



National Science Foundation

4201 Wilson Boulevard
Arlington, Virginia 22230

Office of Inspector General

MEMORANDUM

DATE:

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

FROM: Deborah H. Cureton
Associate Inspector General for Audit

SUBJECT: NSF OIG Audit Report No. OIG-07-1-005, Audit of Temple University's Incurred Costs under NSF Contract Number REC-9912177

In response to NSF's request for audit support, we contracted with the Defense Contract Audit Agency (DCAA), Pennsylvania Branch Office, to perform an incurred cost audit of Temple University's (Temple) Task Orders B08995X and B14036X under the cost-plus-fixed-fee NSF Contract Number REC-9912177. The period covered by the audit was October 1, 1999 through September 30, 2005 [spanning Fiscal Years (FYs) 2000 through 2005]¹, during which Temple claimed a total of \$4,898,293. An amount of \$1,434,458 was claimed under task order B08995X, and \$3,463,835 was claimed under Task Order B14036X under the NSF contract. The contractor provided technical support for "Accountability and Assessment of Programmatic Evaluation" for NSF's Research, Evaluation, and Communication Division (REC), in the Education and Human Resources Directorate.

The objectives of the audit were to:

- Determine whether costs charged to the NSF contract by Temple University are allowable, allocable and reasonable for all direct and indirect costs in accordance with the contract terms and applicable government acquisition regulations, and;
- Identify instances of noncompliance with laws, regulations, and the provisions of the award agreements and weaknesses in Temple's internal control over financial reporting that could have a direct and material effect on the costs claimed by Temple and its ability to properly administer, account for, and monitor its NSF award.

The audit was performed in accordance with Generally Accepted Government Auditing Standards. The DCAA audit report and Temple University's response, which was received by DCAA subsequent to the audit, are attached to this memorandum.

¹ Temple University's fiscal year is July 1 through June 30.

Summary of the Results of the Audit

The DCAA auditors were able to verify the claimed costs of \$1,434,458 under task order B08995X without exception. However, the audit of the \$3,463,835 claimed under task order B14036X disclosed \$1,547 of questioned alcohol costs, including the associated indirect costs and \$231,838 of costs questioned because they exceeded the total award ceiling amount of \$3,231,997. At the time of the audit, NSF had paid Temple \$142,082 of the \$231,838 that Temple had claimed over the ceiling of the award. Temple agreed with the \$1,547 of questioned alcohol costs. However, Temple did not agree that they had claimed any costs in excess of the total amount of its NSF contract. Temple explained in its response that the contract was originally funded at a cost of \$3,581,997, and that on September 23, 2004, NSF deobligated \$400,000 under Modification 6 to the Task Order. The modification estimated that the remaining funding would support the project through November 30, 2004; however Temple states that it was advised by NSF that more funding would be forthcoming to cover the costs of contract performance. Moreover, Temple cites specific language from Modification 6 in its response as follows:

“This deobligation of funds does not reduce Temple’s overall estimated contract value, it simply reduces funding,” and

“NSF will provide additional funding to support performance of this task during FY ’05 through contract modifications.”

Temple asserts that the language of Modification 6 indicated that NSF intended for it to continue performance on the basis that it would be reimbursed up to the original amount of the contract, therefore the original contract amount of \$3,581,997 was not overspent.

NSF contracting officials provided documentation that shows that NSF obligated an additional \$175,000 under Modification 9 in May 2006. However, neither NSF nor Temple officials had a signed copy of Modification 9. Therefore, DCAA would not recognize the modification to the contract in its audit because the modification was not signed by NSF nor was Temple aware of the modification at the time of the audit. NSF issued this modification on a unilateral basis to Temple without requiring that Temple acknowledge receipt of the modification. Even with the additional funds, the new amount is insufficient to cover Temple’s total claimed costs. NSF Contracting Officials will need to address this difference in their contract closeout process, and require that Temple submit a revised incurred cost submission to reflect the Contracting Officer’s decision for final closeout.

We recommend that NSF resolve the \$231,838 in questioned costs over the ceiling of the contract and require that Temple submit a revised incurred cost submission accordingly. We also recommend that whenever NSF issues a unilateral contract modification, that it ensure that the institution has received the contract documentation, and that a signed copy of the contract modification is kept in the official contract file.

We are providing a copy of this memorandum to the Education and Human Resources Directorate/Research, Evaluation, and Communication (EHR/REC). 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 Generally Accepted 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 Generally Accepted 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 Temple University and the conclusions expressed in the report. The NSF OIG does not express any opinion on Temple's incurred cost submissions, accounting system, or the conclusions presented in DCAA's audit report.

We thank you and your staff for the assistance extended to us during the audit. If you have any questions about this report, please contact Sherrye McGregor at (703) 292-5003 or Jannifer Jenkins at (703) 292-4996.

