

## MEMORANDUM

### DATE:

**TO:** David A. Elizalde, Director  
Division of Acquisition and Cooperative Support

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

**SUBJECT:** NSF OIG Audit Report No. OIG-06-1-017, Audit of Raytheon Polar Services Company- New Zealand's (RPSC-NZ) Accounting System and Labor Floor Check Reviews

In response to your request for audit assistance we contracted with the Defense Contract Audit Agency (DCAA) to perform a series of audits of the Raytheon Polar Services Company's (RPSC) Calendar Year 2000-2004 incurred cost proposal submissions of costs claimed under NSF Contract OPP-0000373. As these audits are completed and issued to the NSF OIG by DCAA's Herndon Branch Office, we provide the results and our recommendations to the Division of Acquisition and Cooperative Support (DACS) for appropriate action. Attached are the DCAA reports "Raytheon Polar Services - New Zealand Accounting System Review" dated June 15, 2006; and "Report on Audit of Raytheon Polar Services-New Zealand Labor Floor Check" dated April 7, 2006. These DCAA audit reports address the adequacy of RPSC-NZ's accounting and labor system internal controls.

The objectives of the audits were to determine whether RPSC-NZ's accounting and labor system internal controls applied under the NSF contract are adequate for accumulating, segregating and reporting costs in compliance with the NSF contract terms and conditions and applicable federal laws and regulations.

DCAA performed the audit in accordance with Generally Accepted Government Auditing Standards.

## Background

The United States Antarctic Program (USAP) has, since 1971 when NSF assumed full responsibility for USAP, provided a permanent presence and overseen U.S. scientific interests in Antarctica. RPSC, located in Centennial, Colorado, is a unit of Raytheon Technical Services Company (RTSC) headquartered in Reston, Virginia. RPSC is under contract with NSF to provide science, operations, and maintenance support to sustain year-round research programs. The contract consists of a five-year base period and five option periods for a total of ten years and is valued at \$1.1 billion. The charges claimed against the contract average [REDACTED].

DCAA audited [REDACTED] in costs claimed for payment by RPSC under Contract No. OPP-0000373 from January 1, 2000 through December 31, 2002.<sup>1</sup> Significant questioned costs of [REDACTED] in the categories of Miscellaneous, Miscellaneous-Petty Cash, Travel, Training, Load (Aircraft) Direct Services, and Other Direct Costs, were identified and were principally related to a New Zealand Petty Cash Fund. The costs were questioned because RPSC did not produce adequate accounting documentation detailing how the costs were allowable under the Federal Acquisition Regulations (FAR) or how the costs benefited NSF's contract. Also, DCAA subsequently determined that RPSC established a subsidiary company in Christchurch, New Zealand for all NSF USAP contract work performed in Christchurch. The subsidiary has its own Accounting System, Purchasing System, Labor Recordkeeping System, as well as a Board of Directors to oversee all of RPSC's activities in New Zealand. DCAA performed a review of RPSC-NZ's internal control policies and procedures for accounting, documenting, and allocating costs to the NSF contract in place as of November 10, 2005. The review also makes recommendations to RPSC that will ensure that NSF is billed only for allowable and documented costs for future contract performance.

## Summary of Results

DCAA issued reports on "Raytheon Polar Services—New Zealand Accounting System Review" and "Report on Audit of Raytheon Polar Services-New Zealand Labor Floor Check" dated June 15, 2006 and April 7, 2006, respectively (see Attachments). The auditors found that the internal control deficiencies that led to the [REDACTED] in questioned costs from January 1, 2000 through December 31, 2002 appear to have resulted from prior improperly trained accounting staff that did not retain the documentation for the costs incurred. Since that time, new accounting staff and record retention policies have been put in place to address these deficiencies. However, the auditors found additional significant weaknesses in the internal controls governing RPSC-NZ's accounting and labor systems that could adversely affect RPSC-NZ's ability to record, process, summarize, and report costs to NSF. The deficiencies require that NSF direct RPSC to take prompt action

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<sup>1</sup> RPSC's failure to adequately support New Zealand claimed costs during FYs 2000-2002 was reported in NSF OIG Report OIG-5-1-005, Audit of Raytheon Polar Services Company's Costs Claimed FY 2000-2002 dated March 31, 2005.

to address the reliability of its accounting, payroll, and timekeeping systems in New Zealand in order to comply with Federal and NSF contract requirements.

A brief summary of the deficiencies in RPSC-NZ's labor and accounting system internal controls follows:

1. Charging Unallowable Contract Costs as Allowable Contract Costs RPSC-NZ is charging NSF for costs that are considered expressly unallowable under FAR 31.205 such as gifts, entertainment, and alcohol. RPSC is incorrectly classifying these costs as allowable "other material costs," instead of charging them to an unallowable cost account. According to RPSC-NZ, these items are for resale in Antarctic station facilities such as the store or bar, and are also being provided as bingo prizes. RPSC-NZ also stated that the revenue generated from these resale activities is properly credited to NSF on its quarterly expenditure reports. Accordingly, RPSC-NZ's only purpose for charging these costs to the NSF contract was for RPSC-NZ to receive a fee for supplying the alcoholic beverages. However, under FAR 31.205, expressly unallowable costs must be segregated from otherwise billable contract costs.

2. Incorrectly Recording Labor Costs as Other Direct Costs

[REDACTED] RPSC states that this reclassification is necessary because the accounting system at the RPSC headquarters office is unable to record the New Zealand costs as labor costs. RPSC's inability to record the New Zealand labor costs correctly may result in understating total direct labor costs incurred on the RPSC contract and reported to NSF. RPSC should strengthen its internal control structure to ensure that the USAP contract labor costs are correctly reported to NSF.<sup>2</sup>

3. Improper Segregation of Duties RPSC does not have adequate segregation of the payroll accountant's duties in the payroll process to prevent or identify billing errors. The accountant should not have sole responsibility or the ability to perform multiple functions in the payroll system. These functions include entering initial payroll data and hours worked; changing salary rates, wages and hours worked; posting payroll to the general ledger; and requesting electronic disbursements for payroll to employee's bank accounts. The lack of segregation of duties in this area can lead to improper changes to employee salaries or wage rates, development of ghost employees, and other potential improper activity.

4. Employee Timecards Not Signed Employee timecards are not consistently signed by the employee, approved by the supervisor, and certified by management. There is no policy or procedure in place which has supervisors and management accountable for the review, approval, and certification of timecards. The certification and approval of time

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<sup>2</sup> RPSC's failure to record New Zealand labor correctly during FYs 2000-2002 was reported in NSF OIG Report OIG-5-1-005, Audit of Raytheon Polar Services Company's Costs Claimed FY 2000-2002 dated March 31, 2005.

cards is essential to ensure accurate recording of time actually worked by RPSC-NZ employees and costs charged to the NSF contract.

