



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 (DACS)

FROM: Deborah H. Cureton
Associate Inspector General for Audit

SUBJECT: NSF OIG Audit Report No. OIG-07-1-019,
Audit of Abt Associates, Inc.'s FY 2002 Incurred Costs

We contracted with the Defense Contract Audit Agency (DCAA), Boston Branch Office, to perform a review of costs claimed by Abt Associates, Inc. (Abt) on four NSF awards. DCAA performed this work in conjunction with an audit requested by US Agency for International Development, Abt's federal cognizant agency. The audit covered \$ [REDACTED] million in costs that Abt claimed for fiscal year (FY) 2002¹ on eleven task orders under NSF Contract Numbers EEC-9815425, EEC-9907043, REC-9912174, and a NSF-General Services Administrative (GSA) Schedule Contract No. GS-10F-00861. Abt Associates, Inc. provided technical support and evaluation assistance services to the Division of Education and Engineering Centers (EEC), the Division of Manufacturing and Industrial Innovation (DMII), and the Division of Research on Learning in Formal and Informal Settings (DRL).

The objectives of the audit were to 1) determine the adequacy of Abt's accounting system for accumulating, reporting, and billing costs to the government; 2) determine the allowability of direct and indirect costs claimed to NSF by Abt for FY 2002, and 3) recommend contracting officer determined indirect cost rates for FY 2002. The audit was performed in accordance with Generally Accepted Government Auditing Standards. The results of the DCAA audit are summarized below. The DCAA audit report and a schedule of questioned indirect cost by NSF award is attached. Because of its size, Exhibit H of the auditor's report, identifying a schedule of allowable costs for all of Abt's federal contracts will be transmitted separately to your office.

Results of Accounting System Review

DCAA issued a qualified opinion on Abt's accounting system. The qualification was based on a DCAA audit dated January 2005, where DCAA found that Abt had violated Federal Acquisition Regulations and Cost Accounting Standards. As a result, DCAA qualified its opinion on the adequacy of Abt's accounting system for accumulating, reporting, and billing costs on government contracts. Specifically, in FY 2002, Abt changed the base it used to allocate home

¹ Abt Associates fiscal year is April 1 through March 31.

office (corporate) expenses and was cited for failing to 1) notify the government of its cost accounting change; 2) submit a cost impact proposal quantifying the effect of the accounting change, and 3) use the basis of accounting for its corporate costs as identified in its disclosure statement. As a result, DCAA estimated that [REDACTED] in additional costs were allocated to the government sector G&A pool, including NSF contract costs, in FY 2002. The cognizant Audit Agency, USAID, is responsible for resolving Abt's CAS noncompliance issues. As of the date of DCAA's audit report, August 30, 2007, Abt's CAS noncompliance issues have not been resolved.

Results of Review of Direct Costs

DCAA did not identify any questioned direct costs on the [REDACTED] of direct costs that Abt claimed on the NSF contracts for FY 2002.

Audit Determined Indirect Cost Rates

DCAA determined that Abt's proposed indirect rates were not acceptable as proposed. The results of DCAA's examination and its recommended indirect cost rates are presented below.

Indirect Category	Proposed	Audit Determined	Questioned
G&A	[REDACTED]	[REDACTED]	[REDACTED]
Regular Overhead	[REDACTED]	[REDACTED]	[REDACTED]
Site Overhead	[REDACTED]	[REDACTED]	[REDACTED]
Subcontract Consulting Handling	[REDACTED]	[REDACTED]	[REDACTED]
Regular Fringe	[REDACTED]	[REDACTED]	[REDACTED]
Temporary Fringe	[REDACTED]	[REDACTED]	[REDACTED]

DCAA found that there were [REDACTED] in questioned indirect costs in the six types of indirect cost pools Abt used in calculating indirect costs it claimed on federal contracts. Eighty-eight percent of the [REDACTED] in questioned indirect costs were identified in two indirect cost pools: the G&A pool was assessed [REDACTED] and regular fringe pool was assessed [REDACTED] of the questioned \$2.2 million. The primary cost categories in which [REDACTED] was questioned related to employee stock options for [REDACTED], because they appear to represent a distribution of profits to the trust, which is unallowable under the FAR; [REDACTED] related to the CAS cost accounting change discussed above; and [REDACTED] resulted from the application of the questioned fringe rate to the proposed indirect labor claimed. The audited indirect rates resulted in [REDACTED] questioned indirect costs related to the NSF contracts, as shown below.

NSF Contract No.	Questioned Costs
EEC-9815425	[REDACTED]
EEC-9907043	[REDACTED]
REC-9912174	[REDACTED]
GSA Schedule No. GS10F-00861	[REDACTED]
Total Amount of Indirect Costs Questioned on NSF Awards	[REDACTED]

The auditors recommend that NSF contracting officials: 1) require that Abt Associates submit revised billings and a revised incurred cost submission for its 2002 NSF contracts to reflect the audit determined indirect cost rates; 2) coordinate with the US AID Procurement Contracting Officer, responsible for the CAS non-compliance issues, to determine if there are additional cost reductions to the Government G&A pool which will affect NSF awards; and 3) apply penalties, including interest under the FAR to expressly unallowable questioned costs. DCAA's recommendation concerning the interest to be recovered on unallowable costs paid will be furnished when DCAA has received US AID's determination on penalties to be assessed.