Attachment: DCAA Audit Report of Temple University Incurred Costs
for Fiscal Years 2000 through 2005
Temple University Response to Audit of NSF Contract No. REC-9912177,
dated 30 October, 2006 from [REDACTED]

cc: Division Director, EHR/REC
Mary Sladek, EHR/REC



DEFENSE CONTRACT AUDIT AGENCY
AUDIT REPORT NO. 6701-2006E17900002



October 31, 2006

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 Office of Inspector General
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SUBJECT: Report on Cost Verification
 On Contract Number REC-9912177

REFERENCES: National Science Foundation Contract Number REC-9912177
 Relevant Dates: See Page 6

CONTRACTOR: Temple University
 1805 N Broad St
 Philadelphia, PA 19122-6003

REPORT RELEASE RESTRICTIONS: See Page 7

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SUBJECT OF AUDIT

As requested by your letter on January 23, 2006, we examined the cost incurred on National Science Foundation Contract Number REC-9912177 for the period of October 1, 1999 through September 30, 2005. The purpose of the examination was to verify the costs claimed to the contractor's books and records and to determine the allowability and allocability of the costs charged to the contract.

The data and records examined are the responsibility of Temple University. Our responsibility is to express an opinion based on our examination.

SCOPE OF AUDIT

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

- evaluating the contractor's internal controls, assessing control risk and determining the extent of audit testing needed based on the control risk assessment;
- examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed; assessing the accounting principles used and significant estimates made by the contractor;
- evaluating the overall data and records presentation; and
- determining the need for technical specialist assistance.

We evaluated the claimed cost using the applicable requirements contained in the:

- OMB Circular A-21,
- Federal Acquisition Regulation (FAR), and
- Contract provisions.

The scope of our examination reflects our assessment of control risk and includes tests of compliance with applicable laws and regulations that we believe provide a reasonable basis for our opinion. Our assessment of control risk reflects that we have not specifically examined Temple University's accounting system and its related internal controls.

RESULTS OF AUDIT

In our opinion, we were able to verify the claimed cost of \$1,434,458 under task order B08995X without exception. However, our audit of the claimed cost of \$3,463,835 under task order B14036X disclosed \$1,547 of questioned costs and \$231,838 of claimed costs in excess of contract requirements. Also, the contractor has been paid \$142,082 over the task order ceiling.



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The details of the claimed reimbursable cost are summarized as follows:

Summary of Temple University Claimed Costs
Under Contract Number REC-9912177 and Results of Audit

Task Order B08995X

<u>Description</u>	<u>Claimed</u>	<u>Questioned</u>	<u>Note</u>	<u>Page</u>
Personnel		\$ 0		
Fringe Benefits		\$ 0		
Supplies/ODC		\$ 0		
Subcontractors		\$ 0		
Travel		\$ 0		
Indirect Costs		\$ 0		
Total Cost	<u>\$1,434,458</u>	<u>\$ 0</u>	1	2

Task Order B14036X

<u>Description</u>	<u>Claimed</u>	<u>Questioned</u>	<u>Note</u>	<u>Page</u>
Personnel		\$ 0		
Fringe Benefits		\$ 0		
Supplies/ODC		\$ 0		
Subcontractors		\$ 0		
Travel		\$ 1,199		
Indirect Costs		\$ 348		
Total Cost	<u>\$ 3,463,835</u>	<u>\$ 1,547</u>	2	3
Costs in excess of Contract Requirements	\$ 231,838	\$ 231,838	3	3

Explanatory Notes:

1. Total Cost - Task Order B08995X

a. Summary of Conclusions:

No exceptions were noted during our examination of the claimed expenses pertaining to Task Order B08995X under Contract Number REC-9912177.

b. Basis of Contractor's Costs:

The contractor's claimed costs are based on the actual costs incurred on task order B08995X.

c. Audit Evaluation:



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We verified the claimed expenses to the contractor's job cost ledger. We judgmentally sampled 21% (\$222,246 / \$1,051,571) of the claimed direct costs and traced them to the contractor's supporting documentation. Then, we compared the billed fringe benefit and indirect cost rates to their final agreed to rates as determined by HHS.

2. Total Cost - Task Order B14036X

a. Summary of Conclusions:

We question \$1,547 of the contractor's claimed costs pertaining to task order B14036X. This results from the inclusion of alcohol, which is expressly unallowable in accordance with OMB Circular A-21, Section J(3). Questioned costs of \$1,547 are determined by adding the travel costs of \$1,199 to the associated indirect costs of \$348 ($\$1,199 \times 29\%$).

b. Basis of Contractor's Costs:

The contractor's claimed costs are based on the actual costs incurred on task order B14036X.

c. Audit Evaluation:

We verified the claimed expenses to the contractor's job cost ledger. We judgmentally sampled 15% (\$443,672 / \$2,843,954) of the claimed direct costs for task order B14036X and traced them to the contractor's supporting documentation. Then, we compared the billed fringe benefit and indirect cost rates to their final agreed to rates as determined by HHS.

We determined that the contractor charged the cost of alcohol to the task order for a meeting at the Hyatt Regency.

d. Contractor's Reaction:

The contractor concurs with our questioned costs.