5. Employees Not In Possession of Timesheets; Timesheets not Recorded Daily; and Timesheets Not Completed in Ink There were instances noted where employees were printing out timesheet templates for an entire department at the end of the pay period with default labor hours recorded for the employees to sign. There were other instances noted where the timecard was not completed on a daily basis and/or completed in pencil. By allowing someone other than the employee to complete the timecard, and not requiring daily recording of time worked in ink, RPSC-NZ cannot ensure that the time recorded on the timesheet is representative of what the employee actually worked, that any leave taken, holidays worked, or time changes, are recorded accurately and completely and all time is submitted by the employee. RPSC-NZ has several instances where employees are on 24 hour call or are required to work nights and weekends in addition to regular daily work hours. The hours associated with these situations may be charged incorrectly if not recorded by the employee, on a current basis, and in ink.

6. Changes to Timesheets Not Properly Documented RPSC does not have an adequate system in place to document and approve changes made to original entries placed on the timecards. Various Departments use either hard copy or electronic timesheets. Employees do not routinely initial their changes on the hardcopy timesheets and no process is in place to track and approve changes made to electronic timesheets.

### **Recommendations**

The DCAA audit reports recommend that improvements to RPSC-NZ's accounting and labor system internal controls be implemented. Accordingly, we recommend that NSF's Director of the Division of Acquisition and Cooperative Support work with RPSC to address all of the recommendations in the DCAA report and ensure that RPSC:

1. Establishes adequate policies and procedures, including an internal compliance program and an employee training program, to identify and record expressly unallowable costs to an unallowable account consistent with Federal and NSF requirements.
2. Establishes adequate policies and procedures, including an internal compliance program and an employee training program, to have the RPSC headquarters office record the New Zealand labor and fringe costs as such in its accounting system rather than as miscellaneous other direct costs.
3. Designates a separate employee such as a Human Resources staff person to enter the initial employee information and wage/salary rate into the accounting system. In addition, persons entering labor timesheets in the payroll system and requesting payroll disbursements should not have access to the portion of the payroll system where employee wage rates and benefit information are maintained to ensure that improprieties will not

occur. Finally, responsible employees should receive training on the RPSC-NZ accounting system to record overtime and holidays worked.

4. Implements a timekeeping policy that;

a. requires employees to sign their timecards after all entries have been made but prior to receiving supervisory approval to ensure that the time recorded on a time sheet by the employee is correct.

b. requires management to review employee timecards for proper time charges prior to submission to accounting for payment. Additionally, management's time cards must also be approved and signed, preferably by another member of management. Approval of the timecard indicates that the employee charged his/her time as directed, all overtime or odd shifts are accounted for and any leave or holiday time is also accurately recorded.

c. requires employees to maintain possession of their timesheets, enter their time on a daily basis, complete their timesheets and changes in ink and document the reasons for the changes. Following these procedures will ensure that an employee's time recorded on the timesheet and any changes are accurate and properly documented. The timecards should be completed in such a way as to be able to distinguish between original entries and corrections to previously recorded time. Tracking and approving changes provides assurance that the entries being changed or corrected originate from the employee that actually charged the time and represent the time that the employee actually performed work on the contract.

In its response to the draft of the DCAA report, RPSC agreed to update its policies and procedures and/or will create policies and procedures to resolve the issues identified. However, any action plan as agreed to by RPSC needs to be substantiated in a follow-up review to be determined by NSF. RPSC does not agree that there are problems with the segregation of the payroll accountant's duties since the New Zealand Operations manager reviews all of the payroll accountant's entries. Also, RPSC believes all accounting personnel are adequately trained. However, the RPSC-NZ accountant during the audit expressed to DCAA a need for more training to take full advantage of all the accounting system's capabilities.

We consider the issues in the both DCAA audit reports to be significant. Accordingly, to help ensure the findings are resolved within six months of issuance of the audit report, please coordinate with our office during the audit resolution period to develop a mutually agreeable resolution of the audit recommendations. The findings should not be closed until NSF determines that all recommendations have been adequately addressed and proposed corrective actions have been satisfactorily implemented.

We are providing a copy of this memorandum to the Director of the Office of Polar Programs, the Director of Budget, Finance and Award Management, and the Director of the Division of Institution and Award Support. 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 RPSC, dated June 15<sup>th</sup> and April 7<sup>th</sup>, 2006 and the conclusions expressed in the reports. The NSF OIG does not express any opinion on the conclusions presented in DCAA's audit reports.

We also want to bring to your attention that DCAA has briefly discussed the results of several other audits performed at Raytheon Technical Services Company, RPSC's corporate headquarters, reporting the "Contract or Organization and Systems" sections of each attached DCAA report. Many of the reports have information that may be useful to NSF in administering its USAP contract with RPSC. If NSF desires a complete copy of any of the referenced DCAA reports, please contact Kenneth Stagner on (303) 312-7655.

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

Attachments - "Raytheon Polar Services –New Zealand Accounting System Review" dated June 15, 2006 and "Report on Audit of Raytheon Polar Services-New Zealand Labor Floor Check" dated April 7, 2006

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



**DEFENSE CONTRACT AUDIT AGENCY**  
**AUDIT REPORT NO. 6161-2006P17740001**



June

15, 2006

**PREPARED FOR:** National Science Foundation  
 ATTN: Ms. Deborah Cureton  
 Associate Inspector General for Audit  
 4201 Wilson Boulevard  
 Arlington, VA 22230

**PREPARED BY:** DCAA Herndon Branch Office  
 171 Elden Street, Suite 305  
 Herndon, VA 20170-4810

Telephone No. [REDACTED]  
 FAX No. [REDACTED]  
 E-mail Address [REDACTED]

**SUBJECT:** Raytheon Polar Services - New Zealand Accounting System Review

**CONTRACTOR:** Raytheon Polar Services New Zealand  
 Raytheon Technical Services Company  
 12160 Sunrise Valley Drive  
 Reston, VA 20191

**REPORT RELEASE RESTRICTIONS:** See Page 30

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## **Audit Report No. 6161-2006P177400001**

### **SUBJECT OF AUDIT**

As you requested on September 16, 2005, we examined Raytheon Polar Services New Zealand's (RPSC-NZ) accounting system as of November 10, 2005, to determine whether the accounting system and related internal controls are adequate for accumulating, segregating, and reporting costs under Government contracts.