Please coordinate with our office during the resolution period to develop a mutually agreeable resolution of the audit findings. The findings should not be closed until NSF determines that all recommendations have been adequately addressed and the proposed corrective actions have been satisfactorily implemented.

We are providing a copy of this memorandum to the Division Directors of EEC, DMII and DRL. 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 Abt Associates and the conclusions expressed in the report. The NSF OIG does not express any opinion on Abt's incurred cost submissions, the indirect rate applications, 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 No. 02171-2002J10100002 (Revised),
Audit of Abt Associates, Inc. FY 2002 Incurred Costs,
Spreadsheet showing impact of Questioned Costs on NSF Contracts

cc: Allen L. Soyster, Division Director, ENG/EEC
Kesh S. Narayanan, Division Director, ENG/IIP
Joan Ferrini-Mundy, Division Director, EHR/DRL



DEFENSE CONTRACT AUDIT AGENCY
AUDIT REPORT NO. 02171-2002J10100002
(Revised)



August 30, 2007

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SUBJECT: Audit of Abt Associates, Inc. FY 2002 Incurred Cost

REFERENCES: USAID Task Number IG-0-04-013
Relevant Dates: See Page 37

CONTRACTOR: Abt Associates, Inc.
55 Wheeler Street
Cambridge, MA 02138-1168

REPORT RELEASE RESTRICTIONS: See Page 41

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SUBJECT OF AUDIT

As requested under USAID Task Number IG-0-04-013, we examined the Abt Associates, Inc. September 30, 2002 certified final indirect cost rate proposal and related books and records for the reimbursement of 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 fiscal year ending March 31, 2002. The proposed rates apply primarily to the flexibly priced contracts listed in Exhibit H. A copy of Abt Associates, Inc. Certificate of Indirect Costs, dated September 30, 2002 is included as Appendix I. The proposal is the responsibility of the contractor. Our responsibility is to express an opinion based on our examination.

EXECUTIVE SUMMARY

Our audit disclosed \$1,059,227 of questioned indirect expenses and \$1,142,280 of questioned fringe benefit expenses in FY 2002. We also questioned \$5,363 of direct costs proposed under Government contracts. The following schedule summarizes the effect of our questioned costs and bases on the proposed rates.

<u>Indirect Category</u>	<u>Audit</u>		
	<u>Proposed</u>	<u>Determined</u>	<u>Questioned</u>
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

SIGNIFICANT ISSUES

1. Under Audit Report No. 2171-2004J19200005, dated January 25, 2005, we identified a noncompliance with FAR 52.230-6 because the contractor did not notify the government of this cost accounting change or submit impacts related to this change. This report disclosed that [REDACTED] of additional indirect costs was allocated to the G&A pool as a result of a change in the base used to allocate [REDACTED]. In FY 2002 the contractor changed the base used to allocate corporate expenses from the three factor formula to gross revenue.
2. Our examination disclosed [REDACTED] of questioned cost in claimed legal expenses. Of the [REDACTED] is questioned in the Government sector G&A pool and the remaining [REDACTED] of costs is allocable to Abt Associate's private sector pool.

Audit Report No. 02171-2002J10100002 (Revised)

3. We are questioning \$ [REDACTED] expenses. The question amount represents \$ [REDACTED] of Claimed Employee Stock Option Plan (ESOP) costs, \$ [REDACTED]
4. Our results of audit are qualified pending final determination of Cost Accounting Standard non-compliances cited in our Audit Report No. 2171-2004J19200005, dated January 25, 2005, citing Abt Associates for a FAR 52.230-5 noncompliance; CAS 403 non-compliances; and a CAS 410 and CAS 418 noncompliance as discussed below (refer to the Qualifications paragraph below).

SCOPE OF AUDIT

Except for the qualifications 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 evaluated are free of material misstatement. An examination includes:

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

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

- Federal Acquisition Regulation (FAR),
- Agency for International Development Acquisition Regulations (AIDAR),
- Environmental Protection Agency Acquisition Regulations (EPAAR),
- Health & Human Services Acquisition Regulations (HHSAR),
- Agriculture Acquisition Regulations (AAR),
- Cost Accounting Standards (CAS), and
- Applicable contract terms.

We excluded from our examination direct costs claimed under Government contracts awarded to Abt by the Department of Labor (DOL), Department of Justice (DOJ), Department of Education (Do-Education) and the Department of Housing and Urban Development (HUD) because these Agencies did not participate in our audit.

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For FY 2002, we considered Abt Associates, Inc.'s accounting system to be adequate, subject to the qualifications noted below, for accumulating, reporting, and billing costs on government contracts, as described in the "Contractor's Organization and Systems" section of this report (page 35). Our audit scope reflects our assessment of control risk and includes tests of compliance with laws and regulations that we believe provide a reasonable bases for our opinion.

