



**National Science Foundation**

4201 Wilson Boulevard  
Arlington, Virginia 22230

Office of Inspector General

**MEMORANDUM**

**DATE:** September 28, 2007

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

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

**SUBJECT:** NSF OIG Audit Report No. OIG-07-1-016, Audit of VECO USA, Inc.'s  
Disclosure Statement and Cost Impact Proposal

In response to NSF's request for audit support, we contracted with the Defense Contract Audit Agency (DCAA), Denver Branch Office, to perform an audit of VECO USA, Inc.'s (VECO) revised Cost Accounting Standards (CAS) Disclosure Statement effective April 1, 2003, and VECO's cost impact proposal reflecting the cost impact of a proposed change in cost accounting practice, effective April 1, 2003 to the completion of NSF Contract No. OPP-0001041 on May 31, 2005. The purpose of this cost-plus-fixed-fee contract, with total funding of \$46,481,849,<sup>1</sup> is to provide arctic research logistics support services for NSF, Office of Polar Programs (OPP).

The objectives of the audit were to:

- Determine whether 1) VECO's Disclosure Statement revision adequately describes the revised cost accounting practices VECO plans to use on its NSF contract, and 2) VECO's revised practices, as described, comply with CAS and Federal Acquisition Regulations (FAR) Part 31 and are consistent with the contractor's actual practices; and
- Determine the proper categorization of VECO's proposed change in accounting practice (i.e., whether the change is required, unilateral, or desirable)<sup>2</sup>, and the cost

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<sup>1</sup> Reference Modification No. 23 to Contract OPP-0001041, dated March 21, 2007.

<sup>2</sup> FAR 52.230-2(a)(4) provides for the following types of accounting changes (and their treatment): (i) A required change resulting from either the implementation of a new standard or a prospective change from one compliant practice to another that is necessary for the contractor to remain in compliance (equitable adjustment); (ii) A unilateral change that is not deemed desirable by the CFAO (no increased costs to the government); and (iii) A desirable change that is determined to be desirable and not detrimental to the government by the CFAO (equitable adjustment).

impact of the change from the time of the change (April 1, 2003) to the completion of the NSF contract (May 31, 2005).

DCAA issued two audit reports to address these objectives.<sup>3</sup> The audits were performed in accordance with generally accepted government auditing standards and are included as attachments to this memorandum.

As background, in a letter to NSF dated December 9, 2003, VECO proposed an accounting change to the general and administrative (G&A) base it uses to allocate its G&A expense pool.

[REDACTED]

[REDACTED] NSF approved VECO's proposed change to its G&A base effective April 1, 2003, by letter dated June 27, 2005, and stated that NSF would evaluate this change in accordance with the FAR to ensure that the change is desirable.<sup>4</sup> On May 18, 2006, VECO submitted to NSF: 1) a revised Disclosure Statement retroactive to April 1, 2003, and 2) a detailed cost impact proposal, reflecting VECO's agreement to put [REDACTED]

[REDACTED]

In its report on VECO's revised Disclosure Statement, DCAA examined VECO's proposed change [REDACTED]. The auditors noted that the NSF Contracting Officer, who is also the cognizant federal agency official (CFAO) for VECO, had determined that this change was a desirable one for the government. DCAA concluded that VECO's Disclosure Statement revision adequately described VECO's revised cost accounting practices for the NSF contract. Also, DCAA found that the revised accounting practice, as described, complied with applicable CAS and FAR Part 31 and was consistent with the contractor's actual practices.

In its report on VECO's cost impact proposal, DCAA again noted that the CFAO had determined this accounting change to be a desirable change for the government. DCAA took no exception to VECO's proposed cost impact of [REDACTED], increasing by approximately [REDACTED] the total costs to the NSF contract for the period April 1, 2003 to the completion of the NSF contract on May 31, 2005. DCAA did not express an opinion on VECO's proposed increased fee/profit to NSF of [REDACTED] because fee/profit determinations are made by the Contracting Officer.

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<sup>3</sup> Reference attached DCAA Report Nos. 3121-2006B19100008, *Review of Cost Accounting Standards Disclosure Statement, Retroactive Change to April 1, 2003*, dated December 19, 2006; and 3121-2006B19500001, *Review of Cost Impact of Changes to Cost Accounting Standards Disclosure Statement, Retroactive Change to April 1, 2003 – Revised*, dated February 15, 2007.

<sup>4</sup> Reference 48 CFR 9904.410-50(d).

<sup>5</sup> Reference FAR 52.230-2(a)(4)(iii).

[REDACTED]

However, in a separate report<sup>7</sup>, we comment on the reasonableness of VECO's proposed increased fee/profit. The auditors recommended an equitable adjustment to the contract be negotiated with VECO in accordance with FAR 52.230-2(a)(4)(iii) to reflect the increased cost impact of the accounting change on the NSF contract.

