

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-06-1-018, Audit of Incurred Costs at
VECO Rocky Mountain, Inc. for Fiscal Years 2001 to 2003

In response to your request for an audit of VECO Rocky Mountain Inc.'s (VRM) Fiscal Years (FYs) 2001 to 2003 (April 1, 2000 to March 31, 2003) incurred cost proposal submission, claimed under NSF Contract No. OPP-0001041, we contracted with the Defense Contract Audit Agency (DCAA), Denver Branch Office, to perform these audits to: 1) determine allowability of direct and indirect costs and 2) recommend contracting officer negotiated indirect cost rates. The DCAA audits were performed in accordance with Generally Accepted Government Auditing Standards. Attached are the final DCAA audit reports for the period FYs 2001 to 2003, which include a review of the negotiated indirect cost rates and all costs, both indirect and direct, claimed on the NSF contract.

Background

VRM is a wholly owned subsidiary of VECO Corporation, a closely held corporation incorporated in the state of Delaware in 1979. VRM is an Engineering, Procurement, Construction, Operations and Maintenance and Management Services concern with total sales of [REDACTED] and sales to NSF of [REDACTED] during the review period. VRM has [REDACTED] direct employees and [REDACTED] indirect employees to provide NSF with Arctic logistics research support services.

Summary of Results

The audits disclosed that VRM's claimed direct and indirect costs totaling \$21.9 million are acceptable for payment, except for [REDACTED] for unallowable employee bonus payments and [REDACTED] of the total cost claimed of inadequately supported direct labor costs.

Regarding the direct labor costs, the auditors qualified their audit opinion on the Schedule of Contract Costs due to a scope limitation because they could not determine the accuracy of these costs. The auditors found that the timesheets used to capture the daily hours worked by the employees were not routinely signed by employees and supervisors to certify the accuracy of the labor charges to the NSF contract. Therefore, the auditors were unable to verify the completeness and accuracy of the labor costs charged to the NSF contract. However, the auditors did not question these costs because all work performed by the employees was performed for the NSF contract. VRM reported that it implemented a written timekeeping policy that became effective February 1, 2004. VRM states their timesheets are now fully compliant with the Federal Acquisition Regulations (FAR).

The auditor also determined that VRM incorrectly claimed [REDACTED] of unallowable bonus costs awarded to employees in FY 2003. The auditor found that VRM did not have an established bonus plan or prior written agreements with the employees who received the bonuses, as required by the FAR. An established bonus plan allows VRM to award bonuses to deserving employees in a fair and equitable manner and protects NSF from claims for payment under the NSF cost reimbursement contract by VRM that are excessive, frivolous, or arbitrary.

The auditors also reported that except for the qualification related to the claimed direct labor costs, the indirect cost rates for FYs 2001 to 2003 are acceptable as proposed by VRM.

Recommendations

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

1. Ensure that VRM's new timekeeping policy:
 - a. requires employees to sign their timecard after all entries have been made but prior to receiving supervisory approval thereby providing the employee's assurance that the time recorded on her/his time sheet is correct.
 - b. requires 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.
 - c. requires employees to note changes/alterations to their 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 worked on the contract.

d. 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. Management should evidence its review and approval by having the manager/supervisor sign the time sheet. Approval of the timecard indicates that management agrees that the employee charged her/his time correctly, all overtime or odd shifts are accounted for, and any leave or holiday time is also recorded appropriately.

2. Ensure that VRM establish a written policy for bonuses or have written agreements with employees for bonuses that allows VRM to award bonuses to deserving employees in a fair and equitable manner and protects NSF from claims for payment under the NSF cost reimbursement contract by VRM that are excessive, frivolous, or arbitrary.

In its verbal response to the draft of the DCAA audit reports, VRM stated it had updated its policies and procedures for timesheet recording effective February 1, 2004. VRM did not agree that the bonus payments to employees should be questioned costs. 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 Mr. Patrick Smith of the Office of Polar Programs. The responsibility for audit resolution rests with DACS. Accordingly, we ask that no action be taken concerning the reports' 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 reports, prepared by DCAA to ensure compliance with Government Auditing Standards and Office of Management and Budget Circulars; and
- Coordinated issuance of the audit reports.

DCAA is responsible for the attached auditor's reports on VRM 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 thank you and your staff for the assistance that was extended to us during the audit. If you have any questions about the attached reports, please contact Ken Stagner at (303) 312-7655 or Jannifer Jenkins at (703) 292-4996.