QUALIFICATIONS

Our office issued Audit Report No. 2171-2004J19200005, dated January 25, 2005, citing Abt Associates for a FAR 52.230-6 noncompliance; CAS 403 non-compliances; a CAS 410 and a CAS 418 noncompliance.

[REDACTED]. We identified a noncompliance with FAR 52.230-6 because the contractor did not notify the government of this cost accounting change or submit impacts related to this change. We also identified a noncompliance with CAS 403-40(c)(2) in that the contractor did not use the three factor formula to allocate residual expenses. We estimated that \$ [REDACTED] additional costs were allocated to the Government in FY 2002 as a result of the contractor not using a [REDACTED]. Abt's cost impact proposal may result in additional cost reductions to the Government G&A pool.

In the subject noncompliance report we recommended that Abt submit a cost impact proposal to the cognizant Procurement Contracting Officer (PCO), at the U.S. Agency for International Development as required by FAR 52.230-6. As of the date of this report the CAS non-compliance has not been resolved by USAID. If the non-compliances are subsequently resolved we will issue a supplemental audit report if one is warranted.

RESULTS OF AUDIT

In our opinion, the contractor's proposed indirect rates are not acceptable as proposed. The examination results and recommendations are presented below.

The contractor did not accept our findings and recommendations and has elected to withhold comment until a later date.

Direct Costs

In our opinion, the contractor's claimed direct costs are acceptable as adjusted by our examination. We questioned \$ [REDACTED] of direct costs proposed under Government contracts. The costs represent consultant and other direct costs. The contractor was unable to provide support for the allowability of the claimed amounts. Questioned direct costs by element within specific contracts are presented in Exhibit G, page 32. Direct costs not questioned are provisionally approved pending final acceptance. Final acceptance of amounts proposed under Government contracts does not take place until performance under the contract is completed and accepted by the cognizant authorities and the audit responsibilities have been completed.

Indirect Costs Subject to Penalty

Penalties for Unallowable Costs. Indirect costs questioned in this examination are believed to be subject to the penalties provided in FAR 42.709. Our recommendations for each questioned item are included in the notes to Exhibit A and E and their supporting schedules. Affected contracts are identified in Exhibit H, page 34. Our recommendations concerning the interest to be recovered on unallowable costs paid will be furnished when we have received your determination on penalties to be assessed.

The contractor has not been providing cumulative contract cost data with its incurred cost submissions and therefore we are unable to develop a Cumulative Allowable Cost Worksheet in this audit report. The contractor asserts that providing cumulative costs retroactively would be a manual process and would require additional resources and therefore is not cost effective to the Company. The contractor has agreed that starting in FY 2003 with the implementation of the Company's Oracle Financial Accounting System, to work with DCAA in providing cumulative contract cost data with its annual incurred cost submissions. The contractor states that providing cumulative data on contracts awarded prior to FY 2003 would have to be done on a contract by contract basis at the request of the awarding agency to closeout contracts.

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We discussed the results of our examination with Abt representatives [REDACTED], [REDACTED], in an exit conference held on May 15, 2007. We provided the contractor with a summary of our audit results and requested the contractor to provide written response for inclusion in our audit report. We received an email response on July 19, 2007 from the contractor's representative [REDACTED] who stated that Abt will reserve comment and will respond at a later date. Abt has not provided a response as of the date of this report.

STATEMENT OF PROPOSED GENERAL AND ADMINISTRATIVE EXPENSES
AND RATE AND RESULTS OF AUDIT

Table redacted in its entirety

Explanatory Notes

1. Questioned Costs Subject to Penalty

FAR 42.709 apply to all cost type and fixed-price-incentive contracts in excess of \$500,000, issued on or after October 1, 1995.

FAR 42.709-1(a)(1) prescribe the penalty assessment where claimed costs are expressly unallowable under a cost principle in the FAR or applicable agency FAR Supplement. This penalty is equal to the amount of the disallowed cost plus interest on the amount actually paid.

FAR 42.709-1(a)(2) prescribe the penalty assessment where claimed costs were determined to be unallowable before the indirect cost settlement proposal submission. This penalty is equal to twice the amount of such disallowed costs.

It is our opinion; questioned cost of \$ [REDACTED] is subject to the level one penalty assessment under FAR 42.709-1(a)(1).

The following notes below detail the unallowable costs that are, in our opinion, subject to these penalties. Schedule A-1 on page 20 summarizes the unallowable costs subject to penalty and identifies the amount of costs subject to penalty allocated to contracts with the penalty clause.

2. Consultants

a. Summary of Conclusions:

We questioned \$ [REDACTED] of claimed indirect consultant costs because the contractor was unable to furnish us with consultant agreements as required by FAR 31.205-33(f) (1) pertaining to three consultant transactions in which the contractor was unable to provide documentation supporting the claimed costs. A summary of the questioned costs are summarized below:

ACCOUNT NAME	VENDOR NAME	DEPT	VOUCHER NUMBER	VENDOR ID	AMOUNT
CONSULTANTS	[REDACTED]	548	489419	114280	[REDACTED]
CONSULTANTS	[REDACTED]	968	481377	114280	[REDACTED]
CONSULTANTS	[REDACTED]	968	486991	116312	[REDACTED]
	TOTAL				\$ [REDACTED]



3. Legal

a. Summary of Conclusions:

Based on our evaluation we are questioning \$ [REDACTED] of claimed legal expenses. Of the \$ [REDACTED] questioned, \$ [REDACTED] is questioned in the Government sector G&A pool as follows. The remaining \$ [REDACTED] of costs is allocable to Abt Associate's private sector pool.

<u>Government Sector Pool</u>	<u>Amount</u>
[REDACTED]	\$ [REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
Total	\$ [REDACTED]

Details of our questioned Legal costs are provided in the schedule and notes below:

<u>Dept</u>	<u>Amount</u>	<u>Source</u>	<u>No.</u>	<u>Voucher</u>	<u>Vendor ID</u>	<u>Vendor Name</u>	<u>PD</u>	<u>Invoice No.</u>	<u>Questioned</u>	<u>Notes</u>
505	8,602.60	A	003	490055	107661	[REDACTED]	13	033102	[REDACTED]	(i)
578	18,799.60	A	002	487091	111856	[REDACTED]	12	242796	[REDACTED]	(ii)
578	3,283.02	A	003	468975	114600	[REDACTED]	01	145599	[REDACTED]	(iii)
578	24,742.50	A	002	482000	300274	[REDACTED]	09	84533	[REDACTED]	(iv)
578	21,809.97	A	003	473799	300274	[REDACTED]	04	76081	[REDACTED]	(v)
578	20,788.62	A	001	485317	300274	[REDACTED]	11	85965	[REDACTED]	(vi)
548	9,115.00	A	440	000000	115198	[REDACTED]	04		[REDACTED]	(vi)
578	62,017.28	A	475	000000	117067	[REDACTED]	13		[REDACTED]	(vi)
Total Questioned									[REDACTED]	
Allocated to the Private Sector Pool									[REDACTED]	
Gov't Sector Questioned Cost									[REDACTED]	

- (i) The invoice does not provided any details of services provided. We requested additional information but the contractor never responded. Therefore we questioned the costs in accordance with FAR 31.201-2(d), Determining Allowability. A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements.



- (ii) We questioned \$ [REDACTED] based on FAR 31.205-27, Organization Costs. The contractor's legal invoice under voucher number 487091 dated March 30, 2002, related to legal efforts pertaining to the possible acquisition of a portion of Arthur D. Little, Inc located in Cambridge, MA. FAR 31.205-27 states that expenditures in connection with planning or executing the organization or reorganization of the corporate structure of a business, including mergers and acquisitions are unallowable. The amount questioned is expressly unallowable and subject to subject to level I penalty per FAR 42.709. Refer to Schedule A-1.
- (iii) Legal service was provided for Safe Science, Inc. We requested additional information supporting the claimed costs but the contractor never responded. Therefore we questioned the costs in accordance with FAR 31.201-2(d), Determining Allowability. A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements.
- (iv) Invoice reflects significant legal effort for the Jordan PHCI investigation and shows DCAA audit issues related to voluntary deletions. We requested additional information supporting the claimed amount but the contractor never responded. Therefore we questioned the costs in accordance with FAR 31.201-2(d), Determining Allowability. A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements.
- (v) Significant legal effort was incurred for internal investigation and IHA reorganization. We requested additional details of these activities however the contractor never responded. Therefore we questioned the costs in accordance with FAR 31.201-2(d), Determining Allowability. A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements.

- (vi) The contractor did not provide any documentation to support these transactions and therefore we question the claimed amounts in accordance with FAR 31.201-2(d), Determining Allowability. A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements.

Of the amount questioned, \$ [REDACTED] is expressly unallowable and subject to level I penalty per FAR 42.709. Refer to Schedule A-1.

b. Basis of Contractor's Cost:

The contractor's general ledger account 1725 reflects \$808,940 of legal costs incurred during fiscal year 2002. The contractor voluntarily deleted \$105,968 of unallowable legal costs and claimed legal costs in the amount \$702,972 in fiscal year 2002.

c. Audit Evaluation:

We requested the transaction level detail of legal expenses incurred in FY 2002. We reconciled the transaction level detail to the contractor's FY 2002 trial balance for expense account 1725. We selected a sample of legal transactions and examined the supporting documentation for compliance with the provisions of FAR, Supplemental Agency guidelines, CAS, and Abt's accounting policies and procedures.

d. Contractor's Reaction:

In an email dated July 19, 2007, the contractor's representative stated that the company will withhold comment and will respond directly to the ACO with regards to the FY 2002 Incurred Cost Audit.

4. State Tax Expense

a. Summary of Conclusions:

Based on our analysis we are questioning \$ [REDACTED] in accordance with FAR 31.205-7(b), Contingency. Of the amount questioned, \$ [REDACTED] is questioned in the Government sector G&A pool and the remaining amount is applicable to the private sector pool. In FY 2002 the contractor booked a reserve in the amount of \$ [REDACTED] to ensure the company had sufficient funds on hand in case they were selected for a tax audit. According to the contractor's representative, a tax audit was not performed during FY 2002 nor was the reserve adjusted in that year's incurred cost submission. FAR 31.205-7(b) states that costs for contingencies are generally unallowable for historical costing purposes because such costing deals with costs incurred and recorded on the contractor's books.

b. Basis of Contractor's Cost:

In FY 2002 the contractor booked a reserve in the amount of \$ [REDACTED] to ensure the company had sufficient funds in the case of a tax audit.

c. Audit Evaluation:

We requested the transaction level detail of claimed state tax expenses. We reconciled the detailed transaction listing to the FY 2002 trial balance amount. We scanned the transaction listing for unusual entries and requested the source documents supporting the claimed amounts.

d. Contractor's Reaction:

In an email dated July 19, 2007, the contractor's representative stated that the company will withhold comment and will respond directly to the ACO with regards to the FY 2002 Incurred Cost Audit.

5. Marketing

a. Summary of Conclusions:

Our examination disclosed questioned Marketing expenses of \$ [REDACTED]. Of the amount questioned \$ [REDACTED] is questioned in the G&A pool and the remaining \$ [REDACTED] is questioned in the subcontract/consultant handling pool (Exhibit D). Details of our questioned costs are as presented in the schedule and referenced notes below.

Project	Amount	Voucher	Vendor No.	Vendor	PD	Description	Questioned	Not
2221	10,000	479840	117627	xxxxxxxxxxxxxxxxxxxx	07	CONFERENCE SPONSER	[REDACTED]	(i)
2055	2,495	772242	004564	xxxxxxxxxxxxxxxxxxxx	06	ER091101	[REDACTED]	(ii)
2081	1,677	487413	113412	xxxxxxxxxxxxxxxxxxxx	12	SUPPLIES	[REDACTED]	(iii)
2034	1,650	471804	304225	xxxxA	03	FEES & DUES	[REDACTED]	(iv)
2055	7,292	479720	117304	xxxxxxxxxxxx	07	PROFF	[REDACTED]	(v)
2129	4,436	776110	015438	xxxxxxxxxxxxxxxxxxxx	11	RECLAS	[REDACTED]	(v)
2170	1,252	777286	015553	xxxxxxxxxxxxxxxxxxxx	13		[REDACTED]	(v)
							\$ [REDACTED]	

(i) We questioned \$ [REDACTED] question based on FAR 31.205-8, which states that contributions or donations, including cash, property and services, regardless of recipient, are unallowable. We also consider the questioned costs as unallowable per FAR 31.205-1(f)(5), costs of promotional material, motion pictures, videotapes, brochures, handouts, magazines, and other media that are designed to call favorable attention to the contractor and its activities. The questioned amount represents a contribution to the 2001 National Conference on Tobacco and Health and as a conference sponsor be recognized on the conference web site, program book and signage in the Marriot Hotel. The questioned costs are expressly unallowable and subject to level one penalty under FAR 42.709. Refer to the penalty calculation on Schedule A-1.

(ii) We questioned \$ [REDACTED] as unallowable entertainment expenses per FAR 31.205-14. The questioned amount represents a dinner for 31 individuals who dined at a restaurant in Bethesda, MD on September 9, 2001. The only purpose provided was a reference that these individuals attended a non-Federal Business Development training course. There was no other details regarding the reason for the dinner nor was there a cost breakdown of the meal. The questioned costs are expressly unallowable and subject to level one penalty under FAR 42.709. Refer to the penalty calculation on Schedule A-1.

(iii) We questioned \$ [REDACTED] as unallowable public relations costs per 31.205-1(f)(6). The questioned amount represents an invoice from Emily’s Specialty Products of Wellesley, MA for the purchase of 50 pocket tee shirts and 100 tote bags. FAR 31.205-1(f)(6) states that costs of souvenirs, models, imprinted clothing buttons, and other mementos provided to customers and the public are unallowable. The questioned costs are expressly unallowable and subject to level one penalty under FAR 42.709. Refer to the penalty calculation on Schedule A-1.



(iv) We questioned \$330 as unallowable lobbying costs per FAR 31.205-22. The contractor paid \$1,650 for a membership in the National Council of State Housing Agencies (NCSHA). Twenty percent (\$330) of NCSHA activities are defined as lobbying. The questioned costs are expressly unallowable and subject to level one penalty under FAR 42.709. Refer to the penalty calculation on Schedule A-1.

(v) We questioned \$ [REDACTED] based on FAR 31.201-2(d), Determining Allowability because the contractor did not provide documentation to support the claimed costs amounts. This regulation states that a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements.