By means of Contract Modification No. 22, dated January 3, 2007, the NSF Contracting Officer incorporated VECO's proposed accounting change to the G&A base into the NSF contract. Additionally, in Contract Modification No. 23, dated March 21, 2007, NSF approved an equitable adjustment amounting to [REDACTED].

VECO agreed with the findings in the DCAA reports. However, NSF Contract No. OPP-0001041 should not be closed until NSF considers and responds to the finding and recommendation in the separate OIG report referred to above.

We are providing a copy of this memorandum to the Director of the Office of Polar Programs. The responsibility for audit resolution rests with DACS. Accordingly, we ask that no action be taken concerning the report's findings without first consulting DACS at (703) 292-8242.

### **OIG Oversight of Audit**

To fulfill our responsibilities under Government Auditing Standards, the Office of Inspector General:

- Reviewed DCAA's approach and planning of the audit;
- Monitored the progress of the audit at key points;
- Coordinated periodic meetings with DCAA and OIG management to discuss audit progress, findings and recommendations;
- Reviewed the audit reports prepared by DCAA to ensure compliance with Government Auditing Standards and Office of Management and Budget Circulars; and
- Coordinated issuance of the audit report.

DCAA is responsible for the attached audit reports on VECO and the conclusions expressed in the reports. The NSF OIG does not express any opinion on VECO's CAS Disclosure Statement, VECO's cost impact proposal, or the conclusions presented in DCAA's audit reports.

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<sup>7</sup> Reference NSF OIG Audit Report No. 07-02-008, *Review of Reasonableness of VECO USA, Inc.'s Proposed Increased Fee Associated with an Accounting Change*.

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

Attachments:

DCAA Audit Report No. 3121-2006B19100008, *Review of Cost Accounting Standards Disclosure Statement, Retroactive Change to April 1, 2003*, dated December 19, 2006

DCAA Audit Report No. 3121-2006B19500001 (Revised), *Review of Cost Impact of Changes to Cost Accounting Standards Disclosure Statement, Retroactive Change to April 1, 2003 – Revised*, dated February 15, 2007

cc: Karl Erb, Director, OPP  
Mary Santonastasso, Director, DIAS



**DEFENSE CONTRACT AUDIT AGENCY**  
**AUDIT REPORT NO. 3121-2006B19100008**



December 19, 2006

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**SUBJECT:** Review of Cost Accounting Standards Disclosure Statement, Retroactive  
Change to April 1, 2003

**REFERENCES:** Relevant Dates: See Page 4

**CONTRACTOR:** VECO Federal, Inc.  
9000 East Nichols Avenue, Suite 250  
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**REPORT RELEASE RESTRICTIONS:** See Page 5

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## **SUBJECT OF AUDIT**

In response to your August 8, 2006 request, we examined the VECO Federal, Inc. (VECO) revised disclosure statement, dated May 18, 2006. By submitting its revised Cost Accounting Standards (CAS) disclosure statement, VECO asserts that the disclosure statement adequately describes its cost accounting practices, and the disclosed practices comply with Cost Accounting Standards Board rules, regulations, and standards contained in 48 C.F.R Chapter 99. The purpose of our examination was to determine whether VECO's revised disclosure statement, dated May 18, 2006 and retroactive to April 1, 2003 adequately describes the cost accounting practices that the contractor proposes to use in performing Government contracts covered by 48 C.F.R. Chapter 99, and whether the revised practices comply with applicable CAS and FAR Part 31.

The contractor is responsible for the disclosure statement and compliance of the disclosed accounting practices with applicable CAS and FAR Part 31. Our responsibility is to express an opinion on the adequacy of the disclosure statement and whether the disclosed accounting practices comply with those requirements 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 audit to obtain reasonable assurance about whether the contractor has complied with the requirements referred to above. 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 relating to the descriptions of the proposed cost accounting practices;
- assessing the descriptions of the revised cost accounting practices proposed and determining whether they describe practices which, when implemented, should be compliant with applicable requirements; and
- evaluating the overall disclosure statement presentation.

We evaluated the contractor's revised disclosure statement using applicable requirements contained in the:

- Federal Acquisition Regulation (FAR); and
- CAS Board rules, regulations and standards.

As explained in the Contractor's Organization and Systems section of this report we consider VECO's overall accounting system to be adequate, as reviewed in DCAA Audit Report No. 3121-2004E17740014 dated July 30, 2004.



The scope of our examination reflects our assessment of control risk and includes audit tests designed to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on VECO's compliance with the specified requirements.

