MEMORANDUM

DATE:

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

FROM: Deborah H. Cureton
Associate Inspector General for Audit

SUBJECT: NSF OIG Audit Report No. OIG-07-1-007, Audit of Compuware Corporation’s Accounting System, Incurred Costs, and Indirect Cost Rates for Fiscal Years 2001 through 2004

In response to NSF’s request for audit support, we contracted with the Defense Contract Audit Agency (DCAA), Great Lakes Branch Office, to perform an accounting system review and an incurred cost audit of Compuware Corporation (Compuware) for the period April 1, 2000 through March 31, 2004 [Fiscal Years (FYs) 2001 through 2004] on two NSF cost-plus-fixed-fee contracts: Contract No. DIS-9614054[1] which had claimed costs during the period of $13,926,028 and is ready to close-out, and Contract No. DIS-0137903[2] which had claimed costs during the period of $14,310,965 and is still active. The purpose of the contracts is to provide information technology support services for NSF, Division of Information Systems (DIS).

The objectives of the audit were to:

- Determine whether Compuware’s accounting system and internal controls are adequate for accumulating and billing costs on government contracts, and for administering and monitoring its NSF contract in compliance with contract terms and federal requirements;
- Determine whether costs charged to both NSF contracts by Compuware are allowable, allocable and reasonable in accordance with contract terms and applicable government acquisition regulations; and

[1] Contract DIS-9614054 was in effect during FY 2001 and was completed in FY 2003.
[2] Contract DIS-0137903 started in FY 2002. There are three task orders under this contract that are still active and will expire on April 30, 2007.
• Recommend Contracting Officer-determined indirect cost rates for the years audited, FY 2001 through 2004.

DCAA issued two audit reports to address these objectives. The audits were performed in accordance with generally accepted government auditing standards. The DCAA audit reports are included as attachments to this memorandum.

DCAA found that Compuware’s accounting system was acceptable for accumulating and billing costs on government contracts, and Compuware’s internal controls were generally adequate except for determining allowable indirect costs. In addition, the entire XXXXXX Compuware claimed on Contract No. DIS-9614054 was considered allowable, allocable and reasonable in accordance with contract terms and applicable government regulations, even though a portion of Compuware’s proposed overhead rates was questioned. Compuware properly used the contractually agreed-upon overhead ceiling rates to calculate its claimed overhead costs for this contract, and these ceiling rates were less than the audit-determined overhead rates after deducting questioned costs.

However, the auditors questioned a total of $320,418 (XXX) of the XXXXXXX claimed on Contract No. DIS-0137903 for FYs 2002 through 2004, made up of $250,525 in unallowable and unallocable overhead and $69,893 of associated general and administrative (G&A) costs. A breakdown of questioned costs for Contract No. DIS-0137903 by FY is summarized below.

<table>
<thead>
<tr>
<th>Questioned Costs for NSF Contract DIS-0137903</th>
<th>FY 2002</th>
<th>FY 2003</th>
<th>FY 2004</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subcontractor Hourly Expense</td>
<td>2482</td>
<td>23926</td>
<td>76113</td>
<td>102521</td>
</tr>
<tr>
<td>Rebilled Expenses</td>
<td>2457</td>
<td>59629</td>
<td>31498</td>
<td>93584</td>
</tr>
<tr>
<td>Employee Welfare Costs</td>
<td>3232</td>
<td>10294</td>
<td>11975</td>
<td>25501</td>
</tr>
<tr>
<td>Overhead Questioned due to rate</td>
<td>8171</td>
<td>93849</td>
<td>119586</td>
<td>221606</td>
</tr>
<tr>
<td>Overhead Questioned due to base</td>
<td>19804</td>
<td>9115</td>
<td>0</td>
<td>28919</td>
</tr>
<tr>
<td>Total Overhead Questioned</td>
<td>27975</td>
<td>102964</td>
<td>119586</td>
<td>250525</td>
</tr>
<tr>
<td>Associated G&amp;A Questioned</td>
<td>3416</td>
<td>29561</td>
<td>36916</td>
<td>69893</td>
</tr>
<tr>
<td>Total Questioned Costs</td>
<td>31391</td>
<td>132525</td>
<td>156502</td>
<td>320418</td>
</tr>
</tbody>
</table>

DCAA questioned Compuware’s proposed overhead rates for every FY audited, and for FY 2002 through 2004 the questioned overhead rates were XXX, XXX and XXXX respectively. Applying DCAA’s questioned overhead rates to Compuware’s proposed overhead base for this contract resulted in DCAA’s questioning $221,606 of Compuware’s proposed overhead claim for this contract (i.e., questioned due to rate). This $221,606 was questioned because Compuware improperly included subcontractor hourly expense and rebilled expense costs in the

---

5 Questioned due to rate = Contractor proposed base x questioned rate.
Overhead pool (these are direct contract costs), and claimed unallowable employee welfare costs that were incurred for gifts, contributions, parties, and picnics. DCAA also questioned $28,919 of Compuware’s proposed Overhead for this contract because Compuware proposed applying its overhead rate to the subcontract labor which DCAA had reclassified to a category of non-overhead-bearing direct costs for this contract (i.e., questioned due to base). DCAA found that it was not Compuware’s practice to include subcontract labor in its overhead allocation base (direct labor dollars) and also found no causal or beneficial relationship between Compuware’s overhead pool (which consists mainly of fringe benefits for Compuware employees) and this subcontract labor. Lastly, associated G&A questioned of $69,893 was derived by applying Compuware’s proposed/audit-determined G&A rates for each year to the questioned overhead costs.

DCAA considers the Contract No. DIS-0137903 participation in unallowable Employee Welfare Costs to be subject to penalties, because this contract provides for penalties if the contractor claims expressly unallowable costs and the Employee Welfare Costs questioned were specifically named and stated to be unallowable in FAR 31.205-13, *Employee morale, health, welfare, etc...* The total amount of penalty calculated by DCAA is $25,074 ($2,887 for FY 2002, $10,207 for FY 2003 and $11,990 for FY 2004), which represents the amount of expressly unallowable costs which Compuware allocated to Contract DIS-0137903. DCAA noted that penalties can be waived by the Contracting Officer under certain circumstances specified in FAR 42.709-5. DCAA’s recommended assessment of penalties was not agreed to by Compuware and must be settled by NSF during negotiations with Compuware.

In recommending Contracting Officer-determined indirect cost rates, DCAA questioned a total of $1,079,936 (XXX) out of XXXXXXX claimed for FYs 2001 through FY 2004 in the branch overhead pool because Compuware improperly included $412,012 subcontractor hourly expense and $396,748 rebilled expense costs in the overhead pool (these are direct contract costs), and claimed $271,196 unallowable employee welfare costs that were incurred for gifts, contributions, parties, and picnics. As a result, the questioned overhead rates for FYs 2001 through 2004 are XXX, XXX, XXX, and XXX respectively and the audit-determined overhead rates for FYs 2001 through 2004 are XXX, XXX, XXX, and XXX respectively. Compuware’s proposed/audit-determined G&A rates for FYs 2001 through 2004 are XXX, XXX, XXX, and XXX respectively.