Of the amount questioned \$ [REDACTED] of the questioned costs is expressly unallowable and subject to level I penalty per FAR 42.709. Refer to Schedule A-1.

b. Basis of Contractor's Cost:

The contractor claimed marketing expenses in the amount \$ [REDACTED] (exclusive of fringe benefits) during FY 2002. The contractor's project level detail summary reflects that the contractor charged the claimed marketing expenses to [REDACTED] projects during FY 2002.

c. Audit Evaluation:

We requested the project level detail of marketing expenses (dept 950) claimed by Abt in FY 2002. We reconciled the marketing project level detail to the amount claimed in the contractor's FY 2002 incurred cost submission Schedule B-1. We examined the marketing project costs to identify any unusual marketing charges. We selected a sample of marketing projects and requested the supporting documentation required by FAR, CAS and contractor policies and procedures. We also selected a sample of detail marketing ODC and consultant expenses and tested the supporting documentation for compliance with FAR, CAS, and company policies and procedures.

d. Contractor's Reaction:

In an email dated July 19, 2007, the contractor's representative stated that the company will withhold comment and will respond directly to the ACO with regards to the FY 2002 Incurred Cost Audit.

6. Bid and Proposal Costs:

a. Summary of Conclusions:

Based on our evaluation of the Abt Associate's B&P costs claimed in FY 2002, we are questioning \$ [REDACTED]. The contractor was unable to support two adjustments made to consultant costs under project number 3182 in the amount of \$ [REDACTED] and project number 3459 in the amount of \$ [REDACTED]. Based on the contractor's lack of documentation to support these adjustments, we question \$ [REDACTED] as unallowable in accordance with FAR 31.201-2(d), Determining Allowability. This regulation states that a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements.

b. Basis of Contractor's Cost:

The contractor claimed \$ [REDACTED] of bid and proposal costs in fiscal year 2002 under the Government sector G&A pool (department 955). The claimed amount represents labor, fringe benefits, computer, communications, printing services, consultants, travel, etc., charged to bid and proposal projects during fiscal year 2002.

c. Audit Evaluation:

We reconciled project costs incurred under department 955 to the detailed bid and proposal expenses claimed in FY 2002. We selected a sample of travel and consultant costs and requested the source documents supporting each claimed transaction. We tested each transaction for compliance with FAR, supplemental agency guidelines, CAS and contractor policies and procedures.

d. Contractor's Reaction:

In an email dated July 19, 2007, the contractor's representative stated that the company will withhold comment and will respond directly to the ACO with regards to the FY 2002 Incurred Cost Audit.

7. CAS 403 Non-Compliance

a. Summary of Conclusions:

Our office issued several CAS non-compliances under Audit Report No. 2171-2004J19200005, dated January 25, 2005, the impact resulting from these non-compliances was \$ [REDACTED] of additional costs allocated to the G&A pool as a result of a change in allocation base. In FY 2002 the contractor changed the base used to allocate corporate expenses [REDACTED]. We identified a noncompliance with FAR 52.230-6 because the contractor did not notify the government of this cost accounting change or submit impacts related to this change.

Our estimate of additional costs allocated to the Government in FY 2002 is \$ [REDACTED]

b. Basis of Contractor's Cost:

In FY 2002, the contractor identified a total of \$ [REDACTED] that were allocated by [REDACTED]. Prior to FY 2002, [REDACTED]

c. Audit Evaluation:

We identified all departments that were included in the G&A pool and allocated by gross revenue. Effective in FY 2002 the contractor changed the method for allocating residuals from three factor formula to gross revenue. We computed the impact by applying the forecasted three factor formula rate to the departments.

d. Contractor's Reaction:

In an email dated July 19, 2007, the contractor's representative stated that the company will withhold comment and will respond directly to the ACO with regards to the FY 2002 Incurred Cost Audit.

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EXHIBIT B

**STATEMENT OF PROPOSED INDIRECT REGULAR OVERHEAD EXPENSES
AND RATE AND RESULTS OF AUDIT**

This schedule redacted in its entirety

Explanatory Notes

1. Consultants

a. Summary of Conclusions:

Refer to Exhibit A, note 2 for details of our questioned costs and audit evaluation.

2. Legal

a. Summary of Conclusions:

Refer to Exhibit A, note 3 for details of our questioned costs and audit evaluation.

3. Application of Regular Fringe Rate

a. Summary of Conclusions:

Refer to Exhibit A, note 8 for details of our questioned costs and audit evaluation.

4. Application of Temporary Fringe Rate

a. Summary of Conclusions:

Refer to Exhibit A, note 9 for details of our questioned costs and audit evaluation.

**STATEMENT OF PROPOSED INDIRECT SITE OVERHEAD EXPENSES
AND RATE AND RESULTS OF AUDIT**

This schedule redacted in its entirety

Explanatory Notes

1. Consultants

a. Summary of Conclusions:

Refer to Exhibit A, note 2 for details of our questioned costs and audit evaluation.

2. Legal

a. Summary of Conclusions:

Refer to Exhibit A, note 3 for details of our questioned costs and audit evaluation.

3. Application of Regular Fringe Rate

a. Summary of Conclusions:

Refer to Exhibit A, note 8 for details of our questioned costs and audit evaluation.

