

NATIONAL SCIENCE FOUNDATION
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OFFICE OF
INSPECTOR GENERAL

MEMORANDUM

DATE: **JUL 31 2009**

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

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

FROM: Sherrye McGregor *Sherrye McGregor*
Attorney-Advisor

SUBJECT: NSF OIG Audit Report No. OIG-09-1-011, Audit Report on University of Wisconsin Ice Coring and Drilling Services Incurred Costs and Compliance with Contract Terms and Conditions

We contracted with the Defense Contract Audit Agency (DCAA), Tri-State Branch Office to perform a review of approximately [REDACTED] of costs claimed in FYs 2001-2007¹ by University of Wisconsin-Madison's – Ice Coring and Drilling Services (ICDS) on NSF Award No. OPP-0003289. ICDS provides technical support to the Office of Polar Programs' drilling operations in the Antarctic and Arctic regions and in the design and development of a new Disc Drilling system.

The objectives of the audit were to 1) determine the allowability of direct and indirect costs claimed to NSF by ICDS for the contract; 2) identify cost overruns by program year related to deep ice sheet coring drill and drilling services; 3) determine whether ICDS properly notified NSF of the overrun; 4) determine whether ICDS properly complied with Government Furnished Property reporting requirements; and 5) report any instances of noncompliance with laws, regulations, provisions of the contract or significant weaknesses in internal controls, which impact the ability of ICDS to comply with the requirements in the contract and associated procurement regulations.

¹ ICDS' fiscal year and contract year begins on October 1 and ends on September 30. The contract began on June 1, 2000.

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 is attached, which includes a schedule of allowable costs for the contract and ICDS' response.

Overall Summary Results of Audit

ICDS claimed [REDACTED] under NSF Contract No. OPP-0003289, which is \$788,255 over the approved level of funding through FY 2007 for the contract (contract ceiling). The auditors questioned \$2,475,308 in unallowable services, equipment, subcontract, labor, materials and supplies, and travel costs; noted several internal control weaknesses in ICDS' contract administration; and identified instances where ICDS did not fully comply with all the terms and conditions of the contract.

For example, ICDS did not properly notify NSF when in March of 2006, it began to experience increased costs in Deep Ice Sheet Coring drill development and testing, and reached [REDACTED] of its contract ceiling. ICDS failed to properly account for Government Property, in that inventory reports were incomplete or not performed for years 2003, 2005 and 2006, and ICDS failed to obtain NSF approval to subcontract.

Detailed Results of Audit of Incurred Costs

The auditors questioned \$2,068,925, [REDACTED] of total costs claimed in services, subcontracts, equipment, and materials and supplies, due to the lack of NSF consent and approval to subcontract, as required by FAR 52.244. ICDS submitted multiple requests to NSF for consent and approval to subcontract, however, NSF only responded once in 3 years to those requests. ICDS subsequently discontinued requesting approval for subcontracts, and indicated that it chose to proceed without approval rather than defaulting on the contract. DCAA included copies of the University's unanswered requests in Appendix 5 in the Audit Report.

Labor costs in the amount of \$24,074 were questioned because the labor time reports were not signed by either the employee or a supervisor as required by OMB Circular A-21. ICDS officials stated that they were unable to show that the hours were approved because the employee worked in the Antarctic during the period. ICDS officials relied on NSF progress reports to show that the hours for the employee were confirmed by the program manager. However, the employee's hours in the progress reports did not match those ICDS claimed in its NSF billings. Confirmation of employees' hours is required so that costs distributed represent actual costs and a responsible person can verify that work was performed and that it benefited the NSF activities.

Travel costs in the amount of \$3,234 were questioned due to ICDS' inability to locate support for 3 of the 40 transactions selected for examination. ICDS was unable to

provide documentation to support either the type of the travel expense incurred or compliance with the ICDS' Travel Regulations.

Auditors also questioned indirect costs of \$379,075 due to applying the claimed Facilities and Administrative (F&A) rate of [REDACTED] to the questioned costs shown above (less equipment costs and subcontract costs in excess of \$25,000).