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

### **EXECUTIVE SUMMARY**

We determined that the contractor's accounting practices require corrective action to improve the reliability of the accounting, payroll, and procurement systems. Our examination disclosed four (4) significant deficiencies in RPSC-New Zealand's accounting system that could result in misstated costs to the National Science Foundation.

#### **SIGNIFICANT ISSUES**

- The contractor books New Zealand labor and associated fringes as ODC costs.
- Certain employee timecards are not being approved in a consistent manner prior to being submitted to the accountant for processing in the payroll system.
- Improper segregation of duties for the accountant position.
- Improper segregation of expressly and other unallowable costs.

### **SCOPE OF AUDIT**

We conducted our examination in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the data and records examined are free from material misstatement. The examination includes:



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- obtaining an understanding of internal control for accumulating 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 to include supporting documentation for the New Zealand Imprest Fund (Petty Cash).

The examination was limited to the accounting, payroll and procurement systems implemented in Christchurch New Zealand.

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

- Federal Acquisition Regulation (FAR), and
- Cost Accounting Standards (CAS).

Our review 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 ;
- 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; and
- subcontractor and vendor costs are paid in accordance with subcontract and invoice terms and conditions and ordinarily paid prior to the contractor's next payment request to the Government.

Our examination was performed from October 30, 2005 to November 10, 2005.

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

Our examination did not include tests to determine whether internal controls are 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, the accounting system and related internal control policies and procedures of RPSC-NZ are inadequate in part. We believe certain contractor practices required corrective action to improve the reliability of the contractor's accounting system and related internal controls. The conditions are detailed in the "Statement of Conditions and Recommendations" section of this report.

Upon a request from the NSF IG, we will perform a follow-up evaluation of the contractor's accounting system to determine the status of the cited deficiencies, the status of the contractor's corrective actions, and the impact of the corrective actions on the overall adequacy of the contractor's accounting system internal controls.

We discussed the findings of these procedures with the contractor's representatives, [REDACTED], on November 10, 2005. We provided a draft copy of the Statement of Conditions and Recommendations to the RTSC representatives on April 11, 2006. The complete text of the contractor's response dated May 31, 2006 appears as an appendix to this report.

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**STATEMENT OF CONDITIONS AND RECOMMENDATIONS**

STATEMENT NO. 1 – ACCUMULATION OF COSTS UNDER GENERAL LEDGER CONTROL

CONDITION:

[REDACTED]. This does not impact the Christchurch accounting system directly as Christchurch personnel record the costs correctly before submitting to the Denver office for final booking to the SAP control accounts. While there is no finding directly associated with the New Zealand operations, the costs are not being recorded in the control accounts for which they were originally incurred.

RECOMMENDATION:

[REDACTED].

CONTRACTOR'S REACTION:

[REDACTED].

AUDITOR'S RESPONSE:

While the contractor recognizes the condition, no corrective action plan has been identified by RPSC. Follow up on the determination of the impending corrective action and further implementation by the contractor to resolve the misclassification of labor and fringe from the New Zealand location is recommended. DCAA will perform this follow up based on a request from the National Science Foundation, Office of Inspector General.

[REDACTED]

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STATEMENT NO. 2 – APPROVAL OF EMPLOYEE TIMECARDS

CONDITION:

Employee timecards are not being approved in a consistent manner prior to being submitted to the accountant for processing in the payroll system. All timecards should be certified and signed by the employee, approved by the supervisor, and approved by management as the timesheet requires. There is no policy or procedure in place which holds supervisors and management accountable for the review and approval of timecards. We reviewed 39 timecards (100% review) for the fortnight ending November 4, 2005. That review disclosed that of the 39 timecards reviewed, 5% were not signed by the employee, 38% were not approved by a supervisor, and 87% were not approved by management. The certification and approval of time cards is essential to ensure that employees' time is recorded accurately to reflect the time actually worked, and any leave or holidays as they are incurred. In addition, the signatures of employees, supervisors, and managers ensure that the time charges being entered into the accounting system are for current employees working on the Polar Services contract.

RECOMMENDATION:

We recommend that RPSC incorporate into a timekeeping policy or procedure the specific requirement for approval signatures on all timecards before they are processed by the accounting department. The policy should hold responsible management, supervisors and employees for the appropriate signatures as well as providing written direction to payroll personnel (accountant) on the steps required when required approvals have not been obtained.

CONTRACTOR'S REACTION:

[REDACTED]

AUDITOR'S RESPONSE:

The New Zealand policy titled Manual Time Sheet completion was reviewed as part of the floor check audit. In that policy, the contractor defines the responsibilities of the Manager NZ Operations and the supervisors which include the review of and approval of employee timesheets prior to submittal to the accountant for processing. The contractor's policy

[REDACTED]

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adequately addresses our recommendations. We will perform a follow-up review once the contractor has had sufficient time to fully implement and monitor adequate controls to correct the deficiencies and comply with our recommendations.



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**STATEMENT NO. 3 – SEGREGATION OF DUTIES**

**CONDITION:**

The accountant at RPS-NZ performs the following functions related to payroll:

1. Initial entry of employee information to include salary or wage rate into the payroll system COMACC visual payroll.
2. Enter employees' timesheets to include hours worked and additional employee expense reports into the COMACC visual payroll system.
3. Change or adjust employee salary or wage amount as required to adjust for overtime or public holidays worked. The salaried amount would be changed to compensate for time and a half on a case by case basis.
4. Post payroll to the general ledger (G/L).
5. Request disbursements from the bank for employees' payroll via electronic distribution to individual employees' bank accounts.

The accountant should not have sole responsibility or the ability to perform all of these functions in the payroll system. At a minimum, the employees' salary or wage rate should be fixed in the accounting system. The ability to change the rate should lie with someone other than the person who is processing the payroll. While observing the accountant entering timecards, the accountant proceeded to change several employees' salary or wage rates due the public holiday that was observed during the fortnight. While it is understood that the circumstances surrounding the entering of time sheets in the accounting system has led to "work around" type situations to ensure that employees are properly paid for hours worked, particularly in an overtime or holiday situation, the lack of segregation of duties in this area also leads to the potential for improper changes to employees' salary or wage rates, development of ghost employees, and other potential improper activity.

**RECOMMENDATION:**

We recommend that RPSC-NZ designate another employee such as Human Resources personnel to enter the initial employee information and wage/salary rate into the accounting system. In addition, the person entering labor timesheets in the payroll system and requesting payroll disbursements should not have access to the portion of the payroll system where



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employee specific rates and benefit information are maintained to ensure that improprieties will not occur. In addition, in depth training on the COMACC system would provide a better understanding of the potential that the system has to offer related to recording overtime or public holidays worked so as to enhance the controls.