4. Application of Temporary Fringe Rate

a. Summary of Conclusions:

Refer to Exhibit A, note 9 for details of our questioned costs and audit evaluation.

**STATEMENT OF PROPOSED INDIRECT SUBCONTRACT/CONSULTANT
HANDLING RATE AND RESULTS OF AUDIT**

This schedule redacted in its entirety

Explanatory Notes

1. **Marketing**

a. Summary of Conclusions:

Refer to Exhibit A, note 5 for details of our questioned costs and audit evaluation.

2. Consultants

a. Summary of Conclusions:

Refer to Exhibit A, note 2 for details of our questioned costs and audit evaluation.

3. Legal

a. Summary of Conclusions:

Refer to Exhibit A, note 3 for details of our questioned costs and audit evaluation.

4. Application of Regular Fringe Rate

a. Summary of Conclusions:

Refer to Exhibit A, note 8 for details of our questioned costs and audit evaluation.

5. Application of Temporary Fringe Rate

a. Summary of Conclusions:

Refer to Exhibit A, note 9 for details of our questioned costs and audit evaluation.

STATEMENT OF PROPOSED INDIRECT REGULAR FRINGE EXPENSES
AND RATE AND RESULTS OF AUDIT

This schedule redacted in its entirety

Explanatory Notes

1. Severance

a. Summary of Conclusions:

Based on our evaluation we questioned \$ [REDACTED] of claimed severance costs related to severance payments of one Abt employee who voluntarily separated from Abt Associates effective September 1, 2001. Severance payments for employees who are voluntarily separated are not allowable in accordance with 31.205-6(g). The cost question of \$ [REDACTED] is expressly unallowable and subject to level I penalty per FAR 42.709. Refer to Schedule A-1.

b. Basis of Contractor's Cost:

The contractor incurred \$ [REDACTED] of severance expenses in the company's regular fringe benefit pool during fiscal year 2002. The company voluntarily withdrew \$ [REDACTED] for unallowable severance and claimed \$ [REDACTED] of severance expense during fiscal year 2002.

c. Audit Evaluation:

We requested details of severance expense by employee. We examined the contractor's severance expense schedules for compliance with the company's termination policy and procedure and FAR. We examined the Abt Associates Inc. "Notice of Employee Action" sheets and the Termination of Employee Agreements.

d. Contractor's Reaction:

In an email dated July 19, 2007, the contractor's representative stated that the company will withhold comment and will respond directly to the ACO with regards to the FY 2002 Incurred Cost Audit.

2. Bonus

a. Summary of Conclusions:

We are questioning \$ [REDACTED] of performance bonus that was being claimed in the regular fringe pool as a duplication of cost. The contractor claimed \$ [REDACTED] of performance bonus in the Government sector overhead pool under department 578 and also claimed \$ [REDACTED] in the regular fringe benefit pool. Abt Associates allocates performance bonus directly to an employee's home department in the overhead pools. Therefore, the regular fringe benefit pool is overstated by \$ [REDACTED].

b. Basis of Contractor's Cost:

The contractor included \$ [REDACTED] of bonus costs in both Government sector pool and the regular fringe pool. Abt Associates Inc. allocates performance bonus expense directly to the employee's home department in the Government sector overhead pool.

c. Audit Evaluation:

We examined the contractor's fringe benefit expense pool and adjustments and found a duplication of cost related to bonus expenses resulting in the fringe benefit pool being overstated by \$ [REDACTED].

d. Contractor's Reaction:

In an email dated July 19, 2007, the contractor's representative stated that the company will withhold comment and will respond directly to the ACO with regards to the FY 2002 Incurred Cost Audit.

3. Employee Stock Option Plan (ESOP)

a. Summary of Conclusions:

An employee stock ownership plan whether it is considered a pension or deferred compensation is a component of compensation and needs to satisfy the general requirements of FAR 31.205-6 contained in FAR 31.205-6(a) and (b). In addition, as an ESOP it must also satisfy the requirements of 31.205-6(q) Employee stock ownership plans. FAR 31.205-6(q)(1) defines an ESOP as a stock bonus plan designed to invest primarily in the stock of the employer corporation. At the beginning of the fiscal year the contractor estimated the ESOP contribution to be \$ [REDACTED] and accrued this amount evenly over FY 2002. During the fiscal year the contractor made \$ [REDACTED] of adjustments to the ESOP and \$ [REDACTED] of adjustments to the ESOP after fiscal year ending March 31, 2002 specifically to maintain the fringe benefit rate at close to the provisional rate of [REDACTED]. Since Abt Associates is a closely held corporation with the majority of the stock owned by its employees and held in the trust it is also subject to the requirements FAR 31.205-6(a)(6)(ii)(B). This provision states that compensation must not be a distribution of profits (which is not an allowable contract cost). Abt did establish an accrual for ESOP costs at the beginning of the year, however, made several significant increases to ESOP during the fiscal year and after year end with no basis other than to maintain their fringe rate at close to the provisional rate of [REDACTED]. This appears to represent a distribution of profits to the trust and therefore \$ [REDACTED] of Regular Fringe and \$ [REDACTED] of Temporary Fringe) are considered unallowable.