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6 Questioned due to base = Questioned base x auditor’s recommended rate (proposed rate less questioned rate).
7 Participation is defined as this contract’s direct labor as a percentage of Compuware’s total direct labor for FY 2002, for FY 2003, for FY 2004) multiplied by the unallowable Employee Welfare Costs claimed in Compuware’s Overhead pool ($98,362 in FY 2002, $36,712 in FY 2003 and $33,355 in FY 2004).
8 FAR 52.242-3, *Penalties for Unallowable Costs*, was incorporated into the contract by reference, and provides that the contractor shall not include in any proposal any cost which is unallowable as defined in Part 31 of the FAR.
9 Reference Schedules E-1 and G-1 of the DCAA audit report on incurred costs. The penalty for unallowable Employee Welfare claimed for FY 2002 was recommended for penalty, but was not presented in a separate schedule because it was below the $10,000 waiver threshold specified in FAR 42,709-5.
DCAA stated that the cause of the questioned costs was Compuware’s lack of written policies and procedures to exclude the unallowable and unallocable indirect costs from the overhead pool as the claims to NSF are being prepared. This control weakness prevented Compuware from administering and monitoring its NSF contract in compliance with contract terms and federal requirements. However, DCAA reported that Compuware was in the process of taking corrective action to implement new procedures to correct this condition, as evidenced by its preparation of preliminary incurred cost submissions for FYs 2005 and 2006. Compuware told DCAA it would exclude the entire Employee Welfare Costs account from its incurred cost submissions to NSF. In addition, Compuware agreed to exclude from its indirect cost pools any Subcontractor Hourly Expenses and Rebilled Expenses that can be specifically identified to a contract as a direct cost, and classify these costs as non-Overhead-bearing direct costs as appropriate. DCAA did not confirm these statements by verifying Compuware’s actual incurred cost submissions for FYs 2005 and 2006.

Compuware agreed with the findings in the DCAA reports, with the exception of the penalty charges. We consider the issues in the audit reports to be significant. The findings in the DCAA audit reports should not be closed until NSF verifies that our recommendations have been adequately addressed and proposed corrective actions have been satisfactorily implemented.

**Recommendations**

We recommend that the NSF Director of the Division of Acquisition and Cooperative Support:

1. Accept the FY 2001-2003 claimed costs for Contract DIS-9614054. The claimed, allowable and questioned amounts for each FY audited are shown in Exhibit J of the attached DCAA audit report on incurred costs.

2. Reduce the FY 2002-2004 claimed costs for Contract DIS-0137903 by $320,418. The claimed, allowable and questioned amounts for each FY audited are shown in Exhibit J of the attached DCAA audit report on incurred costs.


4. Establish final indirect cost rates for FYs 2001 through 2004, making the reductions to Compuware’s proposed rates as recommended and summarized in Exhibit A of the attached DCAA audit report on incurred costs.

5. Request Compuware to review and resubmit as needed its incurred cost submissions for FYs 2005 and 2006, and confirm to NSF that unallowable Employee Welfare Costs have been excluded from these submissions, and that any Subcontractor Hourly Expenses and Rebilled Expenses that can be specifically identified to a contract as a direct cost have been properly excluded from indirect cost pools and reclassified as non-Overhead-bearing direct costs when appropriate.
6. To prevent similar issues from recurring in the future, ensure that Compuware has established written policies and procedures requiring that unallowable Employee Welfare Costs are properly excluded from all billings, claims and proposals applicable to NSF contracts, and that any Subcontractor Hourly Expenses and Rebilled Expenses that can be specifically identified to a contract as a direct cost have been properly excluded from indirect cost pools and reclassified as non-Overhead-bearing direct costs whenever appropriate.

We are providing a copy of this memorandum to the OIRM Directorate/Division of Information Services (DIS). 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 under 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 OIG management to discuss audit progress, findings and recommendations;
- Reviewed the audit report prepared by DCAA to ensure compliance with Government Auditing Standards and Office of Management and Budget Circulars; and
- Coordinated issuance of the audit report.

DCAA is responsible for the attached audit reports on Compuware and the conclusions expressed in the reports. The NSF OIG does not express any opinion on Compuware’s incurred cost submissions, indirect cost rates, accounting system, or the conclusions presented in DCAA’s audit reports.

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 Jannifer Jenkins at (703) 292-4996 or David Willems at (703) 292-4979.

Attachments: DCAA Audit Report on Compuware’s Incurred Costs for FYs 2001 through 2004 for NSF Contracts DIS-9614054 and DIS-0137903

DCAA Audit Report on Compuware’s Accounting System

cc: Carolyn Miller, IRM/DIS
Mary Santonastasso, Director, DIAS
DEFENSE CONTRACT AUDIT AGENCY
AUDIT REPORT NO. 2261–2006G 17740 016

November 24, 2006

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SUBJECT: Report on Audit of Postaward Accounting System Review

REFERENCES: Relevant Dates: See Page 5

CONTRACTOR: Compuware Corporation
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Detroit, MI 48226

REPORT RELEASE RESTRICTIONS: See Page Error! Bookmark not defined.

CONTENTS:
Subject of Audit 1
Scope of Audit 1
Results of Audit 2
Contractor Organization and Systems 3
DCAA Personnel and Report Authorization 5
Audit Report Distribution and Restrictions 6
Appendix 7
SUBJECT OF AUDIT

As you requested on December 16, 2005, we examined Compuware Corporation’s (CC) accounting system as of September 18, 2006, to determine whether it is adequate for accumulating costs under Government contracts and whether the billing procedures are adequate for the preparation of cost reimbursement claims, i.e., interim public vouchers and progress payments.

Compuware Corporation is responsible for establishing and maintaining an adequate accounting system for accumulating and billing costs under Government contracts. Our responsibility is to express an opinion on the adequacy of the accounting system based on our examination.

SCOPE OF AUDIT

We conducted our examination in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the data and records examined are free of material misstatement. An examination includes:

- obtaining an understanding of internal control for accumulating and billing costs under Government contracts;
- examining, on a test basis, evidence supporting the amounts and disclosures in the data and records evaluated;
- assessing the accounting principles used and significant estimates made by the contractor; and
- evaluating the overall data and records presentation.

We evaluated the accounting system using the applicable requirements contained in:

- Federal Acquisition Regulation (FAR) and
- National Science Foundation Acquisition Regulations (NSFAR).

Our examination included an evaluation to determine if the accounting system provides for the following procedures:

- direct and indirect costs are appropriately identified, accumulated, and reported;
- unallowable costs are appropriately identified and segregated;
- indirect costs are allocated equitably and consistently to contracts and other cost objectives;
• direct and indirect labor costs are identified to intermediate or final cost objectives by the timekeeping system and charged to appropriate cost objectives by the labor distribution system;
• indirect billing rates are acceptable to the contracting officer or contract auditor in accordance with FAR 42.704;
• cost information for billings is based on currently posted accounting data; and
• contract billings are reviewed by management to assure compliance with contract terms and provisions, e.g., frequency of billings, special withholding provisions, contract unallowables, etc.

Our examination was performed from June to September 2006.

We believe that our examination provides a reasonable basis for our opinion.

Our examination did not include tests to determine whether internal control is in operation or operating effectively. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, accounting system internal control is subject to the risk that the internal control may become inadequate because of changes in conditions.

RESULTS OF AUDIT

In our opinion, Compuware’s accounting system is adequate for accumulating and billing costs under Government contracts. At your request, we have completed a Standard Form 1408, Pre-Award Survey of Prospective Contractor Accounting System (Appendix, see page 7).