3. Costs in Excess of Contract Requirements

a. Summary of Conclusions:

We determined that the contractor has incurred \$231,838 ($\$3,463,835 - \$3,231,997$) of cost that is over the ceiling amount of task order B14036X. In addition, the contractor has been paid \$3,374,079 on task order B14036X. This is \$142,082 ($\$3,374,079 - \$3,231,997$) over the task order ceiling.

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b. Basis of Contractor's Cost:

The contractor's claimed costs are based on the actual costs incurred on task order B14036X.

c. Audit Evaluation:

We verified the claimed expenses to the contractor's job cost ledger and we reviewed relevant contract modifications pertaining to task order B14036X. We determined that the contractor did not have any valid authority to overrun task order B14036X and expect to be reimbursed.

d. Contractor's Reaction:

The contractor deferred comment on the examination results.

The results of this examination were discussed at our exit conference on October 19, 2006 with Martin Smith, Director, Cost Analysis & Compliance, who deferred comment on our findings.

CONTRACTOR ORGANIZATION AND SYSTEMS

1. Organization

Temple University's main campus is located in Philadelphia, Pennsylvania. It is one of Pennsylvania's three public research universities. It had expenditures of approximately [REDACTED] million of federal awards during fiscal year 2005.

2. Accounting System

Temple University's fiscal year is July 1 through June 30. They maintain a job order cost accounting system that is fully integrated in the overall accounting system. Contracts and subcontracts are assigned individual project numbers and direct costs are identified and charged to those numbers. Due to the low volume of DOD cost type contracts at Temple University, we have not performed an examination of Temple University's accounting system. However, we generally consider its accounting system to be adequate for segregating and accumulating costs under government contracts.

DCAA PERSONNEL

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

RELEVANT DATES

Request for Audit: ACO - dated January 23, 2006; received January 23, 2006

AUDIT REPORT AUTHORIZED BY:

/S/ Julie A. Wiles
/For/ Thomas L. Swanson
Branch Manager
Pennsylvania Branch Office

AUDIT REPORT DISTRIBUTION AND RESTRICTIONS

DISTRIBUTION

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Copy furnished thru ACO

RESTRICTIONS

[REDACTED]

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[REDACTED]

Controller's Office

30.02.06

Mr. Dennis Skrocki, Auditor
Defense Contract Audit Agency
Mid Atlantic Region
700 American Avenue, Suite 100
King of Prussia, PA 19406-4031

RE: Audit of NSF Contract No. REC-9912177

Dear Mr. Skrocki

Thank you for providing Temple University with the opportunity to respond to the findings of the audit you conducted with respect to Task Order B143036X between Temple University and the National Science Foundation (NSF), for work performed by Temple University's Institute on Survey Research (ISR) for NSF. I understand that your audit resulted in two findings:

Finding 1: Unallowable alcohol charged to the award totaling: \$1,547.25
(direct & indirect costs)

Finding 2: Temple University overspent the contract

Temple University Response to Finding 1: Temple University neither challenges nor objects to Finding 1 and concurs in the conclusion that any amounts owed to Temple University under the contract should be reduced by the amount of this charge.

Temple University Response to Finding 2: Temple University disagrees with this finding. Task Order B143036X was originally contracted at a cost of \$3,581,997 and then later modified on September 23, 2004 to de-obligate funds from the work order in the amount of \$400,000 (see Modification 6). This modification estimated that the remaining funding would "support contractor performance through November 30, 2004" which was true in that costs incurred did not exceed the new contract value after the de-obligation (\$3,181,997). However, as both parties were aware, those funds were not sufficient to support the project through the entire performance period of the contract (June 30, 2005). Moreover, despite the de-obligation, Temple University relied on written communications from NSF as well as actions taken by NSF in expending additional funds to complete the project.

When the de-obligation occurred, NSF advised Temple University that more funding would be forthcoming from the Agency to complete the task order. Specifically, Modification 6 states: "This de-obligation of funds does not reduce Temple's overall estimated contract value it simply reduces funding." The language of Modification 6

continued with, "NSF will provide additional funding to support performance of this task during FY '05 through contract modifications." As promised, NSF provided additional funding under the contract, ultimately paying invoices totaling \$3,463,824.77.

There remains an outstanding balance of money owed to Temple University by NSF, from invoices previously submitted totaling \$89,756.24 (Invoice #20a in amount of 87,293.24; and Invoice # 22b in the amount of 2,463.00). In support of our assertion that NSF did in fact allocate additional funds to complete the project, please note that a portion of Invoices 20 and 22 had already been paid by NSF. Temple University thus expected that the additional amount owed would also be paid by NSF for completed work. We of course acknowledge that the final amount due and owing should be reduced by the amount of the unallowable alcohol charges. However, we affirmatively assert that Temple University has not overspent the original contract amount of \$3,581.997.

We hope this explanation has served to answer any questions and clarify the circumstances of the invoicing for Task Order B143036X. Please let me know if you have questions or need further information.

Very truly yours,



Cc:

