



NATIONAL SCIENCE FOUNDATION
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**OFFICE OF
INSPECTOR GENERAL**

MEMORANDUM

DATE: September 30, 2010

TO: Greg Steigerwald, Acting Director
Division of Acquisition and Cooperative Support (DACS)

FROM: Dr. Brett M. Baker /s/
Assistant Inspector General for Audit

SUBJECT: NSF OIG Audit Report No. OIG-10-1-015, Audit Report on Consortium of Ocean Leadership's FY 2007 (4 months) Incurred Costs

We contracted with the Defense Contract Audit Agency (DCAA), Chesapeake Branch Office to perform a review of \$31,104,799 in claimed incurred costs from June 1, 2007 through September 30, 2007, by the Consortium of Ocean Leadership (COL) under NSF Contract No. OCE-0352500. Under this contract, COL provides NSF with systems integration services in support of shipboard and shore-based ocean drilling science and staff support for the International Ocean Drilling Program (IODP). This audit also included a review of the \$29,059,463 ([REDACTED]) claimed by COL's major subcontractor, Texas A&M Research Foundation (TAMRF) and TAMRF's lower-tier subcontract costs incurred by Overseas Drilling Limited (ODL) and Jurong Shipyard (Jurong).

The objectives of the audit were to 1) determine the allowability of direct and indirect costs claimed to NSF by COL for the contract; and 2) report any instances of noncompliance with laws, regulations, provisions of the contract or significant weaknesses in internal controls, which impact the ability of COL to comply with the requirements in the contract and associated acquisition regulations.

Background

The Joint Oceanographic Institutions (JOI) and the Consortium for Oceanographic Research and Education (CORE) merged their staffs and operations as of May 31, 2007¹. The consolidated organization is now known as Consortium for Ocean Leadership, Inc. (COL). COL is a Washington, DC based nonprofit organization that manages ocean research and education programs. JOI had [REDACTED] employees in FY 2006 and revenues of approximately [REDACTED]. The merged organization, COL, had [REDACTED] employees in FY 2007 and revenues for the fiscal year

¹ OIG issued Audit Report No. OIG-10-1-014, Audit Report on Joint Oceanographic Institutions' FY 2006 (12 months) and FY 2007 (8 months) Incurred Costs, dated September 30, 2010, which reports the results of the audit of incurred costs claimed by JOI in FYs 06-07 up to the date of the merger.

ending September 30, 2007 were approximately [REDACTED]. COL's accounting period is from October 1 through September 30. COL's accounting system is posted on a current basis and its financial statements were audited annually by external auditors. OIG also contracted DCAA to perform an accounting system review at COL which found COL's system adequate for accumulating and billing costs under government awards².

After the merger COL undertook JOI's mission under the NSF contract to provide for systems integration in support of shipboard and shore-based ocean drilling science and staff support for the International Ocean Drilling Program. COL also assumed JOI's cost reimbursable subcontract with [REDACTED], which provides for the overhaul and enhancement of the research vessel, the JOIDES Resolution, which is the U.S. contribution to the IODP fleet, into an enhanced Scientific Ocean Drilling Vessel (SODV) and subsequent scientific drilling and coring operations in all oceans and accessible seas.

Summary Results of Audit of Incurred Costs

A total of \$195,937 of General and Administrative (G&A) indirect costs were questioned for FY 2007 during the four months after the merger that formed COL (June 1, 2007 to September 30, 2007). \$80,000 of the G&A costs were questioned because of inadequately supported consultant costs. Specifically, the [REDACTED] consultant agreement did not adequately describe the scope of work. Neither the consultant agreement nor billing invoices between [REDACTED] and JOI specified tasks that were completed by [REDACTED], therefore DCAA could not determine whether the costs were allowable or allocable to the COL contract.