Our examination was limited to determining whether Compuware’s accounting system is adequate for accumulating and billing costs under Government contracts. We did not perform a comprehensive examination of the contractor’s overall accounting system and its related internal control. Accordingly, we express no opinion on Compuware’s system of internal control taken as a whole.

We discussed the results of our examination with [Redacted], [Redacted], [Redacted], and [Redacted], [Redacted], in an exit conference held on September 18, 2006.
CONTRACTOR ORGANIZATION AND SYSTEMS

1. Organization

Compuware Corporation (CC) was incorporated in the state of Michigan in 1973. Compuware is primarily engaged in software development and information technology services. Revenue for the fiscal year ended March 31, 2004, was approximately $XX Million, of this amount, U.S. Government sales are less than XX% percent. Compuware maintains locations throughout the United States and worldwide. Compuware currently employs approximately XXX employees.

2. Accounting System

Compuware's accounting period is from April 1 to March 31. CC maintains a job order accounting system for contract costs. CC maintains an accounting system on the accrual basis in accordance with Generally Accepted Accounting Principles. CC's accounting system is posted on a current basis. Appropriate adjusting entries are made at the end of each month and year. The accounting firm of Deloitte & Touche, LLC audited CC's FY's 2001, 2002, 2003, and 2004 financial statements. The contractor currently uses the Oracle accounting software program. In our opinion, CC's accounting system is adequate, for the accumulation, reporting, and billing of costs on government contracts. In these reviews, the internal controls were evaluated to the extent necessary to make a determination of the allowability and allocability of the transactions tested.

Compuware maintains a job cost accounting system which is fully integrated in the overall accounting system, wherein contracts are assigned individual project numbers and direct costs are identified and charged to those numbers. Indirect costs are identified with and accumulated under individual departments, which in turn are identified to the various indirect cost pools. Indirect expenses are recorded and billed to projects using predetermined rates. The predetermined rates are adjusted to actual rates at year end. The following schedule describes Compuware’s indirect cost pools and related allocation bases, and the type of effort normally charged direct and indirect:

**Indirect Cost Pools and Allocation Bases**

<table>
<thead>
<tr>
<th>Indirect Cost Pool</th>
<th>Allocation Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>XXXXXXXX</td>
<td>XXXXXXXX</td>
</tr>
</tbody>
</table>

The Following Effort Is Normally Charged Direct:

- Direct time of direct labor employees
- Premium (overtime, shift, field) time of direct labor
- Temporary help to perform direct effort
The Following Effort Is Normally Charged Indirect:

3. **Billing System:**

   The billings for the NSF contracts are prepared at the branch location in Virginia and submitted directly to the NSF. Billings are prepared directly from the cost accounting records which are reconcilable by cost element for all cost-reimbursable work. Direct labor hours are included in the cost accounting records for all contracts. The contractor’s indirect billing rates are established in accordance with FAR 42.704.
DCAA PERSONNEL

Primary contacts regarding this audit:
   Judy C. Heater-Unsworth, Auditor (313) 363-8046
   Norman S. Rea, Supervisory Auditor (734) 805-3083

Other contacts regarding this audit report:
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   Marc Parvin, Financial Liaison Advisor (703) 767-2271

FAX No.
   Great Lakes Branch Office (734) 805-3090
   Marc Parvin, Financial Liaison Advisor (703) 767-2279

E-mail Address
   dcaa-fao2261@dcaa.mil

General information on audit matters is available at http://www.dcaa.mil/.

RELEVANT DATES

National Science Foundation Request for Audit Dated December 16, 2005; Received December 16, 2005.

AUDIT REPORT AUTHORIZED BY:

   Brian M. Unsworth
   /for/ RICHARD J. AHKAO
   Branch Manager
   DCAA Great Lakes Branch Office
AUDIT REPORT DISTRIBUTION AND RESTRICTIONS

DISTRIBUTION

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PREAMWARD SURVEY OF PROSPECTIVE CONTRACTOR ACCOUNTING SYSTEM

PUBLIC REPORTING BURDEN FOR THIS COLLECTION OF INFORMATION IS ESTIMATED TO AVERAGE 24 HOURS PER RESPONSE, INCLUDING THE TIME FOR REVIEWING INSTRUCTIONS, SEARCHING EXISTING DATA SOURCES, GATHERING AND MAINTAINING THE DATA NEEDED, AND COMPLETING AND REVIEWING THE COLLECTION OF INFORMATION. SEND COMMENTS REGARDING THIS BURDEN ESTIMATE OR ANY OTHER ASPECT OF THIS COLLECTION OF INFORMATION, INCLUDING SUGGESTIONS FOR REDUCING THIS BURDEN, TO FAR SECRETARIAT (VRS), OFFICE OF FEDERAL ACQUISITION AND REGULATORY POLICY, GSA, WASHINGTON, DC 20405; AND TO THE OFFICE OF MANAGEMENT AND BUDGET, PAPERWORK REDUCTION PROJECT (9000-0011), WASHINGTON, DC 20503.

SECTION I - RECOMMENDATION

1. PROSPECTIVE CONTRACTOR'S ACCOUNTING SYSTEM IS ACCEPTABLE FOR AWARD OF PROSPECTIVE CONTRACT

☐ YES
☐ NO (Explain in 2.)

2. NARRATIVE (Clarification of deficiencies, and other pertinent comments. If additional space is required, continue on plain sheets of paper.)

We consider the contractor’s system to be adequate for the accumulation and billing of costs on government contracts.

3. SURVEY MADE BY

a. SIGNATURE AND OFFICE (Include typed or printed name)
   //s// Judy Heater-Unsworth, Senior Auditor
   DCAA, Great Lakes Branch Office

b. TELEPHONE NO. 313/363-8046
cc. DATE SIGNED 11/20/06

4. SURVEY REVIEWING OFFICIAL

a. SIGNATURE AND OFFICE (Include typed or printed name)
   //s// Norman S. Rea, Supervisory Auditor
   DCAA, Great Lakes Branch Office

b. TELEPHONE NO. 734/805-3083
cc. DATE SIGNED 11/20/06

STANDARD FORM 1408 (REV. 9-88)
PREVIOUS EDITIONS OF THIS FORM ARE CURRENTLY IN USE BUT MUST BE USEABLE AT THE TIME OF REPRODUCTION.
## SECTION II - EVALUATION CHECKLIST

