



OFFICE OF
INSPECTOR GENERAL

NATIONAL SCIENCE FOUNDATION
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MEMORANDUM

DATE: September 30, 2008

TO: Mary F. Santonastasso, Director
Division of Institution and Award Support (DIAS)

THRU: Jannifer C. Jenkins *Jannifer Jenkins*
Senior Audit Manager

FROM: Sherrye McGregor *Sherrye McGregor*
Attorney-Advisor

SUBJECT: NSF OIG Report Number OIG-08-6-003
Audit of Woods Hole Oceanographic Institution's Fiscal Year (FY) 2006
Final Indirect Rate Proposal

For your information, in response to the NSF Director's request for audit support, we are transmitting an audit report on Woods Hole Oceanographic Institution (WHOI) Fiscal Year 2006 Final Indirect Rates Proposal that was performed for the Office of Naval Research (ONR) by the Defense Contract Audit Agency (DCAA). During Fiscal Year (FY) 2006, WHOI incurred a total of \$101,659,013 in federal awards. Of that amount, approximately \$59 million (or 58%) was incurred under NSF awards.¹ WHOI manages and operates a number of research vessels including the Atlantis II, the Knorr, and the Oceanus, and submersibles funded by NSF's Division of Ocean Sciences (OCE).

WHOI has fixed indirect cost rates with carry forward provisions in that any claimed costs questioned in 2006 will be reflected in the fixed FY 2007 indirect cost rates. The purpose of this audit was to determine the allowability of indirect costs claimed by WHOI in FY 2006 and recommend FY 2006 contracting-officer determined carry forward amounts for FY 2007 that incorporate the adjustments to the indirect cost rate computations for January 1, 2006 through December 31, 2006.

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

¹ Although NSF provides the majority of federal funding at WHOI, the Office of Naval Research has retained cognizance for audits due to their familiarity with auditing the ship operations and related facility rates.

Summary of Audit Results

DCAA determined that two of the six FY 2006 indirect cost rates that WHOI proposed were not acceptable because [REDACTED] of questioned costs were identified in the FY 2006 indirect cost pools. A carry forward method is used annually to adjust initial estimated indirect cost rates to consider both actual indirect cost rates and questioned amounts identified in the indirect cost pools. Rather than provide an adjusted claimed cost proposal for the closed FY, WHOI carries forward any net indirect cost adjustments and applies those adjustments in the calculations used to determine the following year’s indirect cost rates accordingly. Specifically, DCAA questioned [REDACTED] of WHOI’s FY 2006 indirect costs for Employee Benefits-Regular Expenses Pool and General and Administrative Pool as shown below in Note 1, “Results of Review of Indirect Costs.” The questioned indirect costs affect the 2006 carry forward amounts thereby reducing indirect costs billed to WHOI’s customers in FY 2007 by [REDACTED] and specifically to NSF by approximately [REDACTED] as explained and shown below in note 2, “Determination of Carry forward Amounts.”

1. Results of Review of Indirect Costs

The DCAA auditors questioned indirect costs of [REDACTED] in the Employee Benefits – Regular Expenses Pool, and [REDACTED] in the General & Administrative Pool as shown below.

Indirect Category	Proposed Pool Costs	Audit Determined Pool Costs	Questioned Pool Costs
Employee Benefits: Regular Expenses	[REDACTED]	[REDACTED]	[REDACTED]
General & Administrative	[REDACTED]	[REDACTED]	[REDACTED]

Employee Benefits-Regular Expenses Pool

The DCAA auditors questioned [REDACTED] of pension costs in the FY 2006 Employee Benefits- Regular Expenses pool because the [REDACTED] [REDACTED] that were not funded within six months of the close of the fiscal year. OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, requires that pension “costs assigned to a given fiscal year are funded for all plan participants within six months after the end of that year.” Pension costs are usually allowable if funded (i.e. placed in a trust or similar pension fund) within the timeframe required by OMB Circular A-122. [REDACTED]

[REDACTED] Therefore, although WHOI disagreed, DCAA questioned the pension costs and adjusted the affected Employee Benefits-Regular Expenses indirect cost pool accordingly. Additionally, in order to recover the questioned costs through a reduced indirect rate carry forward amount, the questioned costs have been included in the carry forward calculations as explained below in Note 2, “Determination of Carry forward Amounts.”

General and Administrative Pool

The questioned cost of [REDACTED] in the General & Administrative Pool is comprised of four miscellaneous expenses, as follows:

1. DCAA questioned [REDACTED] of loss on a contract to purchase and install web purchase requisition prototype software. Based on OMB Circular A-122, these costs are not allocable to fiscal year 2006 operations because they relate to losses incurred in FY 2002 when the contract was terminated. WHOI did not claim the losses in FY 2002 nor did it furnish adequate evidential documentation to support that the loss is allocable to 2006 operations. WHOI did not agree to the finding.
2. DCAA questioned [REDACTED] for an annual summer picnic event which represented a social activity for employees, students, and family members that is not allowable according to OMB Circular A-122. WHOI concurred with the finding.
3. DCAA questioned [REDACTED] for Board of Trustee and corporation annual meetings/ events with some claimed costs associated with entertainment events which were excessive as compared to the allowance stated in WHOI's travel policy. WHOI did not agree to the questioned costs in their entirety. WHOI believes that only \$7,718 should be disallowed.
4. DCAA questioned [REDACTED] for an international reception for which claimed costs of [REDACTED] related to unallowable alcoholic beverages, and [REDACTED] of unallowable costs associated with a social activity. WHOI did not provide a response as to whether it agreed or disagreed with the finding.