- Attachments – DCAA Audit Report on Veco Rocky Mountain, Inc. for Fiscal Year 2001
Incurred Costs dated December 16, 2005
- DCAA Audit Report on Veco Rocky Mountain, Inc. for Fiscal Year 2002
Incurred Costs dated December 16, 2005
 - DCAA Audit Report on Veco Rocky Mountain, Inc. for Fiscal Year 2003
Incurred Costs dated January 13, 2006

cc: Patrick Smith, OPP



DEFENSE CONTRACT AUDIT AGENCY



AUDIT REPORT NO. 3121- 2001B10100091

December 16, 2005

PREPARED FOR: National Science Foundation
Office of Inspector General
ATTN: Ken Stagner
999 18th St., Suite 775
Denver, CO 80202

PREPARED BY: DCAA Denver Branch Office
7112 West Jefferson Ave., Suite 200
Lakewood, CO 80235-2327
Telephone No. (303) 969-5000
FAX No. (303) 969-5056
E-mail Address dcaa-fao3121@dcaa.mil

SUBJECT: VECO Rocky Mountain, Inc. Fiscal Year 2001 Incurred Costs

REFERENCES: NSF #OPP-0001041
Relevant Dates: See Page 7

CONTRACTOR: Veco Rocky Mountain, Inc
9000 E. Nichols Ave, Suite 250
Centennial, CO 80112-3474

REPORT RELEASE RESTRICTIONS: See Page 8

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SUBJECT OF AUDIT

We examined the VECO Rocky Mountain, Inc (VRM)'s incurred cost proposal and related books and records for reimbursement of fiscal year (FY) 2001 incurred costs. The purpose of the examination was to determine allowability of direct and indirect costs and recommend contracting officer-determined indirect cost rates for FY 2001. The proposed rates apply primarily to the flexibly-priced contract listed in Exhibit A, page 4. A copy of VRM's Certificate of Final Indirect Costs, dated March 24, 2003, is included as an Appendix to the report (see page 9).

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

SCOPE OF AUDIT

Except for the qualification discussed below, 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.

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

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

We have not specifically examined VRM's Dynamics accounting system and related internal controls for the FY 2001 costs being reviewed. Dynamics is not a job cost accounting system; we increased testing as a result of this system deficiency.

The contractor is a small business with limited resources to be applied to compliance procedures and testing. The scope of our examination reflects this assessment of control risk and includes tests of compliance with applicable laws and regulations that we believe provide a reasonable basis for our opinion.



QUALIFICATION

Our report is qualified related to claimed direct labor costs of \$ [REDACTED]. During our audit, we verified the claimed labor hours through the labor distribution to individual employee timesheets. However, we found that the employee timesheets were not signed by employees certifying the hours recorded or approved by the employee's supervisors. Without the employee's certification and supervisor's approval of the recorded hours, we do not have sufficient evidential matter that the hours recorded reflect the actual hours worked. We informed VECO of this deficiency in its internal controls.

VECO has corrected this condition with a written timekeeping policy effective February 1, 2004, which requires employees and supervisors to sign timesheets to certify the accuracy of their labor hours. Nevertheless, for the audit years 2001 through 2003, this internal control did not exist and we can not verify through other means the accuracy of the hours reported on the timesheet. Therefore, our audit report is qualified related to the claimed labor costs. See Results below.

RESULTS OF AUDIT

Direct Costs. In our opinion except for the qualification related to the claimed direct labor costs of \$ [REDACTED], the contractor's claimed direct costs are acceptable and are provisionally approved, pending final acceptance. Final acceptance of amounts proposed under Government contracts does not take place until performance under the contract is completed and accepted by the cognizant authorities and the audit responsibilities have been completed.

Indirect Rates. In our opinion except for the qualification related to the claimed direct labor costs of \$ [REDACTED] which are in the claimed bases, the contractor's indirect rates are acceptable as proposed. The examination results are presented below:

| Indirect Category | Allocation Base | Proposed and Accepted | |
|-------------------|-----------------|-----------------------|------------|
| | | Indirect Expense Pool | Rate |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

GOVERNMENT PARTICIPATION IN ALLOCATION BASES

| <u>Indirect Category</u> | <u>Government Flexibly- Priced Contracts/Subcontract s</u> | <u>Government FFP Contracts/Subcontracts and Commercial Work</u> | <u>Total</u> |
|--------------------------|--|--|--------------|
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

Exhibit A, page 4, includes a Schedule of Direct Costs by Contract/Subcontract and Indirect Expense Applied at Audited Rates. The indirect rates proposed and audited are subject to final determination of the contracting officer.

Cumulative Allowable Cost Worksheet (CACWS). The costs noted on the schedule of cumulative allowable costs in Exhibit B, page 5, represent costs that are considered allowable under the listed contracts and are, therefore, reimbursable.

We discussed the results of our examination with [REDACTED], Secretary and Treasurer in an exit conference held on December 13, 2005. [REDACTED] withheld comment.