Further \$112,982 of the G&A costs were questioned because they were organization costs (related to the merger) for consultant, legal fees, human resource services, and other travel expenses that are not allowable under federal regulations, without prior NSF approval. The novation agreement between JOI and NSF stated that the government would not be obligated to pay any costs or related increases resulting from the merger other than those the government would have had to pay under the terms of the contract. \$2,955 of the G&A costs were questioned because they were recorded as Office Supplies and consisted of water, soda, coffee and snacks that are unallowable goods or services for personal use per federal regulations. \$42,469 of COL's questioned \$195,937 G&A indirect costs are attributable to NSF Contract No. OCE-0352500³. DCAA's audit determined indirect cost rates for COL for FY 2007, for the period June 1, 2007 through September 30, 2007, was [REDACTED]

COL's Response to the Questioned Costs

COL did not agree with the questioned consultant costs because it believes that sufficient documentation has been provided to evidence that the charges are for services to assist in evaluating and upgrading its accounting system and administrative staff skills, after the merger,

² OIG Audit Report No. 10-1-011, *Audit of Consortium of Ocean Leadership's Accounting System*, dated September 30, 2010.

³ This information was obtained by OIG from DCAA.

and are therefore allowable and related to the contract. COL also did not agree with the questioned Office Supplies because it provides free beverages, snacks and food to employees citing morale improvement.

Cost Accounting Standard Administration

In the “Other Matters to be Reported” section of DCAA’s audit report and in a separate memorandum to COL, DCAA reported that NSF is the cognizant federal agency for COL, and stated that COL is subject to Cost Accounting Standards (CAS) and is therefore required to have an adequate CAS Disclosure Statement describing its cost accounting practices⁴.

DCAA found that COL’s G&A (General & Administrative) allocation base, used to allocate its G&A expenses (those expenses which are for the general management and administration of the business unit as a whole), is in noncompliance with Cost Accounting Standards (CAS) 410. This standard requires that COL’s G&A expenses be allocated to final cost objectives (all COL’s contracts and awards) using one of three cost input bases: total cost input, value-added (total cost input less material and subcontract costs), or single-element. The cost input base selected is required to be the base which best represents the total activity of COL’s typical cost accounting period.

[REDACTED]

[REDACTED]

DCAA also stated that there could be a material impact to the government in future periods because the merger brought additional work from other organizations and other federal agencies into the total activity of COL. Therefore, the risks of misallocating G&A costs between NSF programs and different government agencies will increase as COL takes on more business and other programs with NSF and with other federal and non-federal organizations. DCAA is unable to determine the full impact of the CAS noncompliance because DCAA did not receive a cost

⁴ COL is required to follow CAS because its Contract No. OCE-0352500 with NSF, includes the FAR clause that incorporates CAS into the contract. NSF is responsible for CAS administration at COL since NSF is the cognizant federal agency for COL.

impact proposal from COL covering all its contracts and awards from the date of the merger until the completion of COL's NSF CAS-covered contract, expected in September 2013.

After a finding of noncompliance by NSF's Contracting Officer, COL will be required to submit a cost impact proposal from the time of NSF's required date for COL to change its G&A base to comply with CAS until the completion of COL's CAS-covered contract (expected in September 2013). This cost impact proposal should monetize the impact of COL's change in accounting practice (i.e. change to a value-added G&A base) on all of COL's contracts and awards.

We have included the recommendations related to COL's CAS noncompliance in OIG Report No. 10-1-011, *Audit of Consortium Ocean Leadership's Accounting System*, dated September 30, 2010.

Recommendation

We recommend that the NSF Director of the Division of Acquisition and Cooperative Support resolve the questioned costs identified in the audit report in its review of COL's claim for final payment on NSF Contract No. OCE-0352500 for FY 2007 from June 1, 2007 to September 30, 2007.

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

We are providing a copy of this memorandum to the Division Director, Ocean Sciences (OCE) and the OCE Contracting Officer's Technical Representative. The responsibility for audit resolution rests with Cost Analysis and Audit Resolution Branch (CAAR). Accordingly, we ask that no action be taken concerning the report's findings without first consulting CAAR at (703) 292-8242.

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;
- Evaluated the qualifications and independence of the auditors;
- 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 COL and the conclusions expressed in the report. The NSF OIG does not express any opinion on COL'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 Ken Stagner at (303) 312-7655 or Jannifer Jenkins at (703) 292-4996.

Attachment 1: DCAA Audit Report No. 6171-2007J10100009, *Audit Report on Audit of FY 2007 (4 months) Incurred Costs for Consortium Ocean Leadership*, dated September 14, 2010.

Attachment 2: DCAA's Memorandum to Consortium for Ocean Leadership on CAS Noncompliance, dated April 20, 2009

cc: Martha Rubenstein, CFO and Director BFA
Mary Santonastasso, Division Director, DIAS
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