**STATEMENT OF CHANGES**

The subject disclosure statement revision reflects the following change to the contractor's accounting practices and is effective retroactive to April 1, 2003.

[REDACTED]

The desirable change agreed to by the contracting parties is subject to negotiation with the CFAO for an equitable adjustment under FAR 52.230-2(a)(4)(iii).

**RESULTS OF AUDIT**

In our opinion, the subject revision adequately describes the contractor's revised cost accounting practices. The practices, as described, comply with applicable CAS and FAR Part 31 and are consistent with the contractor's actual practices.

As requested, we are currently reviewing the cost impact related to the change in the revised disclosure statement under assignment no. 3121-2006B19500001.

We discussed the results of our examination with [REDACTED] and [REDACTED], in an exit conference held on December 14, 2006. VECO concurred with the results of our examination.

[REDACTED]

**CONTRACTOR ORGANIZATION AND SYSTEMS**

1. Organization:

VECO is a subsidiary of VECO Corporation, which was incorporated May 16, 1979, in the State of Delaware. VRM is an Engineering, Procurement, Construction, and Operations and Maintenance and Management Services business. VECO's sales totaled [REDACTED] for FY 2006, of which [REDACTED], were sales to the Government. VECO has [REDACTED]

2. Accounting System:

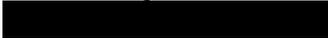
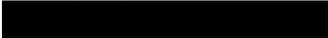
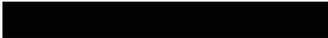
We consider VECO's overall accounting system to be adequate, as reviewed in DCAA Audit Report No. 3121-2004E17740014 dated July 30, 2004

VECO's accounting period is from April 1 to March 31. VECO maintains an accounting system on the accrual basis in accordance with generally accepted accounting principles. The accounting system is posted on a current basis, and appropriate adjusting entries are made at the end of each month and at year end. VECO uses Trueline software for its accounting system. VECO Corporation and the subsidiaries' financial statements are prepared on a semiannual and annual basis. VECO's annual financial statements are audited by external CPAs.

VECO maintains a job cost accounting system which is fully integrated in the overall accounting system, wherein contracts are assigned individual project numbers and direct costs are identified and charged to those numbers. Indirect costs are identified with and accumulated under individual departments, which in turn are identified to the various indirect cost pools. The following schedule describes VECO's indirect cost pools and related allocation bases:

Indirect Cost Pools and Allocation Basis	
Indirect Cost Pool	Allocation Base
[REDACTED]	[REDACTED]

**DCAA PERSONNEL**

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

**RELEVANT DATES**

- Date of CAS Disclosure Statement – dated May 18, 2006, retroactive to April 1, 2003;
- Date of Request from VECO to adjust Disclosure Statement – December 9, 2003;
- Date of NSF Approval of Changes – June 27, 2005;
- Date of Request for Revised Disclosure Statement from NSF – May 1, 2006; and
- Date of Request for Audit – August 2, 2006.

**AUDIT REPORT AUTHORIZED BY:**

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

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[REDACTED]

[REDACTED]

[REDACTED]



**DEFENSE CONTRACT AUDIT AGENCY**  
**AUDIT REPORT NO. 3121-2006B19500001**  
**(Revised)**



February 15, 2007

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**SUBJECT:** Review of Cost Impact of Changes to Cost Accounting Standards  
Disclosure Statement, Retroactive Change to April 1, 2003 - Revised

**REFERENCES:** Relevant Dates: See Page 5

**CONTRACTOR:** VECO Federal, Inc.  
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**REPORT RELEASE RESTRICTIONS:** See Page 6

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## **SUBJECT OF AUDIT**

As requested by your August 2, 2006 letter, we examined the VECO Federal, Inc. (VECO) May 18, 2006 cost impact proposal reflecting the contractor's cost accounting practice change of its General and Administrative (G&A) indirect rate structure from a single element base to a Total Cost Input (TCI) base, retroactive to April 1, 2003. Since the Cognizant Federal Agency Official (CFAO) determined the accounting practice change is desirable, the contractor is subject to the provisions of FAR 52.230-2(a)(4)(iii), and the parties will negotiate an equitable adjustment.

The cost impact proposal and related supporting data are the responsibility of the contractor. Our responsibility is to express an opinion on the cost impact proposal based on our examination.

## **SCOPE OF AUDIT**

We conducted our examination in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the cost impact proposal is 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 cost impact proposal;
- assessing the accounting principles used and significant estimates made by the contractor; and
- evaluating the overall cost impact proposal presentation.

We evaluated the contractor's cost impact proposal using the applicable requirements contained in the:

- Federal Acquisition Regulation (FAR) 30.6; and
- CAS Board Rules and Regulations, 48 CFR 9903.306.