VECO ROCKY MOUNTAIN
SCHEDULE OF DIRECT COSTS BY CONTRACT/SUBCONTRACT
AND INDIRECT EXPENSE APPLIED AT AUDITED RATES
 Fiscal Year Ended 3/31/2001

| Contract No. | Direct Labor Regular | Direct Labor Contract | Travel | Other Direct Costs | Subcontracts | Total Direct Costs | OH @ | Contract Labor OH | Direct Costs Plus OH | G&A @ | Total Costs |
|-----------------|-------------------------|--------------------------|--------|-----------------------|--------------|-----------------------|------|-------------------|-------------------------|-------|----------------|
| NSF OPP-0001041 | | | | | | | | | | | \$ |

Proposed and audited indirect rates are subject to final determination of the contracting
 Note: officer.



VECO ROCKY MOUNTAIN, INC.
Cumulative Allowable Cost Worksheet
Through 3/31/2001
For Cost and Flexibly Priced Contracts and Subcontracts

| Contract No. | Subject To Penalty Clause (1) | Prior Audited Years W/Settled Rates (2) | Unsettled Claimed Direct and Indirect Costs Using Claimed Rates | | Subtotal | Less Contract Limitation (3) | Total Allowable Cost (4) | Assist Amounts Included in Total (5) | Ready to Close |
|------------------|-------------------------------------|--|---|------------------|------------|---------------------------------------|-----------------------------------|---|----------------------|
| | | | FYE 3/31/2000 | FYE 3/31/2001 | | | | | |
| Cost Type | | | | | | | | | |
| NSF OPP-0001041 | Yes | 0 | ██████████ | ██████████ | ██████████ | | ██████████ | 0 | No |

NOTES:

- (1) FAR 42.709 implements 10 U.S.C. 2324 (a)-(d) and 41 U.S.C. 256 (a)-(d), which require that penalties be assessed if a contractor claims an expressly unallowable cost in an indirect cost settlement. The FAR 42.709 applies to all cost type and fixed-price-incentive contracts in excess of \$500,000 issued on or after 1 October 1995. DFARS 231.70 applies to DoD cost-type and fixed -price-incentive-fee contracts in excess of \$100,000 issued between 26 February 1987 and 1 October 1995.
- (2) These costs, by contract, are computed using the negotiation or rate agreement document.
- (3) Contract limitation include costs incurred that are (i) in excess of contract ceiling rates, (ii) unallowable per contract, (iii) outside the period of performance, or (iv) in excess of contract ceiling amounts that are not already excluded.
- (4) The cumulative allowable amounts in this column are not to exceed contract-ceiling amounts and are subject to the resolution of subcontract assist audits identified in Column 5.
- (5) Costs in this column are considered unresolved pending subcontract completion and receipt of final cumulative allowable subcontract costs. See the attached supporting schedule for details of subcontracts included in this amount.



CONTRACTOR ORGANIZATION AND SYSTEMS

1. Organization:

VECO Corporation, a closely held corporation, was incorporated in the state of Delaware in 1979. VECO Rocky Mountain is wholly owned subsidiary of VECO Corporation. VRM is an Engineering, Procurement, Construction, Operations and Maintenance and Management Services concern with sales for fiscal year ended 2001 of [REDACTED]. The 2001 sales to the Government were [REDACTED]. VRM has 134 direct employees and 20 indirect.

VRM, teaming with Polar Field Services and SRI International, collectively known as VECO Polar Resources, have been working together since 1999 to provide Arctic logistics research support services.

2. Accounting System:

We have not audited the Dynamics accounting system used by VRM during FY 2001. VRM's accounting period is from April 1 to March 31. VECO Corporation and Subsidiaries' financial statements are prepared on a semiannual basis. The annual financial statements are audited by external CPAs.

DCAA PERSONNEL

| | <u>Telephone No.</u> |
|--|-----------------------|
| Primary contacts regarding this audit: | |
| Teresa Joyce, Auditor | (303) 969-5000 |
| Vicki L. DeLeon, Supervisory Auditor | (303) 969-5000 |
| Other contact regarding this audit report: | |
| S.M. Wenger, Branch Manager | (303) 969-5000 |
| | <u>FAX No.</u> |
| Denver Branch Office | (303) 969-5056 |
| | <u>E-mail Address</u> |
| Denver Branch Office | dcaa-fao3121@dcaa.mil |

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

RELEVANT DATES

NSF request for audit dated July 20, 2004

AUDIT REPORT AUTHORIZED BY:

/s/ Vicki L. DeLeon for
S. M. WENGER
Branch Manager

Page 8 Redacted in its Entirety

Veco Rocky Mountain, Inc.
Englewood, Colorado 80112

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

1. All costs included in this proposal dated February 1, 2003, to establish final indirect cost rates for the fiscal year ended 03/31/01 are allowable in accordance with the cost principles of the Federal Acquisition Regulation (FAR) and its supplements applicable to the contracts to which the final indirect cost rates will apply; and
2. This proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements.