Detailed Results of Significant Weaknesses in Internal Controls

DCAA noted several internal control weaknesses and failure of ICDS to follow contractual requirements to notify NSF of cost overruns, to avoid incurring cost in excess of the contract ceiling, to properly account for Government Property, and to obtain Contracting Officer approval and consent to subcontract in accordance with the *Federal Acquisition Regulation*.

Specifically, the overall costs claimed through FY 2007 are greater by [REDACTED] than the FY 2007 ceiling costs of the contract because a subcomponent of the project for drilling development and testing activity through FY 2007 was overrun by [REDACTED]. In addition, ICDS did not properly notify NSF in March of 2006, when it began to experience increased costs in Deep Ice Sheet Coring drill development and testing, and reached [REDACTED] of its contract ceiling.

In addition to not notifying NSF of the cost overrun, ICDS lacked approval for exceeding the contract ceiling. Therefore, NSF had no opportunity to manage the increase in costs of the drill or to mitigate the impact of the escalating costs of the drill development and testing. ICDS requested that NSF consider an equitable adjustment for the increased costs.

OIG recommends that NSF consider ICDS' request for an equitable adjustment and make a determination of whether or not NSF will fund the increase in contract costs of [REDACTED] over the ceiling and modify the contract accordingly.

The auditors recommended that ICDS include additional internal controls in its cost monitoring system to ensure adequate cost control monitoring, proper and timely notification of possible cost overruns, and the requirement to obtain NSF Contracting Officer approval related to consent to subcontract.

In addition, ICDS failed to properly account for Government Property, in that inventory reports were incomplete or not performed for years 2003, 2005 and 2006. Also of the reports provided, none included the GSA Federal Supply Class Number which is required by the contract terms. Therefore, the auditor could not determine whether there were inventory items that had been added/deleted in the missing years but found no indication that the property included in the latest inventory report was invalid. The auditor recommended that ICDS submit inventory reports on June 30 of every year, include proper GSA Federal Supply Class Number, and provide a summary of the inventory items that have been added or deleted since the previous report. The auditor also

recommended that an audit of the physical existence of inventory listed be performed to ensure the correctness and validity of the inventory system as a whole.

As stated above, ICDS provided evidence of requests for approval and consent to subcontract in the early periods of the contract but instead provided NSF after-the-fact quarterly progress and financial reports containing information on costs for the services and equipment. NSF Contracting Officials advised OIG that submission of quarterly progress and financial reports did not constitute approval of the requests. The auditors recommended that ICDS establish a policy in which ICDS seeks the NSF approval and consent to subcontract and to work with NSF to establish a process of obtaining timely approvals. ICDS agreed with the recommendation.

With regard to the questioned \$3,234 in unsupported direct travel costs discussed above, ICDS responded that the records were likely disposed of per the University's record retention policy. However, the auditors noted that the records were destroyed or misplaced prior to the time the retention policy specified. The auditors recommended that ICDS develop a record control system which includes an itemized list of which specific records or types of records, by date, have been destroyed and when. Although the policies were generally adequate, ICDS agreed to notify its Accounting Services, custodians of the records, to ensure that documentation relating to record destruction is more readily available.

The University generally agreed with the findings, but stated that it relied on the quarterly progress and financial reports to the NSF to meet the approval and consent to subcontract requirements of the FAR.

We are providing a copy of this memorandum to the Director, Office of Polar Programs (OPP) and the OPP Contracting Officer's Technical Representative. 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.

We consider the issues in this report to be significant. Accordingly, we request that your office work with ICDS to develop a written Corrective Action Plan detailing specific actions taken and/or planned to address each report recommendation. Milestone dates should be provided for corrective actions not yet completed.

In accordance with OMB Circular A-50, please coordinate with our office during the 6-month resolution period to develop a mutually agreeable resolution of the report findings. Also, the report findings should not be closed until NSF verifies that all the recommendations have been adequately addressed and the proposed corrective actions have been satisfactorily implemented.

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 NSF officials as necessary 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 ICDS and the conclusions expressed in the report. The NSF OIG does not express any opinion on ICDS'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 1: DCAA Audit Report No. 3541-2008W17900001, Audit Report on Contract No. OPP-0003289 Interim Incurred Costs and Compliance with Contract Terms and Conditions for the Period June 1, 2000 – September 30, 2007.

cc: Karl Erb, Director, OPP
Brian Stone, OPP