As explained in the Contractor Organization and Systems section of this report, we consider VECO's overall accounting system to be adequate, as stated in DCAA Audit Report No. 3121-2004E17740014 dated July 30, 2004. Our audit scope reflects our assessment of control risk and includes audit tests designed to provide a reasonable basis for our opinion.



**RESULTS OF AUDIT**

In our opinion, the contractor has submitted data that are acceptable for negotiating the cost impact due to the desirable change. We have determined that the desirable change will result in increased costs to the Government on CAS-covered contracts and subcontracts in the aggregate of [REDACTED]. We recommend that the CFAO negotiate an equitable adjustment in accordance with FAR 52.230-2(a)(4)(iii). Our detailed findings and recommendations follow:

Contract	VECO's Proposal			Results of Audit
	Cost	Fee/Profit	Price Amount	Increased Accumulated Cost
OPP-0001041	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Explanatory Note

a. Summary of Conclusions:

We take no exception to the proposed cost impact of [REDACTED] increased costs to the government. We do not express an opinion on the proposed fee/profit of [REDACTED].

Costs paid by the Government on flexibly priced contracts and subcontracts are based on accumulated costs, not cost estimates. When cost accounting practice changes or CAS non-compliances increase cost accumulations during performance of flexibly priced contracts and subcontracts, the Government pays increased costs.

Profit and fixed fees are generally based on estimated costs and are affected by cost estimates that are prepared using noncompliant practices and cost accounting practice changes during contract performance.

b. Basis of Contractor's Proposal:

VECO proposed the cost impact based on changing its disclosed practices retroactive to April 1, 2003. VECO changed [REDACTED] percent was applied to NSF Contract Number OPP-0001041. This rate also affects its incurred costs for CFYs 2004 and 2005 and invoiced costs for CFYs 2006 and 2007. VECO calculated the cost impact as the difference between original [REDACTED].



**Audit Report No. 3121-2006B19500001 (Revised)**

c. Audit Evaluation:

We performed the following:

- Determined the proposed accounting change to VECO's disclosed practices adequate and compliant as stated in DCAA Audit Report No. 3121-2006B19100008, dated December 19, 2006;
- Reviewed the May 18, 2006 cost impact proposal to ensure calculations followed changes in the disclosure statement;
- Verified costs used to calculate the [REDACTED] comparing them to costs in VECO's CFY 2004 and 2005 incurred cost proposals, its initial CFY 2006 incurred cost proposal, and CFY 2007 invoices for Contract No. OPP-0001041; and
- Determined VECO correctly applied the [REDACTED].

d. Contractor's Reaction:

We discussed the results of our examination with [REDACTED]  
[REDACTED], in an exit conference held on  
January 12, 2007. VECO concurred in the results of our audit.

**CONTRACTOR ORGANIZATION AND SYSTEMS**

1. Organization:

VECO is a subsidiary of VECO Corporation, which was incorporated May 16, 1979, in the State of Delaware. VECO is an engineering, procurement, construction, operations and maintenance, and management services business. VECO's sales totaled [REDACTED] FY 2006, of which [REDACTED], were sales to the Government. [REDACTED].

2. Accounting System:

We consider VECO's overall accounting system to be adequate, as provided in DCAA Audit Report No. 3121-2004E17740014 dated July 30, 2004

VECO's accounting period is from April 1 to March 31. VECO maintains an accounting system on an accrual basis in accordance with generally accepted accounting principles. The accounting system is posted on a current basis, and appropriate adjusting entries are made at the end of each month and at year end. VECO uses [REDACTED] for its accounting system. VECO Corporation and the subsidiaries' financial statements are prepared on a semiannual and annual basis. VECO's annual financial statements are audited by external CPAs.

VECO maintains a job cost accounting system that is fully integrated in the overall accounting system, wherein contracts are assigned individual project numbers and direct costs are identified and charged to those numbers. Indirect costs are identified with and accumulated under individual departments, which in turn are identified to the various indirect cost pools. The following schedule describes VECO's indirect cost pools and related allocation bases:

Indirect Cost Pools and Allocation Basis

Indirect Cost Pool	Allocation Base
[REDACTED]	[REDACTED]

**DCAA PERSONNEL**



**Audit Report No. 3121-2006B19500001 (Revised)**

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

**RELEVANT DATES**

Date of CAS Disclosure Statement – May 18, 2006, retroactive to April 1, 2003;  
Date of Request from VECO to adjust Disclosure Statement – December 9, 2003;  
Date of NSF Approval of Changes – June 27, 2005;  
Date of Request for Revised Disclosure Statement from NSF – May 1, 2006;  
Date of Request for Audit – August 2, 2006; and  
Date of Request for Revised Report – February 15, 2007.

**AUDIT REPORT AUTHORIZED BY:**

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