<table>
<thead>
<tr>
<th>MARK &quot;X&quot; IN THE APPROPRIATE COLUMN (Explain any deficiencies in SECTION I NARRATIVE)</th>
<th>YES</th>
<th>NO</th>
<th>NOT APPLICABLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. EXCEPT AS STATED IN SECTION I NARRATIVE, IS THE ACCOUNTING SYSTEM IN ACCORD WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES APPLICABLE IN THE CIRCUMSTANCES?</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. ACCOUNTING SYSTEM PROVIDES FOR</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Proper segregation of direct costs from indirect costs.</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Identification and accumulation of direct costs by contract.</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. A logical and consistent method for the allocation of indirect costs to intermediate and final cost objectives. (A contract is a final cost objective.)</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Accumulation of costs under general ledger control</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e. A timekeeping system that identifies employees’ labor by intermediate or final cost objectives.</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>f. A labor distribution system that charges direct and indirect labor to the appropriate cost objectives.</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>g. Interim (at least monthly) determination of costs charged to a contract through routine posting of books of account.</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>h. Exclusion from costs charged to government contracts of amounts which are not allowable in terms of FAR 31, Contract Cost Principles and Procedures, or other contract provisions.</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>i. Identification of costs by contract line item and by units (as if each unit or line item were a separate contract) if required by the proposed contract.</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>j. Segregation of pre-production costs from production costs.</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. ACCOUNTING SYSTEM PROVIDES FINANCIAL INFORMATION:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Required by contract clauses concerning limitation of cost (FAR 52.232-20 and 21) or limitation on payments (FAR 52.216-16).</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Required to support requests for progress payments.</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. IS THE ACCOUNTING SYSTEM DESIGNED, AND ARE THE RECORDS MAINTAINED IN SUCH A MANNER THAT ADEQUATE, RELIABLE DATA ARE DEVELOPED FOR USE IN PRICING FOLLOW-ON ACQUISITIONS?</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. IS THE ACCOUNTING SYSTEM CURRENTLY IN FULL OPERATION? (If not, describe in Section I Narrative which portions are (1) in operation, (2) set up, but not yet in operation, (3) anticipated, or (4) nonexistent.)</td>
<td>X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Item 2.j.: This is not applicable as the contractor is in the service industry, not manufacturing.
DEFENSE CONTRACT AUDIT AGENCY

AUDIT REPORT NO. 2261–2001G10100003
AUDIT REPORT NO. 2261-2002G10100007
AUDIT REPORT NO. 2261-2003G10100014
AUDIT REPORT NO. 2261-2004G10100039

September 29, 2006

PREPARED FOR: National Science Foundation
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REFERENCES: CO: NSF OIG 0541756
Relevant Dates: See Page 22

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REPORT RELEASE RESTRICTIONS: See Page 23

CONTENTS: Subject of Audit 1
Scope of Audit 1
Results of Audit 2
Contractor Organization and Systems 21
DCAA Personnel and Report Authorization 22
Audit Report Distribution and Restrictions 23
Appendix – Certificates of Final Indirect Costs 24
SUBJECT OF AUDIT

As you requested on December 16, 2005, we examined the Compuware Corporation’s (CC) incurred cost proposals and related books and records for reimbursement of FY’s 2001, 2002, 2003, and 2004, incurred costs. The purpose of the examination was to determine allowability of direct and indirect costs and recommend contracting officer-determined indirect cost rates for the periods April 1, 2000, through March 31, 2001, (FY 2001); April 1, 2001, through March 31, 2002, (FY 2002); April 1, 2002, through March 31, 2003, (FY 2003); and April 1, 2003, through March 31, 2004, (FY 2004). The proposed rates apply primarily to the flexibly-priced contracts listed in Exhibit I, page 18. A copy of Compuware's Certificates of Final Indirect Costs, all dated October 5, 2005, are included as the Appendix to the report (see page 24).

The proposals are the responsibility of the contractor. Our responsibility is to express an opinion based on our examination.

SCOPE OF AUDIT

We conducted our examinations in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the examinations to obtain reasonable assurance about whether the data and records examined are free of material misstatement. An examination includes:

- evaluating the contractor's internal controls, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment;
- examining, on a test basis, evidence supporting the amounts and disclosures in the data and records evaluated;
- assessing the accounting principles used and significant estimates made by the contractor;
- evaluating the overall data and records presentation; and
- determining the need for technical specialist assistance.

We evaluated the proposals using the applicable requirements contained in the:

- Federal Acquisition Regulation (FAR); and
- National Science Foundation Acquisition Regulation (NSFAR).

For FY’s 2001, 2002, 2003, and 2004, we considered Compuware’s accounting system to be adequate for accumulating, reporting, and billing costs on Government contracts, as described in the Contractor Organization and Systems section of this report (page 21). Our assessment of control risk reflects that we have not specifically tested the effectiveness of Compuware’s systems and related internal controls. The scope of our examination reflects our assessment of control risk and includes tests of compliance with laws and regulations that we believe provide a reasonable basis for our opinion.

The concurrent verification of labor was omitted in this examination.
RESULTS OF AUDIT

Indirect Rates

In our opinion, the contractor’s proposed indirect rates are acceptable as adjusted by our examination. The examination results and recommendations are presented below.

<table>
<thead>
<tr>
<th>Indirect Category</th>
<th>Contractor’s Claimed Costs</th>
<th>Questioned Rate</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2001:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overhead (a)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G&amp;A (b)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 2002:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overhead (a)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G&amp;A (b)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 2003:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overhead (a)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G&amp;A (b)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 2004:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overhead (a)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G&amp;A (b)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Allocation Bases:

Direct Costs

In our opinion, claimed direct costs are acceptable and are provisionally approved, pending final acceptance. Final acceptance of amounts proposed under Government contracts does not take place until performance under the contract is completed and accepted by the cognizant authorities and the audit responsibilities have been completed.

Indirect Costs Subject to Penalty

Penalties for Unallowable Costs. For FY’s 2001 and 2002, the examination found expressly unallowable costs subject to penalty of $102,767 and $98,362, respectively, in the Overhead pools. Of those amounts $0 and $2,887, respectively, were allocable to the contracts specified in FAR 42.709(b). This amount is recommended for penalty, but is less than the $10,000 waiver threshold discussed in FAR 42.709-5. Additional information regarding the penalties will be provided upon request.
For FY’s 2003 and 2004, indirect costs questioned in this examination are believed to be subject to the penalties provided in FAR 42.709-1(a)(1). Our recommendations for each questioned item are included in the notes to Exhibits E and G and their supporting schedules. Affected contracts are identified in Exhibit I, page 18. Our recommendations concerning the interest to be recovered on unallowable costs paid will be furnished when we have received your determination on penalties to be assessed.

Cumulative Allowable Cost Worksheet (CACWS). The costs noted on the schedule of cumulative allowable costs in Exhibit I, page 18, represent costs that are considered allowable under the listed contracts and are, therefore, reimbursable. For those contracts identified as “Ready to Close,” the information on the CACWS should be used to close out contracts. Individual contract audit closing statements will only be issued if requested by the ACO. However, please note that the information on the Prior Years Settled Costs was not available to us at the time of the audit review. Therefore, the CACWS does not include prior year’s settled or billed costs for Contract No. 9614054.