### **CONTRACTOR'S REACTION:**

While the Accountant in Christchurch does perform a number of duties which in larger organizations would normally be segregated we believe there are sufficient checks and balances in place to ensure that the risk of incorrect payment to employees or the development of ghost employees and other improper activity is minimal.

While the accountant is responsible for entering the master data into the payroll system this master data is checked by the Manager, NZ Ops or his designee to ensure that the information has been entered correctly. Changes are only made to this master file if the employees salary increases as the result of the performance evaluation process or they are promoted or they change their hours of work from full time to part time or other details such as tax code and address are changed. These changes once made are checked by the Manager, NZ Ops or his designee.

There are instances where the amount paid to an employee is changed and this is as a result of the following:

1. Employees begin work during a pay period and are therefore only entitled to a partial payment of their salary. This does require the accountant to change the salary amount payable but this change is done in the payroll record and not in the employees Master file record.
2. Overtime or time and a half become due. Time and a half and overtime are entered as an hourly amount and the system calculates the amount due based on the hours entered. This amount is then added by the system to the employee's normal fortnightly salary.

A payroll audit report is produced each payroll which outlines any changes made to an employees master file record including salary and banking details and also highlights any significant variances between gross and net pay, this report is reviewed by the Manager NZ Ops, or his designee when authorizing the payroll for payment.

While the accountant requests the disbursement from the bank for the payroll they are unable to authorize this payment and are also unable to make any changes to the file which is

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automatically generated and downloaded into the banking software. In order to release the Direct Credit file two (2) account signatories must authorize it using their own login and password, one of these authorities must always be the Manager, NZ Ops or his designee. The accountant is not a signatory on the bank account and therefore does not have access to authorize files for payment.

The accountant has received in depth training on the payroll system and is using all of the functions within the system for the processing of the payroll. Therefore we do not agree that further training is required.

**AUDITOR'S RESPONSE:**

DCAA does not find the explanation provided by the contractor regarding the conditions related to segregation of duties sufficient.

The accountant was observed changing salaries of exempt and nonexempt employees for the purpose of payment of a holiday worked. This required the accountant to change either the salary or hourly rate whichever was applicable to make up for the amount that would have been due to the employee during that fortnightly period worked which included the holiday. In the case of the salaried employees, the calculation observed was to annualized salary, determine the hourly rate applicable and then re-annualize the salary based on the fortnight that included the holiday. For hourly employees, a revised hourly rate would be determined based on the pay the employee was due divided by the number of hours worked. DCAA was informed during its fieldwork that New Zealand Law requires an employer to pay all employees regardless of salary or hourly pay schedules for hours worked on holidays plus holiday pay and the promise of paid time off in the future for the holiday worked. This would require the adjustment of not only hourly employees but also salaried employees if they worked a holiday.

The contractor's policy FIN-DR-004; Christchurch Payroll Administration dated 11/15/2002 states that "It is also helpful to print the payroll audit report" when referring to the printing of the pay sheet report. The contractor has not provided any policies or procedures which demonstrate the requirement for either the Accountant or the Manager of New Zealand Operations to review the payroll audit report as part of the payroll process. The requirement for the manager to review the payroll audit file should be specific as to what is being reviewed and approved. In addition, the policy states that the accountant is to create the payroll batch for direct crediting. Once the batch is created it "must be authorized by two of the above mentioned signatories". The policy does not state who the two signatories are and it is not referenced previously within the context of the policy. Until these controls are in place as part of the payroll processing system, the "checks and balances" referred to in the contractor's reaction can not be considered factors that minimize risk to the government.



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At the time of the review the accountant was demonstrating the process by which the payroll is processed to include entering of timesheets through posting of the payroll and batching of the payroll to the banking system. During that process, questions were asked by the auditor to determine how the system works and what internal controls were in place. There were several examples of situations where the accountant was not comfortable with the responses and stated that additional training in various areas of the payroll system may help in identifying additional controls that were available but not being used. In addition, the accountant stated that she was uncomfortable making some of the payroll changes that were required in order to work around the system. It is based on this demonstration of the payroll system that a recommendation regarding training in the use of and capabilities of the payroll system was made.

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**STATEMENT NO. 4 – SEGREGATION OF UNALLOWABLE COSTS**

**CONDITION:**

Costs which are considered expressly unallowable based on FAR 31.205 such as gifts; entertainment; alcohol; and so forth are being charged directly to the contract and not being charged to the unallowable WBS. According to the contractor, these items are for resale in on-ice facilities such as the store or bar, and are being handed out as bingo prizes. The contractor also stated that the revenue associated with these activities is credited back to the contract on each of its quarterly expenditure reports. The purpose for booking the costs to the contract was to ensure that the contractor receive fee on these items since they were required to obtain and furnish items of this nature as in the nature of the support requirement. FAR 31.205 expressly unallowable costs are required to be segregated from otherwise billable contract costs and can not be made allowable by any other FAR clause or contract requirement. All of these costs should be accumulated in an unallowable or otherwise non-billable WBS. The contract requires the contractor to provide the opportunity for persons working the Antarctic program (both RTSC and Non-RTSC) to participate in morale, welfare, and recreation facilities such as bingo type activities, social establishments, and so forth. The function of providing the opportunity for these types of activity are allowable based on the inherent nature of the contract; however, the prizes, alcohol, items for resale in the gift shops and other type facilities is not considered allowable. The booking of these types of costs direct to a billable portion of the contract allows for two (2) conditions where the government is at risk:

- a. fee is being applied to expressly unallowable items, and
- b. the government is assuming any loss associated with mismanagement of the facilities. The offset of unallowable costs with generated revenue does not make the costs otherwise allowable, and therefore they should be segregated from billable costs.

**RECOMMENDATION:**

We recommend that the contractor book the costs of *all goods* related to morale, welfare, and recreation type on-ice activities to an unallowable WBS and offset the costs for these items with revenue from the same accordingly.

**CONTRACTOR'S REACTION:**

Polar Services and the National Science Foundation Office of Polar Program are currently working together to review the matter of how the costs and revenue for morale, welfare, and recreation type on-ice activities are accounted for. Changes to current practices are being discussed and decisions should be made by the beginning of GFY 2007.



