



**NATIONAL SCIENCE FOUNDATION**  
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ARLINGTON, VIRGINIA 22230

OFFICE OF  
INSPECTOR GENERAL

MEMORANDUM

DATE: MAR 31 2008

TO: Mary F. Santonastasso, Director  
Division of Institutional and Acquisition Support (DIAS)

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

SUBJECT: NSF OIG Report Number OIG-08-1-007, Audit of Woods Hole Oceanographic Institution's FY 2006 Service Center Rates, Costs Claimed, and Internal Controls over Compliance in Accordance with OMB Circular A-133

In response to the NSF Director's request for audit support, we contracted with the Defense Contract Audit Agency (DCAA), Boston Branch Office, to perform an audit of Woods Hole Oceanographic Institution's (WHOI) FY 2006 Service Center Rates, costs claimed, and compliance with the requirements of OMB Circular A-133. During FY 2006, WHOI incurred a total of \$101,659,013 in federal awards. Of that amount, \$59,101,853 (or 58%) was incurred under NSF award costs.<sup>1</sup> WHOI manages and operates a number of research vessels including the Atlantis II, the Knorr, and the Oceanus, and the submersible ALVIN, funded by NSF's Division of Ocean Sciences (OCE).

The objectives of the audit were to: 1) verify the 40 service center rates which are the reimbursable cost recovery rates for ship operations, submersibles, and related services that NSF uses in funding its oceanographic research programs at WHOI; 2) assess internal control over compliance with requirements described in the OMB Circular A-133 Compliance Supplement that are applicable to WHOI's research and development program; 3) determine the allowability of direct costs claimed for FY 2006 (January 1, 2006 through December 31, 2006); and 4) verify that WHOI applied the correct fixed indirect cost rates to its federal awards. This attached report addresses the first three audit objectives. Regarding the fourth objective, DCAA has not completed its audit to determine the accuracy of the fixed indirect cost rates. Upon completion of that review, the report will be issued to your office.

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

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<sup>1</sup> Although NSF provides the majority of federal funding at WHOI, DoD (ONR) has retained cognizance for audits due to its familiarity with auditing the ship operations and related facility rates.

## Summary of Audit Results

### 1) Results of Service Center Rate Review

The NSF Director specifically requested an audit of WHOI's ships and submersibles and related service center rates. DCAA's audit found the service center rates to be acceptable as proposed. The claimed service center rates are presented in a schedule on page 5 of the DCAA report.

During FY 2006, WHOI incurred \$20,158,263 to operate its service centers of which, \$15,158,263 (or 77%) was directly attributable to NSF awards. NSF uses the DCAA audit to establish future rates that WHOI can charge for its service center operations.

### 2) Results of Review of Internal Control Over Compliance with OMB Circular A-133

DCAA found that WHOI complied, in all material respects, with the requirements of OMB Circular A-133, applicable to the Federal awards under the research and development program for the year ended December 31, 2006.

### 3) Results of Review of Direct Costs Claimed

DCAA audited WHOI's incurred direct costs for fiscal year 2006. DCAA did not question any claimed direct costs associated with the NSF awards; however it questioned \$2,955 of costs associated with non-NSF awards. The audited direct costs for the largest NSF grants are shown below.

NSF Grants	Claimed and Accepted
OCE-06110321	\$1,287,799
OCE-0504138	\$1,469,270
OCE-0504133	\$5,643,892
OCE-0513945	\$3,392,865
Total	\$11,793,826

### 4) Results of Review of Indirect Costs Claimed

For indirect costs, DCAA only verified that WHOI applied the negotiated indirect rates to the appropriate bases. DCAA has not completed its audit to determine the accuracy of WHOI's fixed indirect cost rates. The report will be provided to NSF upon completion.

WHOI agreed with the findings in the DCAA report.

We are providing a copy of this memorandum to the Division Director and Program Officer of OCE. The responsibility for audit resolution rests with DIAS. Accordingly, we ask that no action be taken concerning the report's findings without first consulting DIAS at 703-292-8230.

### **OIG Oversight of Audit**

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

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

DCAA is responsible for the attached auditor's report on WHOI and the conclusions expressed in the report. NSF-OIG does not express any opinion on internal control over compliance in accordance with OMB Circular A-133 for the FYE 2006, and on the allowability of direct costs 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. 02171-2006N10110001, dated September 14, 2007, *Report on Woods Hole Oceanographic Institution's Compliance with Requirements to its Research and Development Program and on Internal Control over Compliance in Accordance with OMB Circular A-133, Fiscal Year 2006.*

cc: Karen Tiplady, Division Director, DGA  
Julie D. Morris, Division Director, OCE  
Linda Goad, Program Director, OCE