



OFFICE OF
INSPECTOR GENERAL

NATIONAL SCIENCE FOUNDATION
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ARLINGTON, VIRGINIA 22230

MEMORANDUM

DATE: Sep 30, 2008

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

THRU Jannifer C. Jenkins /s/
Senior Audit Manager

FROM: Sherrye McGregor /s/
Attorney-Advisor

SUBJECT: NSF OIG Audit Report No. OIG-08-6-002
Audit of Abt Associates, Inc.'s Fiscal Year 2003 Incurred Costs

For your information, we are transmitting an audit report on costs claimed in FY 2003 by Abt Associates, Inc. (Abt) on four NSF awards¹. DCAA performed this work in conjunction with an audit requested by the US Agency for International Development (US AID), Abt's federal cognizant agency. The audit for FY 2003 is complete and includes a review of \$2.74 million in costs that Abt claimed for FY 2003² on twelve task orders under NSF Contract Numbers EEC-9815425, REC-9912174, REC-0230435, and a NSF-General Services Administration (GSA) Schedule Contract No. GS-10F-0086K. Abt Associates, Inc. provided technical support and evaluation assistance services to the Division of Education and Engineering Centers (EEC), the Division of Industrial Innovation and Partnerships (IIP), and the Division of Research on Learning in Formal and Informal Settings (DRL).

The objectives of the audit were to 1) determine the allowability of direct and indirect costs claimed to NSF by Abt for FY 2003 and 2) recommend contracting officer-determined indirect cost rates for the fiscal year ending March 31, 2003. Except for the qualifications discussed below, the audit was performed in accordance with Generally Accepted Government Auditing Standards.

¹ The audit report for FY 2002 was issued in OIG Audit Report No. 07-1-019, "*Audit of Abt Associates, Inc.'s FY 2002 Incurred Costs.*"

² Abt Associates fiscal year is April 1 through March 31.

Qualifications Affecting the Audit

As we reported in the transmission of the Abt FY 2002 incurred cost audit report, DCAA identified Federal Acquisition Regulation (FAR) and Cost Accounting Standards (CAS) violations in how Abt accumulated, reported, and billed indirect costs on government contracts. These non-compliance issues arose when Abt changed the base it used to allocate home 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] 7 in additional costs were allocated to the government sector G&A pool in FY 2002. DCAA cannot determine the amount of additional costs that were allocated to the government sector G&A pool in FY 2003 until it receives the cost impact statement that it has recommended that US AID obtain from Abt.

In addition, DCAA's review of claimed pension costs disclosed that Abt may be in noncompliance with the applicable Cost Accounting Standards governing pension costs and their reimbursement under government contracts. Specifically, Abt may have not calculated pension costs correctly because Abt [REDACTED]

[REDACTED] Thus, Abt may have recovered pension costs more quickly than allowed. Approximately \$ [REDACTED] of pension costs were claimed by Abt in FY 2003. DCAA recommended that US AID have a CAS review performed to determine whether Abt has properly amortized its pension costs. However, US AID has not provided funding or approval for DCAA to perform the audit. Until such a review is performed, DCAA cannot determine the dollar impact of the pension noncompliance on Abt's FY 2003 claimed costs.

Therefore, due to the aforementioned noncompliances, DCAA has qualified its audit opinion because there may be additional questioned costs identified when the noncompliance issues are resolved. The cognizant federal agency, USAID, is responsible for resolving Abt's FAR and CAS noncompliance issues. As of the date of DCAA's FY 2003 audit report, and based on our recent discussions with DCAA and USAID neither of the above issues have been resolved.

Results of Audit

DCAA did not question any direct costs claimed in FY 2003 on any of the NSF contracts under audit. However, [REDACTED] of claimed consultant and other direct costs were questioned on other federal contracts because Abt was unable provide support documentation. DCAA also recommended upward adjustments totaling [REDACTED] to two indirect cost bases that Abt

uses to allocate indirect costs to its Government contracts because of math errors found at Abt. This resulted in \$1,710 of questioned indirect costs charged to the NSF awards as noted below.

| NSF Contract | Questioned Costs Using DCAA Rates |
|--|-----------------------------------|
| EEC-9815425 | ██████ |
| REC-9912174 | ██████ |
| REC-0230435 | ██████ |
| TOTAL COSTS QUESTIONED ON NSF CONTRACTS | ██████ |

DCAA also questioned ██████ of unallowable indirect legal expenses in FY 2003, however, they did not affect the indirect cost rates.

The results of DCAA’s examination and its recommended indirect cost rates are presented below.

| Indirect Category | Proposed | Audit Determined | Questioned |
|-------------------|----------|------------------|------------|
| G&A | ██████ | ██████ | ██████ |
| Regular Overhead | ██████ | ██████ | ██████ |
| Site Overhead | ██████ | ██████ | ██████ |
| S/C/M Handling | ██████ | ██████ | ██████ |
| Regular Fringe | ██████ | ██████ | ██████ |
| Temporary Fringe | ██████ | ██████ | ██████ |

Conclusion

Abt, in its written response to the audit findings, agreed with DCAA’s questioned costs and recalculated S/C/M Handling and Regular Overhead indirect rates. We suggest that NSF contracting officials 1) require that Abt Associates submit revised billings and a revised incurred cost submission for its FY 2003 NSF contracts to reflect the audit determined indirect cost rates and 2) coordinate with the US AID Procurement Contracting Officer to resolve the outstanding CAS issues concerning Abt’s accounting change and pension calculation methods and determine if there are additional cost reductions to the indirect cost pools, which will affect the amounts charged to NSF awards.

The DCAA audit report and a schedule of questioned indirect costs by NSF award are attached. Because of its size, Exhibit B 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.

We are providing a copy of this memorandum to the Division Directors of EEC, IIP, and DRL. The responsibility for coordination with the USAID Procurement Contracting Officer 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 Transmission of the DCAA Audit Report

To fulfill our responsibilities under Generally Accepted Government Auditing Standards, the Office of Inspector General transmitted the DCAA audit report to NSF. DCAA is responsible for the attached auditor's report on ABT Associates, Inc. and the conclusions expressed in the report. 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. 02171-2003J10100002, Audit of Abt Associates, Inc.
FY 2003 Incurred Costs and Spreadsheet showing Allowable Direct and Indirect
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