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**AUDITOR'S RESPONSE:**

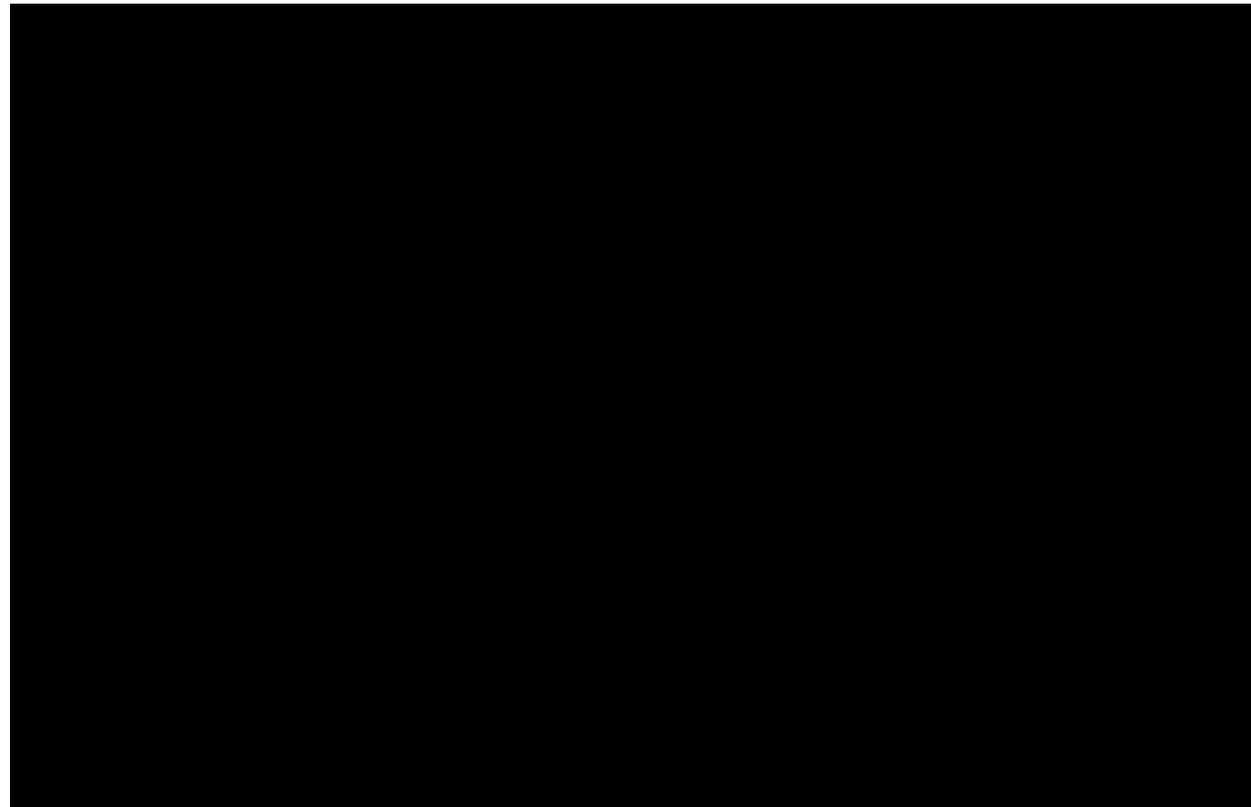
While the contractor recognizes the condition, no corrective action plan has been identified by RPSC. Follow up on the determination of the impending corrective action and further implementation by the contractor to resolve the condition is recommended. DCAA will perform this follow up based on a request from the National Science Foundation, Office of Inspector General.

CONTRACTOR ORGANIZATION AND SYSTEMS

I. Organization

RTSC's headquarters is located in Reston, VA. Effective January 1, 2003, [REDACTED]

[REDACTED]



RTSC has a multi-disciplined workforce of approximately [REDACTED] employees. RTSC provides technical, scientific, and professional services to defense, federal, and commercial customers on all seven continents, including support for operations in space, at sea, and on land. RTSC had annual sales of approximately [REDACTED] in FY 2005, of which approximately [REDACTED] are primarily government prime contracts and subcontracts. Of the government contracts and subcontracts, approximately [REDACTED] are flexibly priced (i.e. cost type and time and materials (T&M) type).



**Pages 14-28 have been redacted in their entirety.**

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**DCAA PERSONNEL**

Primary contacts regarding this audit:

Telephone No.

[REDACTED]

Other contact regarding this audit report:

[REDACTED], Branch Manager

[REDACTED]

Herndon Branch Office

FAX No.

[REDACTED]

E-mail Address

[REDACTED]

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

**AUDIT REPORT AUTHORIZED BY:**

/Signed/

[REDACTED]

Branch Manager  
DCAA Herndon Branch Office

[REDACTED]

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National Science Foundation  
ATTN: Ms. Deborah Cureton  
Associate Inspector General for Audit  
4201 Wilson Boulevard  
Arlington, VA 22230 USA

ail Address  
[kstagner@nsf.gov](mailto:kstagner@nsf.gov)

Polar Services  
Raytheon Technical Services Company Contracting  
12160 Sunrise Valley Drive  
Reston, VA 20191

(Copy furnished thru NSF  
Officer)

**RESTRICTIONS**



**APPENDIX**

**7 Pages**

**Contractor's Response**

**And**

**Final Policy on Manual Timesheet Completion**

**The following 4 pages have been redacted in their entirety.**

# Manual Time Sheet Completion

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*Revision Number 0*

*Approved by* [REDACTED]

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*Christchurch-Finance*

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# DEFENSE CONTRACT AUDIT AGENCY

## REPORT NO. 6161-2006P10310001



April 7, 2006

**PREPARED FOR:** National Science Foundation  
ATTN: Ms Deborah Cureton  
Associate Inspector General for Audit  
4201 Wilson Boulevard  
Arlington, VA 22230

**PREPARED BY:** DCAA Herndon Branch Office  
171 Elden Street, Suite 305  
Herndon, VA 20170

Telephone No. [REDACTED]  
FAX No. [REDACTED]  
E-m ail Address [REDACTED]

**SUBJECT:** Raytheon Polar Services - New Zealand Labor Floor Check

**CONTRACTOR:** Raytheon Polar Services New Zealand  
Raytheon Technical Services Company  
12160 Sunrise Valley Drive  
Reston, VA 20191

**REPORT RELEASE RESTRICTIONS:** See Page 25

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## **SUBJECT OF EVALUATION**

As part of our comprehensive audit of Raytheon Polar Services New Zealand Labor Floor Check, we performed physical observations to determine that employees are actually at work, that they are performing in their assigned job classifications, and their time is charged to the appropriate jobs. Our floor checks include determining if the contractor consistently complies with established timekeeping system policies and procedures for recording labor charges. The floor checks were conducted during the week of October 31, 2005. In addition, labor interviews were conducted of 11 personnel of the New Zealand location.

