



NATIONAL SCIENCE FOUNDATION
4201 WILSON BOULEVARD
ARLINGTON, VIRGINIA 22230

MEMORANDUM

DATE: March 11, 2009

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-09-1-004
Audit of Abt Associates, Inc.'s Fiscal Year 2004 Incurred Costs

We contracted with the Defense Contract Audit Agency (DCAA), Boston Branch Office, to perform a review of costs claimed in FYs 2002-2004 by Abt Associates, Inc. (Abt) on four NSF awards.¹ DCAA performed this work in conjunction with an audit requested by the US Agency for International Development (USAID), Abt's federal cognizant agency. The audit for fiscal year (FY) 2004² is complete and includes a review of \$2.9 million in costs that Abt claimed for FY 2004 on three NSF awards, EEC-9815425, REC-9912174, REC-0230435, and five task orders under a NSF-General Services Administration (GSA) Schedule Award No. GS-10F-0086K. Abt 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 2004 and 2) recommend contracting officer-determined indirect cost rates for the fiscal year ending March 31, 2004. Except for the qualifications discussed below, the audit was performed in accordance with Generally Accepted Government Auditing Standards. The results of the DCAA audit are summarized below.

¹ The audit reports for FY 2002 and 2003 were issued in OIG Audit Report No. 07-1-019, "*Audit of Abt Associates, Inc.'s FY 2002 Incurred Costs*," and OIG Audit Report No. 08-6-002 "*Audit of Abt Associates, Inc.'s FY 2003 Incurred Costs*."

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

Qualifications Affecting the Audit

As we reported in the transmissions of the Abt FYs 2002 and 2003 incurred cost audit reports, 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] in additional costs was allocated to the government sector G&A pool in FY 2002. However, DCAA cannot determine the amount of additional costs that were allocated to the government sector G&A pool in FY 2003 or FY 2004 until it receives the cost impact statement that it recommended that USAID 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 used [REDACTED], [REDACTED]. Thus, Abt may have recovered pension costs more quickly than allowed. DCAA recommended that USAID have a CAS review performed to determine whether Abt has properly amortized its pension costs. However, USAID 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 or 2004 claimed costs.

Therefore, due to the noncompliance issues noted above, 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 2004 audit report, and based on our recent discussions with USAID and DCAA, neither of the above issues have been resolved.

Other Matters Concerning Abt's Accounting System

Abt implemented Oracle Version 11i for its core accounting system. DCAA performed limited testing of Abt's accounting information generated by the Oracle System, however, DCAA did not review the internal controls in Abt's revised accounting system to determine if the system is adequate for accumulating and reporting costs under government contracts. DCAA noted, however, that it did not observe any internal control deficiencies or weaknesses as they relate to Abt's revised accounting system as a whole during the FY 2004 audit.

Results of FY 2004 Audit of Incurred Costs

In this report, DCAA found that Abt's indirect rates are acceptable as proposed. No questioned indirect costs were identified, however, questioned indirect costs may result as discussed above relating to the noncompliance issues with the Cost Accounting Standards. DCAA did not

question any direct costs claimed in FY 2004 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 to support the allowability of the claimed amounts. DCAA found that Abt charged other direct costs that were not related to the specific consultant agreement to USAID's award. DCAA stated that it was hopeful that using consultant contracts to charge other types of other direct costs to Federal awards was not a systemic problem.

Abt, in its written response to the audit findings, agreed with all \$ [REDACTED] of questioned Other Direct Costs that were incorrectly recorded in FY 2004 instead of the prior year. Abt also agreed with \$ [REDACTED] of \$ [REDACTED] of questioned consultant costs on a USAID contract. Abt believes the remaining questioned consultant costs are still allowable costs of the USAID contract. Abt will pursue final resolution of the questioned consultant costs with the USAID Contracting Officer.

We recommend that NSF's Director of the Division of Acquisition and Cooperative Support coordinate with the USAID 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 allowable cost by NSF award are attached. Exhibit B of DCAA's report, identifying a schedule of allowable costs for all of Abt's federal contracts and Appendix 3 identifying a cumulative allowable cost worksheet will be transmitted electronically to your office.

We are providing a copy of this memorandum to the Division Directors of EEC, IIP, and DRL. The responsibility for audit resolution and 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 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
- Coordinated issuance of the audit report.

DCAA is responsible for the attached auditor's report on Abt Associates and the conclusions expressed in the report. The 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 me at (703) 292-5003 or Jannifer Jenkins at (703) 292-4996.

Attachment 1: Schedule of Allowable Costs by NSF Award

Attachment 2: DCAA Audit Report No. 02171-2004J10100002, Audit of Abt Associates, Inc.
FY 2004 Incurred Costs (*not posted here – Contact USAID, the cognizant Federal agency*)

cc: Allen L. Soyster, Division Director, ENG/EEC
Kesh S. Narayanan, Division Director, ENG/IIP
Joan Ferrini-Mundy, Division Director, EHR/DRL

Redacted in Entirety