Firm: Veco Rocky Mountain, Inc.

Signature: _____

Name of Certifying Official: _____

Title: _____

Date of Execution: March 24, 2003



DEFENSE CONTRACT AUDIT AGENCY
AUDIT REPORT NO. 3121-2002B1010091



December 16, 2005

PREPARED FOR: National Science Foundation
Office of Inspector General
ATTN: Ken Stagner
999 18th St., Suite 775
Denver, CO 80202

PREPARED BY: DCAA Denver Branch Office
7112 West Jefferson Ave., Suite 200
Lakewood, CO 80235-2327
Telephone No. (303) 969-5000
FAX No. (303) 969-5056
E-mail Address dcaa-fao3121@dcaa.mil

SUBJECT: VECO Rocky Mountain, Inc. Fiscal Year 2002 Incurred Costs

REFERENCES: NSF #OPP-0001041
Relevant Dates: See Page 7

CONTRACTOR: VECO Rocky Mountain, Inc.
9000 E. Nichols Ave., Suite 250
Centennial, CO 80112-3474

REPORT RELEASE RESTRICTIONS: See Page 8

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SUBJECT OF AUDIT

We examined the VECO Rocky Mountain, Inc. (VRM)'s incurred cost proposal and related books and records for reimbursement of fiscal year (FY) 2002 incurred costs. The purpose of the examination was to determine allowability of direct and indirect costs and recommend contracting officer-determined indirect cost rates for FY 2002. The proposed rates apply primarily to the flexibly-priced contracts listed in Exhibit A, page 4. A copy of VRM's Certificate of Final Indirect Costs, dated March 24, 2003, is included as an Appendix to the report (see page 9).

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

SCOPE OF AUDIT

Except for the qualification discussed below, 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.

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

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

We have not specifically examined VRM's accounting system and related internal controls for the FY 2002 costs being reviewed. VRM did not provide a job cost ledger for 2002. We were able to reconcile in total the specific cost elements claimed for the NSF contract to VRM's general ledger. We increased testing as a result of this system deficiency

The contractor is a small business with limited resources to be applied to compliance procedures and testing. The scope of our examination reflects this assessment of control risk and includes tests of compliance with applicable laws and regulations that we believe provide a reasonable basis for our opinion.



QUALIFICATION

Our report is qualified related to claimed direct labor costs of \$ [REDACTED]. During our audit, we verified the claimed labor hours through the labor distribution to individual employee timesheets. However, we found that the employee timesheets were not signed by employees certifying the hours recorded or approved by the employee's supervisors. Without the employee's certification and supervisor's approval of the recorded hours, we do not have sufficient evidential matter that the hours recorded reflect the actual hours worked. We informed VECO of this deficiency in its internal controls.

VECO has corrected this condition with a written timekeeping policy effective February 1, 2004, which requires employees and supervisors to sign timesheets to certify the accuracy of their labor hours. Nevertheless, for the audit years 2001 through 2003, this internal control did not exist and we can not verify through other means the accuracy of the hours reported on the timesheet. Therefore, our audit report is qualified related to the claimed labor costs. See Results below. See Results below

RESULTS OF AUDIT

Direct Costs. In our opinion, except for the qualification related to the claimed direct labor costs of \$ [REDACTED], the contractor's claimed direct costs are acceptable and are provisionally approved pending final acceptance. Final acceptance of amounts proposed under Government contracts does not take place until performance under the contract is completed and accepted by the cognizant authorities and the audit responsibilities have been completed.

Indirect Rates. In our opinion, except for the qualification related to the claimed direct labor costs of \$ [REDACTED] which are in the claimed bases, the contractor's indirect rates are acceptable as proposed. The examination results are presented below:

| Indirect Category | Allocation Base | Proposed and Accepted | |
|-------------------|-----------------|-----------------------|------------|
| | | Indirect Expense Pool | Rate |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

[REDACTED]

[REDACTED]

[REDACTED]

VECO ROCKY MOUNTAIN, INC.
SCHEDULE OF DIRECT COSTS BY CONTRACT/SUBCONTRACT
AND INDIRECT EXPENSE APPLIED AT AUDITED RATES
 Fiscal Year Ended 3/31/2002

| Contract No. | Direct Labor Regular | Direct Labor RTX Contract | Travel | Other Direct Costs | Subcontracts | Total Direct Costs | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | Total Costs |
|-----------------|----------------------------|---------------------------------|------------|-----------------------|--------------|-----------------------|------------|------------|------------|------------|----------------|
| NSF OPP-0001041 | \$ [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

Note: Proposed and audited indirect rates are subject to final determination of the contracting officer.