## **EXECUTIVE SUMMARY**

We determined that certain Raytheon Polar Services New Zealand labor timekeeping practices require corrective action to improve the reliability of its labor accounting system.

### **SIGNIFICANT ISSUES:**

- Certain RPSNZ employees did not complete their time card on a daily basis.
- Certain RPSNZ employees did not certify their time sheet with employee signature.
- Certain RPSNZ employees made corrections to timesheets without supervisory approval.
- Certain RPSNZ timecards did not have supervisory or management approval.

## **SCOPE OF EVALUATION**

Our evaluation was performed in accordance with generally accepted government auditing standards, and was limited to conducting floor checks. As part of the floor check evaluation, we did not perform the customary audit procedures necessary to constitute an examination of the entire labor system internal controls in accordance with generally accepted government auditing standards. Internal Controls related to the labor system are being reviewed and will be reported under Audit Assignment No. 6161-2006P17740001, New Zealand Accounting System Review.



**RESULTS OF EVALUATION**

In our opinion, the labor and timekeeping system and related internal control policies and procedures of Raytheon Polar Services New Zealand are inadequate. Based on the procedures we performed, we believe certain contractor labor practices require corrective action to improve the reliability of the contractor's labor accounting system. These conditions are detailed in the "Statement of Conditions and Recommendations" section of this report.

This report is limited to the cited deficiencies. Accordingly, we express no opinion on the adequacy of the contractor's labor accounting system taken as a whole.

Upon direction from the NSF IG, we will perform a follow-up evaluation of the contractor's timekeeping system to determine the status of the cited deficiencies, the status of the contractor's corrective actions, and the impact of the corrective actions on the overall adequacy of the contractor's labor accounting system internal controls.

We discussed the findings of these procedures with the contractor's representatives, [REDACTED] on November 10, 2005. We provided a draft copy of the Statement of Conditions and Recommendations to RTSC representatives on January 26, 2006. The complete text of the contractor's response, dated February 24, 2006, appears as an appendix to this report.

**STATEMENT OF CONDITIONS AND RECOMMENDATIONS**

STATEMENT NO. 1: TIMECARD IN EMPLOYEE POSSESSION

CONDITION:

Employees are not in control of their own timesheets during the course of the pay period (fortnight). We found instances where employees were printing out timesheet templates for an entire department at the end of the pay period with the templates default time and attendance. Employees would then sign the default template that was printed and submit for supervisory approval. Time cards being printed at the end of a pay period by an employee other than the one for whom the timecard represents may lead to labor mischarging. The completion of the timecard by someone other than the employee to which the timecard belongs does not ensure that the time recorded on the timesheet is representative of what the employee actually worked and that any leave taken or holidays worked are recorded accurately and completely.

RECOMENDATION:

RPSC should develop a policy requiring employees to open and save their timecard template to their personal computers at the beginning of the fortnight to ensure that the time card is in their possession at all times. The specific fortnight related to the timecard can be noted in the file name upon saving and employees can enter their time accordingly. At the end of the fortnight, employees can be sure that the time entered on the timesheet that they are signing is reflective of entries that they have made. We found this practice in certain departments whose timecards were tested and we believe should be implemented across the entire New Zealand operations.

CONTRACTOR'S REACTION:

A draft policy has been developed for the completion of manual time sheets addressing each of the recommendation areas listed above. A copy of the draft policy is attached. The procedure addresses completion of manual time sheets using the current Excel template. This new procedure will be followed by employees on the Polar program as long as we continue to use the Excel template to record time.

AUDITOR'S RESPONSE:

The policy has been reviewed and the contractor has incorporated into the Manual Time Sheet Completion Policy controls which meet the audit recommendation. The policy is included in the appendix to this report.

**Report No. 6161-2006P10310001**

STATEMENT NO. 2: COMPLETION OF TIME CARDS IN INK

CONDITION:

The employee's time cards are not completed in ink. The preparation of time cards in ink encourages the accurate recording of time, creates a method for monitoring changes, and prevents changes to a timecard by someone other than the employee who is responsible for the time card. There are no policies, procedures, or practices in place at RPSC-NZ that require the employees to prepare the timecard in ink. The contractor maintains a template that the employees can create, edit, and print at any time during the effective pay period. While the time card is considered to be in "ink" since it is printed at the end of the pay period, it does not meet the standards assumed by the control activity which prevents unauthorized changes to an employees' time card. In addition, 1 of the 3 employees interviewed who manually record time on a printed time sheet used pencil for recording time.

RECOMENDATION:

The contractor should develop a policy requiring the employees to print out the template at the beginning of the pay period and complete their timecard manually and in ink. Completion of the timecard manually and in ink will ensure the time that an employee records on their time sheet can not be manipulated once it is recorded.

CONTRACTOR'S REACTION:

A draft policy has been developed for the completion of manual time sheets addressing each of the recommendation areas listed above. A copy of the draft policy is attached. The procedure addresses completion of manual time sheets using the current Excel template. This new procedure will be followed by employees on the Polar program as long as we continue to use the Excel template to record time.

AUDITOR'S RESPONSE:

The policy has been reviewed and the contractor has incorporated into the Manual Time Sheet Completion Policy controls which meet the audit recommendation. The policy is included in the appendix to this report.

**Report No. 6161-2006P10310001**

**STATEMENT NO. 3: COMPLETION OF TIME CARDS ON A DAILY BASIS**

**CONDITION:**

Employees at RPSC-NZ do not complete their timecards on a daily basis. Preparation of a timecard on a daily basis ensures that the amount of time worked on a job is recorded accurately and completely so that the government is charged appropriately for the work performed. RPSC-NZ does not have a policy or procedure in place which requires the employee to record their time on a daily basis. We found that 18% of the employees judgmentally sampled did not record their time until the end of the pay period when it was time to submit the time sheet to accounting. The delay in completing a timesheet encourages over/under charging the regular time worked on a contract as well as overtime, vacation time, and sick time. In addition, the contractor has several instances where employees are on 24 hour call or are required to work nights and weekends in addition to regular daily work hours. The hours associated with these situations may be charged incorrectly if not recorded on a current basis.

**RECOMMENDATION:**

The contractor should require all employees to enter their time on a daily basis. A policy or procedure should be developed which requires both hourly and salaried employees to record their time at least daily. Completion of a timesheet on a daily basis will ensure that an employee's time recorded on the timesheet is representative of what the employee actually worked and that any leave taken or holidays worked are recorded accurately and completely.

