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Office of Inspector General

MEMORANDUM

DATE: September 18, 2015

TO: Jeffery M. Lupis, Director
Division of Acquisition and Cooperative Support (DACS)

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

SUBJECT: NSF OIG Audit Report No. OIG-15-1-018, *Polar Field Services Incurred Cost Audit for FYs 2010, 2011, and 2012*

We contracted with the Defense Contract Audit Agency (DCAA) to perform an incurred cost audit of Polar Field Services (PFS) for fiscal years (FYs) 2010, 2011 and 2012. PFS is a subcontractor to prime NSF contractor CH2M HILL, Inc. (CCI), and provides program management for NSF's Arctic Program. The audit covered a total of approximately \$ [REDACTED] of direct and indirect costs PFS claimed on three subcontracts with CCI¹ under NSF contract no. ARC 0520837 between the period January 1, 2010 through December 31, 2012.

The objectives of the incurred cost audit of PFS were to 1) determine the allowability of direct and indirect costs and 2) establish audit-recommended indirect cost rates for each of the three FYs audited. The audit was performed in accordance with Generally Accepted Government Auditing Standards, except that DCAA did not have an external opinion on its quality control system, as of the date of fieldwork completion.² The DCAA audit report is attached to this memo.

DCAA's Audit Report Nos. 3121-2010A10100038-S1, 3121-2011A10100028-S1, and 3121-2012A10100036-S1, *Supplement to Independent Audit of Polar Fields Services Fiscal Years 2010 through 2012 Incurred Cost*, dated August 13, 2015, was issued by DCAA with a qualified opinion, due to limitations in testing direct and indirect labor costs. DCAA performed alternative procedures to evaluate the allowability, allocability, and reasonableness of PFS' direct and indirect labor costs.

¹ Cost-plus-fixed-fee (CPFF) subcontract (No. 412291-ARC-001) and time and material (T&M) subcontracts (Nos. 814853 and 815588)

² DCAA obtained an external opinion on its quality control system on August 21, 2014.

Conclusions:

Direct Costs: DCAA found PFS' claimed direct costs acceptable as proposed, and provisionally approved, pending final acceptance.

Indirect Costs: DCAA questioned \$ [REDACTED] of rent expenses for CFY 2011 in the overhead pool [REDACTED] because the rent, although paid in November 2011, was for the August through December 2012 period. DCAA transferred PFS' claimed out-of-period rent expense to the proper period, in accordance with the allocability provisions of the Federal Acquisition Regulation (FAR 31.201-4).

In CFY 2012, PFS moved the rent account from the overhead pool into the G&A pool and claimed rent expense of \$ [REDACTED] which included \$ [REDACTED] of out-of-period rent for CFY 2013. DCAA removed the \$ [REDACTED] (CFY 2013 rent) and added back the \$ [REDACTED] (CFY 2012 rent paid in CFY 2011) for a total rent expense of \$ [REDACTED]. Accordingly, DCAA increased PFS' proposed rent for CFY 2012 by \$ [REDACTED].

<u>PFS Subcontract Questioned Indirect Costs</u>	
CFY 2011 Rent Expense Questioned.....	\$ [REDACTED]
CFY 2012 Rent Expense Questioned.....	\$ [REDACTED]

PFS concurred with the finding of rent expense and the DCAA audit recommended rates. However, PFS stated the subcontract was closed out before its submission of the 2011 and 2012 incurred cost claims. The total billings PFS received from CH2M Hill were \$ [REDACTED] [REDACTED] which is \$ [REDACTED] less than the cumulative allowable costs of \$ [REDACTED]. Therefore, the questioned costs did not impact the amount paid by CH2M Hill to NSF.

Greenland Taxes and American Recovery and Reinvestment Act (ARRA) Funds

In response to the NSF program office's request, DCAA verified that PFS appropriately withheld and started paying Greenland taxes, which are required to be paid for employees who work more than 14 consecutive days in Greenland, for T&M contracts (Subcontract Nos. 814853 and 815588), in CFY 2012.

Additionally, NSF provided ARRA funding to PFS under CPFF Contract No. 412291-ARC-001 in February 2010. PFS incurred total ARRA costs of \$ [REDACTED], which included \$ [REDACTED] labor costs and \$ [REDACTED] travel costs.

We are providing a copy of this memorandum to NSF officials. 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.

OIG Oversight of Audit

To fulfill our responsibilities to ensure that DCAA complied with 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
- Coordinated issuance of the audit report.

DCAA is responsible for the attached Polar Field Services Incurred Cost Audit for CFYs 2010, 2011, and 2012, and the conclusions expressed in that 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 Nos. 3121-2010A10100038-S1, 3121-2011A10100028-S1, and 3121-2012A10100036-S1, *Supplement to Independent Audit of Polar Fields Services Fiscal Years 2010 through 2012 Incurred Cost*, dated August 13, 2015

cc:

Patrick Haggerty, GEO/PLR
Eric Saltzman, GEO/PLR
Mary Clark Rouse, DACS
Dale Bell, DIAS
Ruth David, NSB
Michael Van Woert, NSB
Christina Sarris, OD