We discussed the results of our examination with XXXXXXXXX, XXXXXXXXXXXX XXXXX, and XXXXXXXXXX, XXXXXXXXXX, in an exit conference held on September 18, 2006. In response to our findings, the contractor has concurred with the questioned items. We provided a draft copy of the Results of Audit Summary Schedules to the contractor’s representatives at the exit conference.
SUMMARY OF CONTRACTOR’S CLAIMED
FY 2001 OVERHEAD RATE
AND RESULTS OF AUDIT REVIEW

Compuware Corporation
Detroit, Michigan

<table>
<thead>
<tr>
<th>Proposed (Note 1)</th>
<th>Questioned Costs</th>
<th>Non-Concurred</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor Overhead</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Branch Overhead:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Other Expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subcontractor Hourly Expense</td>
<td>39,123</td>
<td>39,123</td>
<td>-</td>
</tr>
<tr>
<td>Reimbled Expenses</td>
<td>21,577</td>
<td>21,577</td>
<td>-</td>
</tr>
<tr>
<td>Employee Welfare</td>
<td>102,767</td>
<td>102,767</td>
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</tr>
<tr>
<td>Total Branch Overhead Expenses</td>
<td>$163,467</td>
<td>$163,467</td>
<td>-</td>
</tr>
<tr>
<td>Total OH Pool (a)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Labor Base (b)</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Overhead Rate (a/b)</td>
<td></td>
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<td>0.00%</td>
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<tr>
<td>Overhead Rate Claimed - Contract Ceiling Rate</td>
<td></td>
<td></td>
<td>5</td>
</tr>
</tbody>
</table>

Government Participation in the Allocation Base:

<table>
<thead>
<tr>
<th>Cost Type Contracts</th>
<th>Fixed Price &amp; Commercial Contracts</th>
<th>Total</th>
</tr>
</thead>
</table>

Minor differences due to rounding

EXPLANATORY NOTES

1. The contractor’s proposed costs, as shown, are the net effect after numerous voluntary deletions for unallowable and unallocable costs. These voluntary deletions are too numerous to show in this audit report. However, they are available upon request.
2. Labor Overhead & All Other Expenses
   a. Summary of Conclusions:

   We take no exception to the proposed labor overhead other indirect expenses.

   b. Basis of Contractor’s Costs:

   The contractor’s based their claimed branch overhead expenses on the amounts accumulated by Compuware in the respective general ledger accounts and expenses assigned/reclassified to the branch overhead pool for the Washington DC branch. The labor overhead pool consists primarily of fringe benefits. The branch overhead pool consists primarily of utilities, depreciation, and facility type costs.

   c. Audit Evaluation:

   We verified the proposed costs to the FY 2001, 2002, 2003, and 2004 general ledgers for the period ended March 31, 2001, March 31, 2002, March 31, 2003, and March 31, 2004, respectively. We reviewed prior year account balances to judgmentally select indirect accounts for testing. We randomly and judgmentally selected transactions for testing and traced costs to source documents, including vendor invoices, purchase orders, agreements and policies. We did not note any costs that are considered to be unallowable, unreasonable, or not allocable to the overhead pool. The internal controls were considered in our determination of the allowability and allocability of the costs reviewed. Therefore, we have taken no exception to these claimed indirect expenses.

3. Subcontractor Hourly Expense, Rebilled Expenses, & Employee Welfare Costs
   a. Summary of Conclusions:

   We have taken exception to the following indirect expenses:

<table>
<thead>
<tr>
<th>Questioned Costs</th>
<th>FY 2001</th>
<th>FY 2002</th>
<th>FY 2003</th>
<th>FY 2004</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subcontractor Hourly Expense</td>
<td>$39,123</td>
<td>$75,557</td>
<td>$85,329</td>
<td>$212,003</td>
<td>$412,012</td>
</tr>
<tr>
<td>Rebilled Expenses</td>
<td>21,577</td>
<td>74,784</td>
<td>212,654</td>
<td>87,733</td>
<td>396,748</td>
</tr>
<tr>
<td>Employee Welfare Costs</td>
<td>102,767</td>
<td>98,362</td>
<td>36,712</td>
<td>33,355</td>
<td>271,196</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$163,467</strong></td>
<td><strong>$248,703</strong></td>
<td><strong>$334,695</strong></td>
<td><strong>$333,091</strong></td>
<td><strong>$1,079,956</strong></td>
</tr>
</tbody>
</table>

   The questioned costs relate to the contractor’s failure to exclude Subcontractor Hourly Expense and Rebilled Expense costs, which are direct contract costs and not allocable to indirect costs in accordance with FAR 31.202. Costs claimed for Employee Welfare were incurred for gifts, contributions, parties, and picnics, which are unallowable in accordance with the provisions of FAR 31.205-13. We consider the questioned Employee Welfare costs to be subject to penalties under the provisions of FAR 42.709-1(a)(1).
b. **Basis of Contractor’s Costs:**

The contractor based their claimed branch overhead expenses on the amounts accumulated by Compuware in the respective general ledger accounts and expenses assigned/reclassified to the branch overhead pool for the Washington DC branch. The Subcontractor Hourly Expenses are for subcontractor direct labor and expenses. The Rebilled Expenses represent those expenses that are “re-billed” and paid for by clients. The Employee Welfare costs are primarily for gifts to employees, flowers for employees, the Compuware Christmas party, and summer picnics.

c. **Audit Evaluation:**

We verified the allocations and reconciled the costs claimed to the contractor’s books and records. We performed transaction testing of selected high risk accounts and traced selected items to source documents. We performed combined transaction testing of FY’s 2001, 2002, 2003, and 2004. Our performance of transaction testing in FY 2002 noted that the contractor had included costs for Subcontractor Hourly Expense and Rebilled Expenses in the Branch Overhead pool. These costs are directly identifiable to a final cost objective and should have been removed from the indirect expenses at the time of rate submission preparation. However, the contractor failed to exclude these costs. We then evaluated these accounts for the other fiscal years under review and noted that these accounts had been included in the overhead pools for all four years. As these costs are directly identifiable, they cannot be claimed as indirect costs. Therefore, we have taken exception to these costs, in accordance with FAR 31.202, which states that “…Direct costs of the contract shall be charged directly to the contract. All costs specifically identified with other final cost objectives of the contractor are direct costs of those cost objectives and are not to be charged to the contract directly or indirectly.”

Additionally, our transaction testing of FY 2002 Branch Overhead noted that the contractor had included costs for Employee Welfare that were incurred for gifts to employees, contributions in lieu of gifts, the Compuware Christmas party and summer picnic. These costs are not allowable per the requirements of FAR 31.205-13(b) and (c). Further, these costs are expressly unallowable and are subject to penalties under the provisions of FAR 42.709-1(a)(1). Our analysis of the entire Employee Welfare account for FY 2002 noted that approximately percent were allowable costs in accordance with FAR 31.205-13. Therefore, we have questioned percent of the costs claimed in this account as unallowable Employee Welfare costs.

In our opinion, the questioned costs are a result of the contractor’s lack of policies and procedures to exclude these types of costs at the time of indirect rate preparation. However, the contractor has taken corrective action and implemented new procedures to correct these conditions, as evidenced by their preparation of FY’s 2005 and 2006 preliminary incurred cost submissions.

d. **Contractor’s Reaction:**

The contractor’s representative has concurred with the questioned costs.
4. **Direct Labor Allocation Base**

   a. **Summary of Conclusions:**

      We take no exception to the contractor’s claimed direct labor allocation base.

   b. **Basis of Contractor’s Costs:**

      The contractor based their claimed overhead direct labor allocation base on the total
direct labor incurred at the Washington DC branch.

   c. **Audit Evaluation:**

      We have evaluated the contractor’s claimed direct labor allocation base by
reconciling the costs claimed to the contractor’s general ledger for the fiscal year ended March
31, 2001. We also evaluated the allocation base to determine if the base was in accordance with
the provision of FAR 31.203(c), and took no exceptions.