**CONTRACTOR'S REACTION:**

A draft policy has been developed for the completion of manual time sheets addressing each of the recommendation areas listed above. A copy of the draft policy is attached. The procedure addresses completion of manual time sheets using the current Excel template. This new procedure will be followed by employees on the Polar program as long as we continue to use the Excel template to record time.

**AUDITOR'S RESPONSE:**

The policy has been reviewed and the contractor has incorporated into the Manual Time Sheet Completion Policy controls which meet the audit recommendation. The policy is included in the appendix to this report.

**Report No. 6161-2006P10310001**

STATEMENT NO. 4: EMPLOYEE SIGNATURES

CONDITION:

We found that 9% of the employees tested did not sign their timecard before it was submitted to accounting. By signing their timecard, an employee is attesting that the hours recorded on their time card and ultimately submitted for payment were true and correct. In addition, the employee is stating that their timecard has not been altered by anyone except the employee to which the timecard belongs. This is essential in insuring that supervisors and fellow employees are not changing or recording the time on another employee's timecard.

RECOMMENDATION:

A timekeeping policy should be developed which requires employees to sign their timecard after all entries have been made but prior to receiving supervisory approval. By requiring the employee to sign a completed timecard, assurance that the time recorded on a time sheet by the employee is true, accurate, and correct can be obtained.

CONTRACTOR'S REACTION:

A draft policy has been developed for the completion of manual time sheets addressing each of the recommendation areas listed above. A copy of the draft policy is attached. The procedure addresses completion of manual time sheets using the current Excel template. This new procedure will be followed by employees on the Polar program as long as we continue to use the Excel template to record time.

AUDITOR'S RESPONSE:

The policy has been reviewed and the contractor has incorporated into the Manual Time Sheet Completion Policy controls which meet the audit recommendation. The policy is included in the appendix to this report.

**Report No. 6161-2006P10310001**

**STATEMENT NO. 5: CHANGES TO ORIGINAL TIMECARD ENTRIES**

**CONDITION:**

We found that 18% of the employees tested had alterations made to original entries on their timecard. The alterations were not initialed by employees to indicate that the changes were made and/or approved by the originating employee. Furthermore, employees complete their time in an electronic template which, when the corrections are made on the template does not allow for tracking changes to original timesheet entries. Initialing changes to a timecard by the originating employee ensures that any and all changes made to original time entries are made by the employee who incurs the time recorded.

**RECOMMENDATION:**

A timekeeping policy should be developed requiring employees to note changes/alterations to timecards which change any time previously recorded. The employee should also provide a reason for the change being made. In addition, timecards should be completed in such a way as to be able to distinguish between original entries and corrections to previously recorded time. Tracking and approving changes provides assurance that the entries being changed or corrected originate from the employee that actually charged the time and represent the time that the employee actually performed work on the contract.

**CONTRACTOR'S REACTION:**

A draft policy has been developed for the completion of manual time sheets addressing each of the recommendation areas listed above. A copy of the draft policy is attached. The procedure addresses completion of manual time sheets using the current Excel template. This new procedure will be followed by employees on the Polar program as long as we continue to use the Excel template to record time.

**AUDITOR'S RESPONSE:**

The policy has been reviewed and the contractor has incorporated into the Manual Time Sheet Completion Policy controls which meet the audit recommendation. The policy is included in the appendix to this report.

**Report No. 6161-2006P10310001**

**STATEMENT NO. 6: TIMECARD APPROVALS**

**CONDITION:**

We found that 45% of the timecards sampled did not have approval signatures from an approving authority. Supervisory/management approval is necessary to ensure that employees' appropriately record all hours worked and any leave taken. RPSC New Zealand employees are not responsible for recording hours by WBS assignment number. Should that requirement exist in the future, approvals of timecards would also ensure that the correct assignment numbers are being charged.

**RECOMMENDATION:**

A timekeeping policy should be in place which requires management to review employee timecards for proper time charging prior to submission to accounting for payment. Additionally, management's time cards must also be approved, preferably by another member of management. The indication that management has reviewed the time sheet should be the manager/supervisor signature on the time sheet once it is reviewed. Approval of the timecard indicates that the employee charged his/her time as directed, all overtime or odd shifts are accounted for and any leave or holiday time is also recorded appropriately.

**CONTRACTOR'S REACTION:**

A draft policy has been developed for the completion of manual time sheets addressing each of the recommendation areas listed above. A copy of the draft policy is attached. The procedure addresses completion of manual time sheets using the current Excel template. This new procedure will be followed by employees on the Polar program as long as we continue to use the Excel template to record time.

**AUDITOR'S RESPONSE:**

The policy has been reviewed and the contractor has incorporated into the Manual Time Sheet Completion Policy controls which meet the audit recommendation. The policy is included in the appendix to this report.