**VECO ROCKY MOUNTAIN, INC.
Cumulative Allowable Cost Worksheet
Through 3/31/2002
For Cost and Flexibly Priced Contracts and Subcontracts**

| Contract No. | Subject To Penalty Clause (1) | Prior Audited Years W/Settled Rates (2) | Unsettled Claimed Direct and Indirect Costs Using Claimed Rates | | | Subtotal | Less Contract Limitation (3) | Total Allowable Cost (4) | Assist Amounts Included in Total (5) | Ready to Close |
|-------------------------------------|-------------------------------------|--|--|------------------|------------------|----------|---------------------------------------|-----------------------------------|---|----------------------|
| | | | FYE 3/31/2000 | FYE 3/31/2001 | FYE 3/31/2002 | | | | | |
| Cost Type NSF OPP-0001041 | Yes | 0 | ██████ | ██████ | ██████ | ██████ | ██████ | 0 | No | |

- NOTES:**
- (1) FAR 42.709 implements 10 U.S.C. 2324 (a)-(d) and 41 U.S.C. 256 (a)-(d), which require that penalties be assessed if a contractor claims an expressly unallowable cost in an indirect cost settlement. The FAR 42.709 applies to all cost type and fixed-price-incentive contracts in excess of \$500,000 issued on or after 1 October 1995. DFARS 231.70 applies to DoD cost-type and fixed -price-incentive-fee contracts in excess of \$100,000 issued between 26 February 1987 and 1 October 1995.
 - (2) These costs, by contract, are computed using the negotiation or rate agreement document.
 - (3) Contract limitation include costs incurred that are (i) in excess of contract ceiling rates, (ii) unallowable per contract, (iii) outside the period of performance, or (iv) in excess of contract ceiling amounts that are not already excluded.
 - (4) The cumulative allowable amounts in this column are not to exceed contract-ceiling amounts and are subject to the resolution of subcontract assist audits identified in Column 5.
 - (5) Costs in this column are considered unresolved pending subcontract completion and receipt of final cumulative allowable subcontract costs. See the attached supporting schedule for details of subcontracts included in this amount.



CONTRACTOR ORGANIZATION AND SYSTEMS

1. Organization:

VECO Corporation was founded in 1968. On April 1, 2003, two of its subsidiaries, VECO Rocky Mountain, Inc. and VECO Pacific, Inc. merged to become VECO USA, Inc. VECO USA is an Engineering, Procurement, Construction, Operations and Maintenance and Management Services concern with sales for fiscal year ended 2002 of [REDACTED]. The 2002 sales to the government were [REDACTED].

VECO USA teaming with Polar Field Services and SRI International collectively known as VECO Polar Resources, have been working together since 1999 to provide Arctic logistics research support services.

2. Accounting System:

We have not audited the Dynamics accounting system used by VRM during FY 2002. VRM's accounting system was converted to TrueLine in mid-FY 2002, and we have not audited that system for the period of this examination.

VECO USA's accounting period is from April 1 to March 31. VECO Corporation and Subsidiaries' financial statements are prepared on a semiannual basis. The annual financial statements are audited by external CPAs.

DCAA PERSONNEL

| | |
|---|---|
| Primary contacts regarding this audit: [REDACTED] | Telephone No. [REDACTED] |
| Other contact regarding this audit report: S.M. Wenger, Branch Manager | (303) 969-5000 |
| Denver Branch Office | FAX No. (303) 969-5056 |
| Denver Branch Office | E-mail Address dcaa-fao3121@dcaa.mil |

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

RELEVANT DATES

NSF request for audit dated July 20, 2004

AUDIT REPORT AUTHORIZED BY:

/s/ Vicki L. DeLeon for
S.M. WENGER
Branch Manager

Page 8 Redacted in its Entirety

Veco Rocky Mountain, Inc.
Englewood, Colorado 80112

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

1. All costs included in this proposal dated February 1, 2003, to establish final indirect cost rates for the fiscal year ended 03/31/02 are allowable in accordance with the cost principles of the Federal Acquisition Regulation (FAR) and its supplements applicable to the contracts to which the final indirect cost rates will apply; and
2. This proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements.

Firm: Veco Rocky Mountain, Inc.