5. **Contract Ceiling Rates**

   Contract Number 9614054 contains indirect ceiling rates of XXXX percent for Overhead;
XXX percent for G&A at NSF (or Branch G&A); and XXX percent for G&A at Compuware (or
Corporate G&A). This contract has costs incurred in FY’s 2001, 2002, and 2003. For each of
these three fiscal years, we have questioned a portion of the contractor’s proposed overhead rate.
However, the contractor has only claimed the Overhead contract ceiling rate. Therefore, while
the proposed rate may be questioned, there is no impact on the amount of questioned costs, as the
contractor has claimed the Overhead ceiling rate. Please see Exhibit J, page 19, for the
calculation of the questioned costs by contract. Additionally, the contractor’s proposed G&A
rates are less than the contract ceiling rates for all three of these fiscal years. Please note that
Contract Number 0137903 does not contain indirect ceiling rates.
SUMMARY OF CONTRACTOR’S CLAIMED
FY 2001 G&A RATE
AND RESULTS OF AUDIT REVIEW

Compuware Corporation
Detroit, Michigan

<table>
<thead>
<tr>
<th>Proposed (Note 1)</th>
<th>Questioned Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>Branch G&amp;A</td>
<td>$ -</td>
</tr>
<tr>
<td>Corporate G&amp;A</td>
<td>$ -</td>
</tr>
<tr>
<td>Total G&amp;A Pool (a)</td>
<td>$ -</td>
</tr>
<tr>
<td>Total Cost Input Base (b)</td>
<td>$ -</td>
</tr>
<tr>
<td>G&amp;A Rate (a/b)</td>
<td></td>
</tr>
</tbody>
</table>

**Government Participation in the Allocation Base:**
Cost Type Contracts
Fixed Price & Commercial Contracts
Total

Minor differences due to rounding

EXPLANATORY NOTES

1. The contractor’s proposed costs, as shown, are the net effect after numerous voluntary deletions for unallowable and unallocable costs. These voluntary deletions are too numerous to show in this audit report. However, they are available upon request.

2. **Branch G&A and Corporate G&A Expenses**
   a. **Summary of Conclusions:**

   We take no exceptions to the contractor’s claimed G&A expenses.

   b. **Basis of Contractor’s Costs:**

   The proposed costs are general and administrative expenses accumulated by Compuware in the respective general ledger accounts. The claimed costs consist primarily of fringe benefits, utilities, depreciation, and facility costs, as well as corporate expenses.
c. Audit Evaluation:

We judgmentally verified the allocations and reconciled the costs claimed to the contractor’s books and records. We performed transaction testing of selected high risk accounts and traced selected items to source documents and have accepted the costs, as claimed. We performed combined transaction testing of FY’s 2001, 2002, 2003, and 2004. The internal controls were considered in our determination of the allowability and allocability of the costs reviewed. Therefore, we have taken no exception to these claimed indirect expenses.

3. Total Cost Input Allocation Base

a. Summary of Conclusions:

We take no exception to the contractor’s claimed total cost input allocation base.

b. Basis of Contractor’s Costs:

The contractor based their claimed G&A total cost input allocation base on the total costs incurred at the Washington DC branch.

c. Audit Evaluation:

We evaluated the contractor’s claimed total cost input allocation base by reconciling the costs claimed to the contractor’s general ledger for the fiscal years ended March 31, 2001; March 31, 2002; March 31, 2003; and March 31, 2004. We also evaluated the allocation base to determine if the base was in accordance with the provision of FAR 31.203(c), and took no exceptions.
### SUMMARY OF CONTRACTOR’S CLAIMED
### FY 2002 OVERHEAD RATE
### AND RESULTS OF AUDIT REVIEW

Compuware Corporation  
Detroit, Michigan  

<table>
<thead>
<tr>
<th>Proposed (Note 1)</th>
<th>Questioned Costs</th>
<th>Non-Concurred</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Concurred</td>
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</tr>
<tr>
<td>Labor Overhead</td>
<td>-</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Branch Overhead</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>All Other Expenses</td>
<td>-</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Subcontractor Hourly Expense</td>
<td>75,567</td>
<td>75,557</td>
<td>-</td>
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<tr>
<td>Rebilled Expenses</td>
<td>74,784</td>
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<td>-</td>
</tr>
<tr>
<td>Employee Welfare</td>
<td>90,362</td>
<td>90,362</td>
<td>-</td>
</tr>
<tr>
<td>Total Branch Overhead Expenses</td>
<td>$ 248,703</td>
<td>$ 248,703</td>
<td>$ -</td>
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<td>Total OH Pool (a)</td>
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<td>$ 248,703</td>
<td>-</td>
</tr>
<tr>
<td>Direct Labor Base (b)</td>
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<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Overhead Rate (a/b)</td>
<td></td>
<td>0.00%</td>
<td></td>
</tr>
</tbody>
</table>

Overhead Rate Claimed on Contract No. 9614054:

- Contract Ceiling Rate

Government Participation in the Allocation Base:
- Cost Type Contracts
- Fixed Price & Commercial Contracts
- Total

Minor differences due to rounding

### EXPLANATORY NOTES

See the Explanatory Notes to Exhibit A, page 4.
### SUMMARY OF CONTRACTOR’S CLAIMED FY 2002 G&A RATE AND RESULTS OF AUDIT REVIEW

Compuware Corporation
Detroit, Michigan

<table>
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<th>Questioned Costs</th>
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<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Concurred</td>
</tr>
<tr>
<td>Branch G&amp;A</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Corporate G&amp;A</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Total G&amp;A Pool (a)</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Total Cost Input Ease (b)</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>G&amp;A Rate (a/b)</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

**Government Participation in the Allocation Base:**
Cost Type Contracts
Fixed Price & Commercial Contracts
Total

*Minor differences due to rounding*

### EXPLANATORY NOTES

See the Explanatory Notes to Exhibit B, page 8.
## SUMMARY OF CONTRACTOR'S CLAIMED FY 2003 OVERHEAD RATE AND RESULTS OF AUDIT REVIEW

Compuware Corporation  
Detroit, Michigan

<table>
<thead>
<tr>
<th>Proposed (Note 1)</th>
<th>Questioned Costs</th>
<th>Non-Concurred Note</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Concurred</td>
</tr>
<tr>
<td>Labor Overhead</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Branch Overhead:</td>
<td></td>
<td></td>
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<tr>
<td>All Other Expenses</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Subcontractor Hourly Expense</td>
<td>85,329</td>
<td>85,329</td>
</tr>
<tr>
<td>Rebilled Expenses</td>
<td>212,654</td>
<td>212,654</td>
</tr>
<tr>
<td>Employee Welfare</td>
<td>36,712</td>
<td>36,712</td>
</tr>
<tr>
<td>Total Branch Overhead Expenses</td>
<td>$334,695</td>
<td>$334,695</td>
</tr>
<tr>
<td>Total OH Pool (a)</td>
<td>$334,695</td>
<td>$334,695</td>
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<tr>
<td>Direct Labor Base (b)</td>
<td>$ -</td>
<td>-</td>
</tr>
<tr>
<td>Overhead Rate (a/b)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Government Participation in the Allocation Base:

- Cost Type Contracts
- Fixed Price & Commercial Contracts
- Total

**Minor differences due to rounding**

### EXPLANATORY NOTES

See the Explanatory Notes to Exhibit A, page 4.
SCHEDULE OF UNALLOWABLE COSTS SUBJECT TO PENALTY
April 1, 2002 through March 31, 2003

Compuware Corporation
Detroit, Michigan

FY 2003:

<table>
<thead>
<tr>
<th>Cost Element</th>
<th>Costs Questioned</th>
<th>Level One Penalty</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Welfare</td>
<td>36,712</td>
<td>36,712</td>
<td>Exhibit E, Note 3</td>
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<tr>
<td>Total</td>
<td>$ 36,712</td>
<td>$ 36,712</td>
<td></td>
</tr>
</tbody>
</table>

Participation of Contracts Subject to Penalty Clause

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Subject to Penalty</th>
<th>Not Subject to Penalty</th>
</tr>
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<tbody>
<tr>
<td>Allocation Base</td>
<td>$12,825,397</td>
<td>$3,565,996</td>
<td>$9,259,401</td>
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<tr>
<td>Percent of Base</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Questioned Costs Subject to Level One Penalty ($36,712 x 27.80%) $10,207

Minor differences due to rounding
### SUMMARY OF CONTRACTOR’S CLAIMED FY 2003 G&A RATE AND RESULTS OF AUDIT REVIEW

Compuware Corporation  
Detroit, Michigan

<table>
<thead>
<tr>
<th></th>
<th>Proposed (Note 1)</th>
<th>Questioned Costs</th>
<th>Non-Concurred</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total G&amp;A Pool (a)</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>2</td>
</tr>
<tr>
<td>Total Cost Input Base (b)</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>3</td>
</tr>
<tr>
<td>G&amp;A Rate (a/b)</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td></td>
</tr>
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</table>

**Government Participation in the Allocation Base:**

- Cost Type Contracts
- Fixed Price & Commercial Contracts
- Total

Minor differences due to rounding

### EXPLANATORY NOTES

See the Explanatory Notes to Exhibit B, page 8.
### SUMMARY OF CONTRACTOR'S CLAIMED FY 2004 OVERHEAD RATE AND RESULTS OF AUDIT REVIEW

Compuware Corporation  
Detroit, Michigan

<table>
<thead>
<tr>
<th>Proposed (Note 1)</th>
<th>Questioned Costs</th>
<th>Non-Concurred Note</th>
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<tbody>
<tr>
<td></td>
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<td>Concurred</td>
</tr>
<tr>
<td>Labor Overhead</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Branch Overhead:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Other Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subcontractor Hourly Expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rebilled Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Welfare</td>
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<tr>
<td>Total Branch Overhead Expenses</td>
<td>$333,091</td>
<td>$333,091</td>
</tr>
<tr>
<td>Total OH Pool (a)</td>
<td></td>
<td></td>
</tr>
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<td></td>
<td></td>
</tr>
<tr>
<td>Overhead Rate (a/b)</td>
<td></td>
<td></td>
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</tbody>
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<table>
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<th></th>
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<td>$</td>
</tr>
</tbody>
</table>

Government Participation in the Allocation Base:
- Cost Type Contracts
- Fixed Price & Commercial Contracts
- Total

Minor differences due to rounding

### EXPLANATORY NOTES

See the Explanatory Notes to Exhibit A, page 4.
## SCHEDULE OF UNALLOWABLE COSTS SUBJECT TO PENALTY

### April 1, 2003 through March 31, 2004

Compuware Corporation  
Detroit, Michigan

### FY 2004:

<table>
<thead>
<tr>
<th>Cost Element</th>
<th>Costs Questioned</th>
<th>Level One Penalty</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Welfare</td>
<td>33,355</td>
<td>33,355</td>
<td>Exhibit G, Note 3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$33,355</strong></td>
<td><strong>$33,355</strong></td>
<td></td>
</tr>
</tbody>
</table>

### Participation of Contracts Subject to Penalty Clause

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Subject to Penalty</th>
<th>Not Subject to Penalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allocation Base</td>
<td>$11,393,351</td>
<td>$4,095,422</td>
<td>$7,297,929</td>
</tr>
<tr>
<td>Percent of Base</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Questioned Costs Subject to Level One Penalty ($33,355 \times 35.95\%)**  

**$11,990**

*Minor differences due to rounding*
### SUMMARY OF CONTRACTOR’S CLAIMED FY 2004 G&A RATE AND RESULTS OF AUDIT REVIEW

Compuware Corporation  
Detroit, Michigan

<table>
<thead>
<tr>
<th></th>
<th>Proposed (Note 1)</th>
<th>Questioned Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Concurred</td>
</tr>
<tr>
<td>Total G&amp;A Pool (a)</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Total Cost Input Base (b)</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>G&amp;A Rate (a/b)</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td></td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

**Government Participation in the Allocation Base:**
- Cost Type Contracts
- Fixed Price & Commercial Contracts
- Total

*Minor differences due to rounding*

### EXPLANATORY NOTES

See the Explanatory Notes to Exhibit B, page 8.
### Schedule of Cumulative Direct and Indirect Costs Claimed and Billed

#### On Cost/Flexibly Priced and T&M Contracts and Subcontracts

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Direct Cost Through</th>
<th>Indirect Cost Through</th>
<th>Total Direct &amp; Indirect Cost Through</th>
<th>Contract &amp; Subcontract Number</th>
<th>Amount Claimed Through</th>
<th>Amount Paid Through</th>
<th>Contract &amp; Subcontract Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>$12,345</td>
<td>$6,789</td>
<td>$19,134</td>
<td>914-054</td>
<td>$11,012</td>
<td>$10,000</td>
<td>Yes</td>
</tr>
<tr>
<td>2002</td>
<td>$15,456</td>
<td>$9,878</td>
<td>$25,334</td>
<td>137-983</td>
<td>$14,567</td>
<td>$13,000</td>
<td>Yes</td>
</tr>
<tr>
<td>2003</td>
<td>$18,567</td>
<td>$12,987</td>
<td>$31,554</td>
<td>234-789</td>
<td>$17,012</td>
<td>$15,000</td>
<td>Yes</td>
</tr>
<tr>
<td>2004</td>
<td>$21,678</td>
<td>$16,298</td>
<td>$37,976</td>
<td>137-983</td>
<td>$18,012</td>
<td>$16,000</td>
<td>Yes</td>
</tr>
</tbody>
</table>

**Note:** The above years' costs for Contract No. 914-054 were not available to us at the time of audit review.

**Minor differences due to rounding**
# SCHEDULE OF ALLOWABLE COSTS BY CONTRACT

**Compuware Corporation**  
*Detroit, Michigan*

<table>
<thead>
<tr>
<th>Cost Category</th>
<th>FY 2001</th>
<th>FY 2002</th>
<th>FY 2003</th>
<th>FY 2004</th>
<th>FY 01 - FY 04 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Claimed</td>
<td>Allowable</td>
<td>Questioned</td>
<td>Claimed</td>
<td>Allowable</td>
</tr>
<tr>
<td>Direct Labor</td>
<td>$ -</td>
<td></td>
<td>$ -</td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td>Overhead</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subtotal</td>
<td>$ -</td>
<td></td>
<td>$ -</td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td>G&amp;A</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$ -</td>
<td></td>
<td>$ -</td>
<td>$ -</td>
<td></td>
</tr>
</tbody>
</table>

**Contract No. 9614054 (Ceiling Rates Apply):**

<table>
<thead>
<tr>
<th>Cost Category</th>
<th>FY 2001</th>
<th>FY 2002</th>
<th>FY 2003</th>
<th>FY 2004</th>
<th>FY 01 - FY 04 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Labor</td>
<td>$ -</td>
<td></td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Overhead</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
</tr>
<tr>
<td>Subcontract Labor</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
</tr>
<tr>
<td>Subtotal</td>
<td>$ -</td>
<td></td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>G&amp;A</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
</tr>
<tr>
<td>Total</td>
<td>$ -</td>
<td></td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
</tbody>
</table>