2. Determination of Carry Forward Amounts

DCAA reviewed WHOI's FY 2006 incurred cost submission to determine carry forward amounts that are included as an adjustment to the FY 2007 indirect cost rate computation. Specifically, DCAA recommends carry forward amounts to the ONR Contracting Officer that incorporate the questioned costs from Note 1 above reducing indirect costs billed to WHOI's customers in FY 2007 by [REDACTED] and specifically to NSF by approximately [REDACTED]. WHOI utilizes a carry forward methodology to settle final indirect costs with the government for closed fiscal years. The indirect costs incurred during an open fiscal year are reimbursed using budgeted indirect costs. At the close of the fiscal year the actual indirect cost amount is determined and compared to the budgeted indirect cost amount that was used to bill the government for work performed. This comparison is used to calculate the amount of actual indirect costs that were over or under billed for the closed fiscal year. Instead of the government and WHOI resolving the under or over payment difference between estimated and actual incurred costs claimed by paying the amount over or under billed, the questioned amounts are carried forward in to the next fiscal year's indirect cost rate calculation. Bills to the government from WHOI reflect this adjustment in the next open fiscal year. The table below identifies the carry forward amounts by indirect cost pool that both WHOI proposed and DCAA has now recommended for FY 2006. The ONR contracting officer should adjust

WHOI's FY 2007 indirect cost rates to incorporate these adjustments to the indirect cost rate computations for January 1, 2006 through December 31, 2006.

Claimed Over/(Under) Amounts in Indirect Costs Pools	Proposed FY 2006 Carry Forward Amounts	Audit Determined FY 2006 Carry Forward Amounts
Schedule of Claimed Over/(Under) Employee Benefits – Regular	\$ [REDACTED]	\$ [REDACTED]
Schedule of Claimed Over/(Under) Employee Benefits - Regular Overtime	\$ [REDACTED]	\$ [REDACTED]
Schedule of Claimed Over/(Under) Employee Benefits – Casual	\$ [REDACTED]	\$ [REDACTED]
Schedule of Claimed Over/(Under) Employee Benefits - Casual Overtime	\$ [REDACTED]	\$ [REDACTED]
Schedule of Claimed Over/(Under) Laboratory Overhead	\$ [REDACTED]	\$ [REDACTED]
Schedule of Claimed Over/(Under) General and Administrative	\$ [REDACTED]	\$ [REDACTED]

Schedule of Claimed Over/(Under) Employee Benefits – Regular: DCAA determined that the claimed carry forward amount of [REDACTED] should be [REDACTED] once the questioned Employee Benefits – Regular Expenses costs amount of [REDACTED] (see Note 1, “*Results of Review of Indirect Costs*” above) is incorporated in the cost, in addition to an unsupported miscellaneous variance of [REDACTED].

Schedule of Claimed Over/(Under) Employee Benefits - Regular Overtime: DCAA determined that the claimed carry forward amount of [REDACTED] should be [REDACTED] once an unsupported miscellaneous variance of [REDACTED] is incorporated in the cost.

Schedule of Claimed Over/(Under) Employee Benefits – Casual: DCAA did not take any exception to the claimed costs.

Schedule of Claimed Over/(Under) Employee Benefits - Casual Overtime: DCAA did not take any exception to the claimed costs.

Schedule of Claimed Over/(Under) Laboratory Overhead: DCAA determined that the claimed carry forward amount of [REDACTED] should be [REDACTED] once an unsupported miscellaneous variance of [REDACTED] is incorporated in the cost.

Schedule of Claimed Over/(Under) General and Administrative: DCAA determined that the claimed carry forward amount of [REDACTED] should be [REDACTED] once the questioned G&A costs amount of \$83,414 (see Note 1, “*Results of Review of Indirect Costs*” above) is incorporated in the cost, in addition to an unsupported miscellaneous variance of [REDACTED].

Conclusion

WHOI did not agree with most of the questioned costs which must be resolved by the ONR Contracting Officer. We suggest that NSF DIAS coordinate with the ONR Contracting Officer to ensure that WHOI, in future periods, records and claims pension and social activity costs in accordance with OMB Circular A-122.

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

OIG Transmission of the DCAA 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 the allowability of indirect costs, the recommendation to the ONR Contracting Officer in the determination of carry forward amounts, 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. 02171-2007N10170001 dated April 4, 2008
"Report on Audit of Woods Hole Oceanographic Institution's Fiscal Year (FY) 2006 Final Indirect Rate Proposal."

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