Signature: _____

Name of Certifying Official: _____

Title: _____

Date of Execution: March 24, 2003



DEFENSE CONTRACT AUDIT AGENCY
AUDIT REPORT NO. 3121-2003B10100091



January 13, 2006

PREPARED FOR: National Science Foundation
Office of Inspector General
ATTN: Ken Stagner
999 18th St., Suite 775
Denver, CO 80202

PREPARED BY: DCAA Denver Branch Office
7112 West Jefferson Ave., Suite 200
Lakewood, CO 80235-2327
Telephone No. (303) 969-5000
FAX No. (303) 969-5056
E-mail Address dcaa-fao3121@dcaa.mil

SUBJECT: Report on 2003 Final Incurred Costs

REFERENCES: NSF #OPP-0001041
Relevant Dates: See Page 11

CONTRACTOR: VECO Rocky Mountain, Inc.
9000 E. Nichols Ave., Suite 250
Centennial, CO 80112-3474

REPORT RELEASE RESTRICTIONS: See Page 12

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SUBJECT OF AUDIT

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

SCOPE OF AUDIT

Except for the qualification discussed below, 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;
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We evaluated the proposal using the applicable requirements contained in the:

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- Cost Accounting Standards.

We have not specifically examined VRM's accounting system and related internal controls for the FY 2003 costs being reviewed. The contractor is a small business with limited resources to be applied to compliance procedures and testing. The scope of our examination reflects this assessment of control risk and includes test of compliance with applicable laws and regulations that we believe provide a reasonable basis for our opinion.



QUALIFICATION

Our report is qualified related to the claimed direct and indirect labor costs. During our audit, we verified the claimed labor hours through the labor distribution to individual employee timesheets. However, we found that the employee timesheets were not signed by employees certifying the hours recorded or approved by the employee's supervisors. Without the employee's certification and supervisor's approval of the recorded hours, we do not have sufficient evidential matter that the hours recorded reflect the actual hours worked. We informed VRM of this deficiency in its internal controls. VRM has corrected this condition with a written timekeeping policy effective February 1, 2004, which requires employees and supervisors to sign timesheets to certify the accuracy of the recorded labor hours. Nevertheless, for the audit year 2003, this internal control did not exist and we can not verify through other means the accuracy of the hours reported on the timesheet. Therefore, our audit report is qualified related to the claimed labor costs. See Exhibit A, Note 1.

RESULTS OF AUDIT

Direct Costs. In our opinion, except for the qualification related to the claimed direct labor costs of [REDACTED] the contractor's claimed direct costs are acceptable and are provisionally approved, pending final acceptance. Final acceptance of amounts proposed under Government contracts does not take place until performance under the contract is completed and accepted by the cognizant authorities and the audit responsibilities have been completed.

Indirect Rates. In our opinion, except for the qualification related to the claimed direct and indirect labor which are in the claimed allocation bases and overhead and G&A pools, the contractor's proposed indirect rates are acceptable, as adjusted, by our examination.

The examination found expressly unallowable costs subject to penalty in the G&A pool of [REDACTED]. Of that amount, [REDACTED] was allocable to contracts specified in FAR 42.709(b). This amount is recommended for penalty, but is less than the \$10,000 waiver threshold discussed in FAR 42.709-5.

The examination results and recommendations follow:

| <u>Cost Category</u> | <u>Allocation Base</u> | <u>Claimed</u> | <u>Questioned</u> | <u>Difference</u> | <u>Reference</u> |
|--|------------------------|----------------|-------------------|-------------------|------------------|
| G&A | | | | | |
| | (a) | | | | |
| Pool | | | | | Exhibit A |
| Base | | | | | |
| Rate | | | | | Exhibit A |
| Engineering OH – Home Office | | | | | |
| | (b) | | | | |
| Pool | | | | | |
| Base | | | | | |
| Rate | | | | | |
| Engineering OH – RTX Contract Labor | | | | | |
| | (c) | | | | |
| Pool | | | | | |
| Base | | | | | |
| Rate | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

GOVERNMENT PARTICIPATION IN ALLOCATION BASES

| <u>Indirect Category</u> | <u>Government Flexibly- Priced Contracts/Subcontract</u> | <u>Government FFP Contracts/Subcontracts and Commercial Work</u> | <u>Total</u> |
|--------------------------|--|--|--------------|
| | <u>s</u> | | |
| | | | |
| | | | |
| | | | |

Exhibit B, page 8, includes a Schedule of Direct Costs by Contract/Subcontract and Indirect Expense Applied at Audit Adjusted Rates. The indirect rates proposed and audited are subject to final determination of the contracting officer.

Cumulative Allowable Cost Worksheet (CACWS). The costs noted on the schedule of cumulative allowable costs in Exhibit C, page 9 represent costs that are considered allowable



under the listed contracts and are, therefore, reimbursable. For those contracts identified as “Ready to Close,” the information on the CACWS should be used to close out contracts. Individual contract audit closing statements will only be issued if requested by the PCO.