b. Basis of Contractor's Cost:

The contractor claimed ESOP expenses of \$ [REDACTED] and \$ [REDACTED] respectively in its regular and temporary fringe benefit pool. Abt maintains an Employee Stock Option Plan (ESOP) covering substantially all employees of the company meeting minimum service requirements. The plan is administered by the Board of Directors, which is responsible for determining the amount of annual contributions to be made to the plan, if any. In FY 2002, the company contributed \$ [REDACTED] of common stock and \$ [REDACTED] of cash to the ESOP. At the beginning of the fiscal year the contractor estimated the ESOP contribution to be \$1,923,636. The contractor made \$ [REDACTED] of upward adjustments to the ESOP during FY 2002 and \$ [REDACTED] of upward adjustments to the ESOP after fiscal year ending March 31, 2002 specifically to maintain the fringe benefit rate at close to the provisional rate of [REDACTED].

c. Audit Evaluation:

We requested a copy of the ESOP plan documents, detailed transaction listing and source documents supporting the journal entries. We examined the terms of the ESOP to determine the reasonableness of the ESOP and tested the plan for allowability in accordance with the applicable provisions of FAR and CAS. We met with the contractor's representatives to answer questions related to the ESOP estimate during the year and gain an understanding as to how the ESOP expenses were adjusted periodically during the year and at year end.

d. Contractor's Reaction:

In an email dated July 19, 2007, the contractor's representative stated that the company will withhold comment and will respond directly to the ACO with regards to the FY 2002 Incurred Cost Audit.

**STATEMENT OF PROPOSED INDIRECT TEMPORARY FRINGE EXPENSES
AND RATE AND RESULTS OF AUDIT**

This schedule redacted in its entirety

Explanatory Notes

1. Employee Stock Option Plan (ESOP)

a. Summary of Conclusions:

Refer to Exhibit E, note 3 for details of our questioned costs and audit evaluation.

STATEMENT OF QUESTIONED DIRECT COSTS

<u>Acct</u>	<u>Name</u>	<u>Client</u>	<u>Contract ID</u>	<u>Voucher</u>	<u>Vendor</u>	<u>Questioned</u>	<u>Not</u>
7361	Othe	USAI	520-C-00-00-00035-	474498	115406	\$ [REDACTED]	1
7016	Consultant	CDC	200-1999-	477577	113426	\$ [REDACTED]	2
						<u>\$ [REDACTED]</u>	

Explanatory Notes

1. Consultants

a. Summary of Conclusions:

We questioned \$ [REDACTED] of the direct consultant cost because the contractor was unable to furnish us with the consultant agreement as required by FAR 31.205-33(f) (1) and therefore we have questioned the costs in accordance FAR 31.201-2(d), determining allowability. The contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements.

b. Basis of Contractor's Cost:

The contractor claimed \$ [REDACTED] of consultant costs during FY 2002. Of the amount claimed \$6,373,687 was claimed under Government auditable contracts.

c. Audit Evaluation:

We selected a sample of direct consultant costs and examined the supporting documentation for compliance with FAR 31.205-33 (Consultant Costs), CAS, applicable requirements subject to the different agencies, contract provisions, and Abt's accounting policies and procedures.

d. Contractor's Reaction:

In an email dated July 19, 2007, the contractor's representative stated that the company will withhold comment and will respond directly to the ACO with regards to the FY 2002 Incurred Cost Audit.



2. Other Direct Costs

a. Summary of Conclusions:

Our examination of other direct costs claimed in FY 2002 disclosed questioned costs of \$ [REDACTED] of other direct costs in accordance FAR 31.201-2(d), determining allowability. The contractor was unable to furnish us with the documentation to support one transaction incurred under USAID contract number 520-C-00-00-00035-00. The contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements.

b. Basis of Contractor's Cost:

The contractor claimed \$ [REDACTED] under USAID contract number 520-C-00-00-00035-00 during July of Abt's fiscal year 2002.

c. Audit Evaluation:

We requested a detailed list of transactions of other direct costs claimed in fiscal year 2002. We reconciled the detailed list of transaction to the contractor fiscal year 2002 trial balance. We then identified transactions incurred under auditable type U.S. Government Projects. We then selected a sample of transactions incurred under USAID, HHS, EPA, USDA & NSF contracts. We requested the source documents supporting each claimed transaction.

d. Contractor's Reaction:

In an email dated July 19, 2007, the contractor's representative stated that the company will withhold comment and will respond directly to the ACO with regards to the FY 2002 Incurred Cost Audit.

FY 2002 SCHEDULE OF ALLOWABLE COSTS BY CONTRACT

Double click on icon to view worksheet:



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1. Abt's Schedule I to the FY 2002 incurred cost submission indicates that all Government contracts included in this schedule are subject to the penalty clause.
2. We incorporated into the Allowable Cost Schedule contract ceiling rates as follows for FY 2002:

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