CONTRACTOR ORGANIZATION AND SYSTEMS

I. Organization

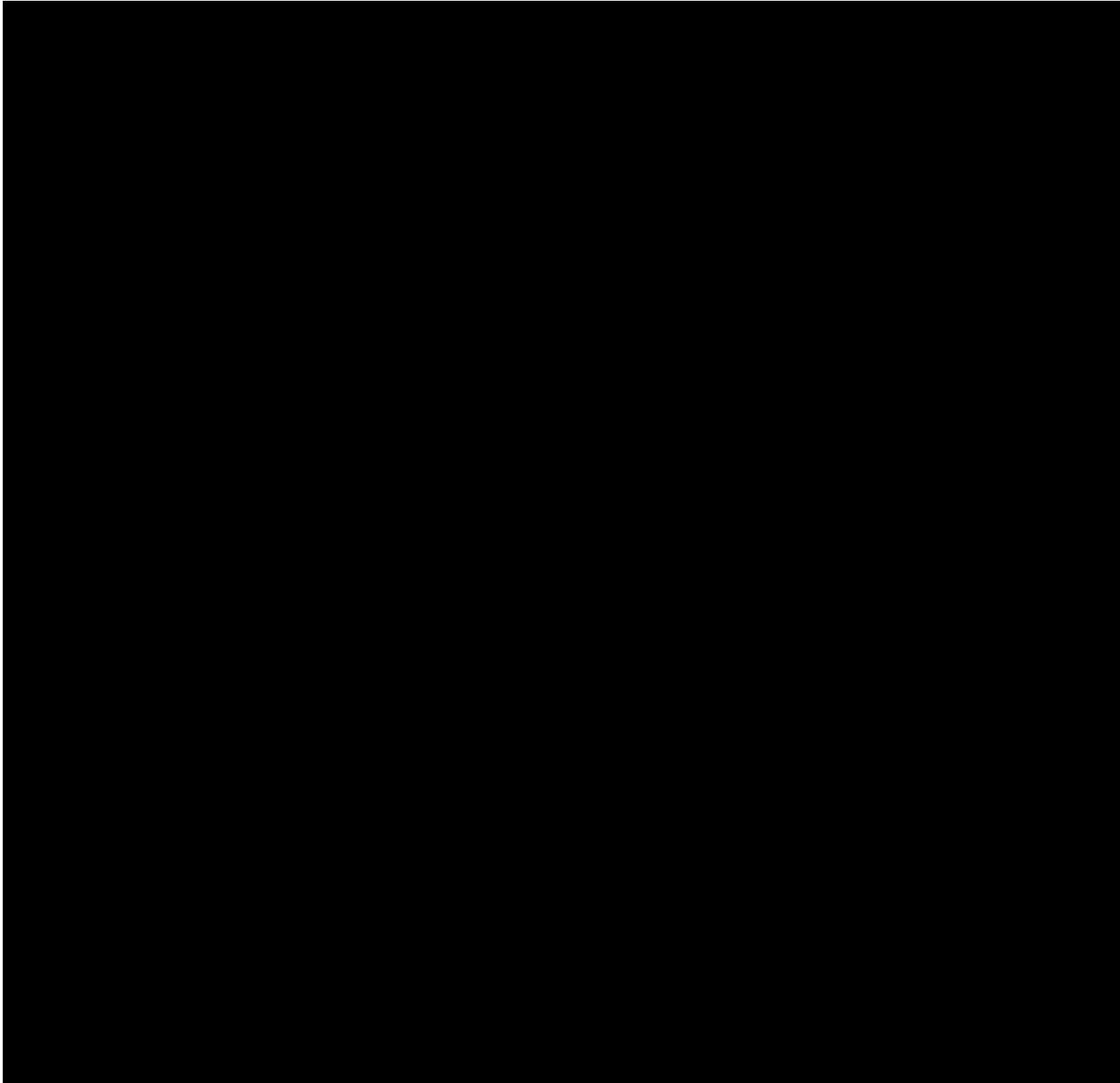
RTSC's headquarters is located in Reston, VA. [REDACTED]

[REDACTED]

[REDACTED]

**Report No. 6161-2006P10310001**

RTSC has a multi-disciplined workforce of approximately [REDACTED] employees. RTSC provides technical, scientific, and professional services to defense, federal, and commercial customers on all seven continents, including support for operations in space, at sea, and on land. RTSC had annual sales of approximately [REDACTED] in FY 2004, of which over [REDACTED] are primarily government prime contracts and subcontracts. Of the government contracts and subcontracts, approximately [REDACTED] are flexibly priced (i.e. cost type and time and materials (T&M) type).



**Pages 11-23 have been redacted in their entirety.**

**Report No. 6161-2006P10310001**

**DCAA PERSONNEL**

Telephone \_\_\_\_\_ No.  
Primary contact(s) regarding the evaluation:

[REDACTED]

[REDACTED]

Other contact regarding the evaluation:

Larry Tatem, Branch Manager

[REDACTED] -

FAX No.

[REDACTED]

E-mail Address

[REDACTED]

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

**REPORT AUTHORIZED BY:**

/Signed/

[REDACTED]

Branch Manager  
DCAA Herndon Branch Office

[REDACTED]

**Report No. 6161-2006P10310001**

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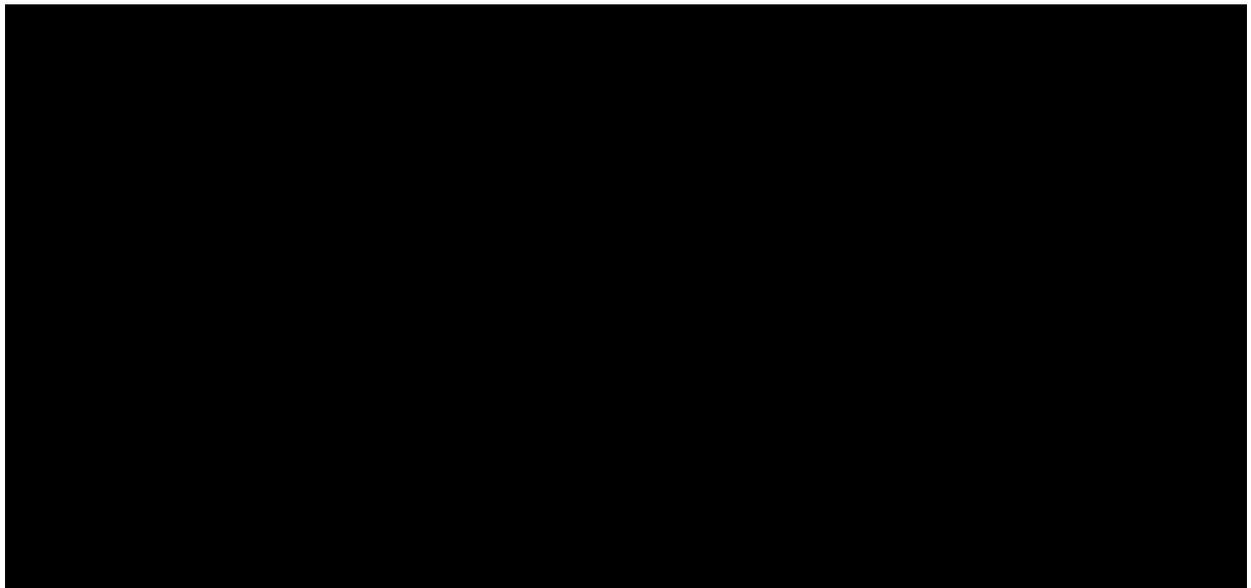
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E-m  
National Science Foundation  
ATTN: Ms. Deborah Cureton, Associate Inspector  
General for Audit  
4201 Wilson Boulevard  
Arlington, VA 22230

ail Address  
Kstagner@nsf.gov

Polar Services  
Raytheon Technical Services Company  
12160 Sunrise Valley Drive  
Reston, VA 20191

(Copy furnished thru NSF Contracting Officer)



**Report No. 6161-2006P10310001**

# **APPENDIX**

**7 Pages**

**Contractor's Response and Supporting Policy**

**The following 2 pages have been redacted in their entirety.**

# **Manual Time Sheet Completion**

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*Document Number*  
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*Posting Date*  
*Active Divisions/Departments*  
*(List here)*

Raytheon Polar Services (NZ) Limited  
Christchurch  
Contract No. OPP 0000373

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