We discussed the results of our examination with [REDACTED], in an exit conference held on December 13, 2005. [REDACTED] withheld comment.

**VECO ROCKY MOUNTAIN
STATEMENT OF CONTRACTOR'S PROPOSED INDIRECT
SUPPORT G&A RATE AND RESULTS OF AUDIT**

| <u>Cost Element</u> | <u>Proposed</u> | <u>Questioned</u> | <u>Non Concurred</u> | <u>Not e</u> |
|---|-----------------|-------------------|--------------------------|------------------|
| Labor | \$ [REDACTED] | | | 1 |
| B&P Overhead Allocation | [REDACTED] | | | |
| Fringe Benefits | [REDACTED] | | | |
| Misc. G&A Costs | [REDACTED] | | | |
| Employee Morale | [REDACTED] | \$ [REDACTED] | [REDACTED] | 2 |
| Total | \$ [REDACTED] | \$ [REDACTED] | [REDACTED] | |
| <u>Allocation Base (Direct Labor)</u> | | | | |
| Proposed/Accepted | \$ [REDACTED] | | | |
| <u>Indirect Support G&A Rate:</u> | | | | |
| | [REDACTED] | [REDACTED] | | |
| | [REDACTED] | [REDACTED] | | 2 |
| | [REDACTED] | [REDACTED] | | |

Explanatory Notes

1. Labor Costs

The results of our audit are qualified related to the claimed direct and indirect labor costs. During our audit, we verified the claimed labor hours through the labor distribution to individual employee timesheets. However, we found that the employee timesheets were not signed by employees certifying the hours recorded or approved by the employee's supervisors. Without the employee's certification and supervisor's approval of the recorded hours, we do not have sufficient evidential matter that the hours recorded reflect the actual hours worked. We informed VRM of this deficiency in its internal controls. VRM has corrected this condition with a written timekeeping policy effective February 1, 2004, which requires employees and supervisors to sign timesheets to certify the accuracy of the recorded labor hours. Nevertheless, for the audit year 2003, this internal control did not exist and we can not verify through other means the accuracy of the hours reported on the timesheet. Therefore, our audit report is qualified related to the claimed labor costs.



2. Employee Bonuses

a. Summary of Conclusions:

In accordance with FAR 31.205-6, Bonus and Incentive Compensation, we questioned [REDACTED] in expressly unallowable costs for accrued bonuses that were awarded in FY 2003. VRM does not have an established plan or prior written agreements with the employees who received bonuses. Nor does VRM have a formal, written policy for bonuses. Per FAR Part 31.205-6, Bonus and Incentive Compensation states the following:

“Bonuses and incentive compensation are allowable provided the awards are paid or accrued under an agreement entered into in good faith between the contractor and the employees before the services are rendered or pursuant to an established plan or policy followed by the contractor so consistently as to imply, in effect, an agreement to make such payment; and, bases for the award is supported.”

b. Basis of Contractor’s Cost:

The claimed amount was based on the contractor’s FY 2003 indirect rate submission, general ledger, and discussions with contractor personnel. Claimed Account 911, Employee Morale costs were reduced by 14% based on a statistical sampling performed by VRM.

c. Audit Evaluation:

We reviewed the transactions in Account 911 and requested support for the one high dollar entry of [REDACTED]. The contractor identified this as a bonus accrual, and provided the payroll documents to demonstrate the bonuses paid to three employees. VRM could not provide a written policy or agreements with any of these employees. We question the claimed costs of \$ [REDACTED] since VRM does not have documented agreements with employees for payment of bonuses in accordance with FAR 31.205-6. The questioned costs were reduced by 14 percent since VRM already withheld this amount based on its statistical sampling projection.

d. Contractor’s Reaction:

VRM stated it has a standard practice of paying bonuses based on the company’s performance. Therefore, it considers these costs allowable.

e. Auditor’s Response:

We have not revised our audit opinion. During our audit, we requested VRM to provide its documented policies regarding the payment of bonuses. VRM did not provide any documentation. Further, our review of VRM's 2001 and 2002 incurred costs found that bonuses were not paid to employees. Therefore, VRM's past practices do not support that payment of bonuses is a standard practice.

**SCHEDULE OF DIRECT COSTS BY CONTRACT/SUBCONTRACT
AND INDIRECT EXPENSE APPLIED AT AUDITED RATES**
Fiscal Year Ended 3/31/2003

| Contract No. | Direct Labor Regular | Direct Labor Contract | Travel | Other Direct Costs | Subcontract s | Total Direct Costs | | | | | Total Costs |
|-----------------|-------------------------|--------------------------|--------|--------------------------|------------------|-----------------------|--|--|--|--|----------------|
| NSF OPP-0001041 | | | | | | | | | | | |

Note: Proposed and audited indirect rates are subject to final determination of the contracting officer.



