costs through MayaTech's accounting system. We traced these costs to labor distribution reports and also to employees' timecards. Also, we obtained payroll data and cancelled checks to verify that the labor costs being charged to the contract are

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the same as the labor expenses being paid to employees. Another step we performed was to verify that some good internal controls exist within the labor system. We verified that all timecards are signed by the employee at the end of the pay period and then provided to the employee's supervisor for review and signature. Also, a project manager is assigned to each contract who reviews the monthly labor costs being charged to the respective contract. These are some of the internal controls within MayaTech labor system which help ensure labor costs are accurate.

MayaTech's written description of its accounting system also describes how to treat unallowable costs. MayaTech's accounting system has a set of codes labeled as 0900-000 through 0999-999 which are established to accumulate unallowable costs. Costs accumulated in these accounts are not included in MayaTech's indirect rates and do not get allocated to MayaTech's contracts. The written description of MayaTech's accounting system describes which costs are unallowable and should be accumulated in the unallowable accounts. We feel that based on these procedures MayaTech's accounting system properly handles unallowable expenses. In Note 7 of this report we explained that we are questioning alcohol costs because these expenses are unallowable per FAR 31.205-51. Even though MayaTech charged these expenses direct to Contract No. ESI-9911665 we still feel MayaTech's accounting system and its related internal controls are capable of removing these unallowable expenses. MayaTech knows alcohol is an unallowable expense per FAR 31.205-51; however, it chose to treat the expenses as a direct cost based on the instruction of NSF.

We determined that MayaTech has good internal controls in regards to the submission of public vouchers on its contracts. All public vouchers submitted to the Government are reviewed and signed off on by the Chief Financial Officer, Program Manager of the contract, and an employee from the Contracts Department. Finally, once the voucher is completed and ready to be submitted, MayaTech's President will review and sign the front of the voucher. We feel these internal controls help to ensure only allowable costs are included in MayaTech's billings to government agencies.

d. Contractor's Reaction:

The contractor's representative agreed with our results.

CONTRACTOR ORGANIZATION AND SYSTEMS

1. Organization

MayaTech, Inc. was incorporated under the laws of the State of Maryland. The contractor has approximately [REDACTED]. Sales for Fiscal Year (FY) ending December 31, 2004 were approximately [REDACTED]. Of this amount approximately \$750,000 was to the Federal Government. Most of MayaTech's government sales are to the National Institute of Health, Center for Disease Control, Agency for Internal Development, and Department of Education.

2. Accounting/Billing Systems

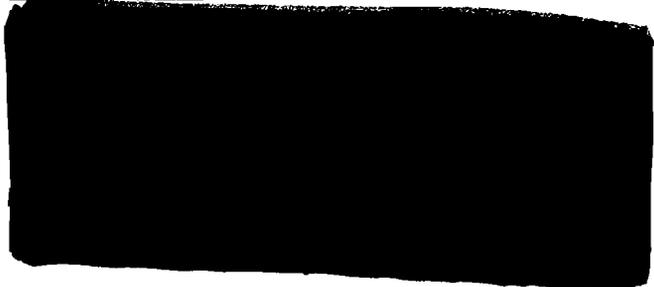
As stated in the results of this audit, MayaTech's accounting system is adequate for the accumulation of costs on government contracts. MayaTech's accounting period is from January 1 to December 31. MayaTech maintains an accounting system on the accrual basis in accordance with generally accepted accounting principles. MayaTech's accounting system is posted on a current basis. Appropriate adjusting entries are made at the end of each month and at year end. MayaTech prepares financial statements on an annual basis. The annual financial statements are audited by external CPAs. Its current accounting system consists of using Deltek accounting software.

MayaTech's pools and allocation bases follow:

Indirect Pool



Allocation Base



3. Estimating System

We have not performed a formal examination of MayaTech's estimating system.

4. Cost Accounting Standards

MayaTech claims exemption under 48 CFR 9903.201-1(b)(3) from the practices required by the Cost Accounting Standards Board rules and regulations because it considers itself a small business concern.



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

RELEVANT DATES

Request for audit: received on April 15, 2005.

AUDIT REPORT AUTHORIZED BY:

/Signed/
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Manager
DCAA Silver Spring Branch Office

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PREAWARD SURVEY OF PROSPECTIVE CONTRACTOR ACCOUNTING SYSTEM	SERIAL NO. (For surveying activity use)	OMB No.: 9000-0011 Expires: 10/31/97
	PROSPECTIVE CONTRACTOR MayaTech Corporation	

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. NARRATIVE)

YES, WITH A RECOMMENDATION THAT A FOLLOW ON ACCOUNTING SYSTEM REVIEW BE PERFORMED AFTER CONTRACT AWARD (Explain in 2. NARRATIVE)

2. NARRATIVE (Identification of deficiencies, and other pertinent comments. If additional space is required, continue on plain sheets of paper.)

IF CONTINUATION SHEETS ATTACHED - MARK HERE <input type="checkbox"/>		
3. SURVEY MADE BY [Redacted] (typed or printed name)	b. TELEPHONE NO. [Redacted] (include area code)	c. DATE SIGNED 4/1/06
4. SURVEY REVIEWING OFFICIAL [Redacted] (typed or printed name)	b. TELEPHONE NO. [Redacted] (include area code)	c. DATE REVIEWED 4/1/06

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SECTION II - EVALUATION CHECKLIST			
MARK "X" IN THE APPROPRIATE COLUMN (Explain any deficiencies in SECTION I NARRATIVE)	YES	NO	NOT APPLICABLE
1. EXCEPT AS STATED IN SECTION I NARRATIVE, IS THE ACCOUNTING SYSTEM IN ACCORD WITH GENERALLY ACCEPTED 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 preproduction 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		