VECO ROCKY MOUNTAIN, INC.
Cumulative Allowable Cost Worksheet
Through 3/31/2003
For Cost and Flexibly Priced Contracts and Subcontracts

| Contract No. | Subject to Penalty Clause (1) | Prior Audited Years W/Settled Rates (2) | Unsettled Direct Costs FYE 3/31/2000 | Indirect Costs FYE 3/31/2001 | Costs Using Audited Rates FYE 3/31/2002 | Costs Using Audited Rates FYE 3/31/2003 | Subtotal | Less Contract Limitation (3) | Total Allowable Cost (4) | Assist Amounts Included in Total (5) | Ready to Close |
|-------------------------------------|-------------------------------|---|--------------------------------------|------------------------------|---|---|----------|------------------------------|--------------------------|--------------------------------------|----------------|
| <u>Cost Type</u> NSF OPP-0001041 | Yes | 0 | ██████ | ██████ | ██████ | ██████ | ██████ | | \$22,200,308 | 0 | No |

NOTES:

- (1) FAR 42.709 implements 10 U.S.C. 2324 (a)-(d) and 41 U.S.C. 256 (a)-(d), which require that penalties be assessed if a contractor claims an expressly unallowable cost in an indirect cost settlement. The FAR 42.709 applies to all cost type and fixed-price-incentive contracts in excess of \$500,000 issued on or after 1 October 1995. DFARS 231.70 applies to DoD cost-type and fixed -price-incentive-fee contracts in excess of \$100,000 issued between 26 February 1987 and 1 October 1995.
- (2) These costs, by contract, are computed using the negotiation or rate agreement document.
- (3) Contract limitation include costs incurred that are (i) in excess of contract ceiling rates, (ii) unallowable per contract, (iii) outside the period of performance, or (iv) in excess of contract ceiling amounts that are not already excluded.
- (4) The cumulative allowable amounts in this column are not to exceed contract-ceiling amounts and are subject to the resolution of subcontract assist audits identified in Column 5.
- (5) Costs in this column are considered unresolved pending subcontract completion and receipt of final cumulative allowable subcontract costs. See the attached supporting schedule for details of subcontracts included in this amount.



CONTRACTOR ORGANIZATION AND SYSTEMS

1. Organization:

VECO Corporation, a closely held corporation, was incorporated in the state of Delaware in 1979. VECO Rocky Mountain is wholly owned subsidiary of VECO Corporation. VRM is an Engineering, Procurement, Construction, Operations and Maintenance and Management Services concern with sales for fiscal year ended 2003 of [REDACTED]. The 2003 sales to the government were [REDACTED]. VRM has 134 direct employees and 20 indirect.

VRM, teaming with Polar Field Services and SRI International, collectively known as VECO Polar Resources, have been working together since 1999 to provide Arctic logistics research support services.

2. Accounting System:

VRM used their TrueLine accounting system exclusively during FY 2003. We have not specifically examined this accounting system and related internal controls for the FY 2003 costs being reviewed.

VRM's accounting period is from April 1 to March 31. VECO Corporation and its Subsidiaries' financial statements are prepared on a semiannual basis. The annual financial statements are audited by external CPAs.

DCAA PERSONNEL

| | |
|---|---|
| Primary contacts regarding this audit: [REDACTED] | Telephone No. [REDACTED] |
| Other contact regarding this audit report: S.M. Wenger, Branch Manager | (303) 969-5000 |
| Denver Branch Office | FAX No. (303) 969-5056 |
| Denver Branch Office | E-mail Address dcaa-fao3121@dcaa.mil |

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

RELEVANT DATES

NSF request for audit dated July 20, 2004

AUDIT REPORT AUTHORIZED BY:

/s/ Vicki L. DeLeon for
S. M. WENGER
Branch Manager

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VECO Rocky Mountain, Inc
Centennial, CO

SCHEDULE N

Certificate of Final Indirect Costs

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

1. All costs included in this proposal dated November 30, 2003, to establish final indirect cost rates for the fiscal year ended 03/31/03 are allowable in accordance with the cost principles of the Federal Acquisition Regulation (FAR) and its supplements applicable to the contracts to which the final indirect cost rates will apply; and
2. This proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements.

Firm: VECO Rocky Mountain, Inc.

Signature: _____

Name of Certifying Official: _____

Title: _____

Date of Execution: 12/08/03