**Contract No. 8137903:**

<table>
<thead>
<tr>
<th>Cost Category</th>
<th>FY 2001</th>
<th>FY 2002</th>
<th>FY 2003</th>
<th>FY 2004</th>
<th>FY 01 - FY 04 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Labor</td>
<td>$ -</td>
<td></td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Overhead</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
</tr>
<tr>
<td>Subcontract Labor</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
</tr>
<tr>
<td>Subtotal</td>
<td>$ -</td>
<td></td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>G&amp;A</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
</tr>
<tr>
<td>Total</td>
<td>$ -</td>
<td></td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
</tbody>
</table>

*Minor differences due to rounding*
EXPLANATORY NOTE

Subcontractor Labor

a. Summary of Conclusions:

We have taken exception to the contractor’s inclusion of applied overhead to their subcontract labor incurred in FY’s 2002 and 2003 on Contract No. 0137903, as this labor has not been included in their direct labor allocation base. Additionally, as the overhead expense pool consists of mainly fringe benefit type costs, we do not see a causal beneficial relationship to include the subcontract labor in the direct labor allocation base.

b. Basis of Contractor’s Costs:

The contractor based their subcontract labor costs on amounts billed to Compuware for contract specific subcontract work.

c. Audit Evaluation:

We transaction tested the Subcontract Labor costs and reconciled the costs back to the vendor invoices and timesheets. We have taken no exception to the costs incurred for FY’s 2002 and 2003. However, we noted that the contractor had included the costs in their direct labor amounts and had applied overhead to them. We have taken exception to the contractor’s inclusion of overhead on these costs, as they have not been included in the contractor’s direct labor allocation base used to calculate the overhead rate. Further, as the pool expenses are primarily fringe benefit type expenses, we do not see a causal beneficial relationship, as required by FAR 31.203(c). The contractor has not incurred subcontract labor for FY’s 2001 and 2004.

In our opinion, the questioned costs are a result of the contractor’s lack of policies and procedures to exclude these types of costs at the time of indirect rate preparation. However, the contractor’s has taken corrective action and implemented new procedures to correct these conditions, as evidenced by their preparation of FY’s 2005 and 2006 preliminary incurred cost submissions.

d. Contractor’s Reaction:

The contractor’s representative has concurred with the questioned costs.
CONTRACTOR ORGANIZATION AND SYSTEMS

1. Organization

Compuware Corporation (CC) was incorporated in the state of Michigan in 1973. Compuware is primarily engaged in software development and information technology services. Revenue for the fiscal year ended March 31, 2004, was approximately $XX, of this amount, U.S. Government sales are less than one percent. Compuware maintains locations throughout the United States and worldwide. Compuware currently employs approximately XXX employees.

2. Accounting System

Compuware's accounting period is from April 1 to March 31. CC maintains a job order accounting system for contract costs. CC maintains an accounting system on the accrual basis in accordance with Generally Accepted Accounting Principles. CC's accounting system is posted on a current basis. Appropriate adjusting entries are made at the end of each month and year. The accounting firm of Deloitte & Touche, LLC audited CC's FY's 2001, 2002, 2003, and 2004 financial statements. The contractor currently uses the Oracle accounting software program.

We performed an accounting system review in conjunction with the incurred cost reviews, under Audit Assignment Number 2261-2006G17740016, which will be issued in the near future. In our opinion, CC's accounting system is adequate, for the accumulation, reporting, and billing of costs on government contracts. In these reviews, the internal controls were evaluated to the extent necessary to make a determination of the allowability and allocability of the transactions tested.

DCAA PERSONNEL

Primary contacts regarding this audit:
   Judy C. Heater-Unsworth, Auditor (313) 363-8046
   Norman S. Rea, Supervisory Auditor (734) 805-3083

Other contacts regarding this audit report:
   Richard J. AhKao, Branch Manager (734) 805-3080
   Marc Parvin, Sr. Financial Liaison Advisor (703) 767-2271

FAX No.
   Great Lakes Branch Office (734) 805-3090
   Marc Parvin, Sr. Financial Liaison Advisor (703) 767-2279

E-mail Address
   Great Lakes Branch Office dcaa-fao2261@dcaa.mil

General information on audit matters is available at http://www.dcaa.mil/.

RELEVANT DATES

NSF Request for Audit Dated December 16, 2005; Received December 16, 2005.

AUDIT REPORT AUTHORIZED BY:

   Norman S. Rea
   /for/ RICHARD J. AHKAO
   Branch Manager
   DCAA Great Lakes Branch Office
AFFECTED INSTITUTIONS

1. National Science Foundation
2. Office of Inspector General
4. Compuware Corporation

AFFECTED CONTRACTS

1. 2261-2001G10100003
2. 2261-2002G10100007
3. 2261-2003G10100014
4. 2261-2004G10100039

AUDIT REPORT DISTRIBUTION AND RESTRICTIONS

DISTRIBUTION

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Arlington, VA  22230

Defense Contract Audit Agency
ATTN: OAL – Sr. FLA NonDoD Army Team 1 Marc Parvin
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Fort Belvoir, VA  22060-6219

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Detroit, MI 48226
(Copy furnished thru ACO)

E-mail Address
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dwillems@nsf.gov
DCAA-SRFLA-NONDoD-ARMY-Team1@dcaa.mil

RESTRICTIONS

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APPENDIX

Compuware Corporation
Detroit, MI

Certificate of Final Indirect Costs
Fiscal Year 2001

This is to certify that I have reviewed this proposal to establish final indirect cost rates and to the best of my knowledge and belief:

1. All costs included in the proposals to establish final indirect cost rates for Fiscal Year 2001 are allowable in accordance with the cost principles of the Federal Acquisition Regulation (FAR) and its supplements applicable to the contracts to which the final indirect cost rates will apply; and

2. This proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements.

Firm: Compuware Corporation
Signature:
Name of Certifying Official:
Title:
Date of Execution: October 5, 2005

# 9614054
Compuware Corporation  
Detroit, Mi  

Certificate of Final Indirect Costs  
Fiscal Year 2002  

This is to certify that I have reviewed this proposal to establish final indirect cost rates and to the best of my knowledge and belief:  

1. All costs included in the proposals # 9614054 and #0137903 to establish final indirect cost rates for Fiscal Year 2002 are allowable in accordance with the cost principles of the Federal Acquisition Regulation (FAR) and its supplements applicable to the contracts to which the final indirect cost rates will apply; and  

2. This proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements.  

Firm:  Compuware Corporation  
Signature:  
Name of Certifying Official:  
Title:  
Date of Execution:  October 5, 2005
Compuware Corporation
Detroit, Mi

Certificate of Final Indirect Costs
Fiscal Year 2003

This is to certify that I have reviewed this proposal to establish final indirect cost rates and to the best of my knowledge and belief:

1. All costs included in the proposals # 9614054 and #0137903 to establish final indirect cost rates for Fiscal Year 2003 are allowable in accordance with the cost principles of the Federal Acquisition Regulation (FAR) and its supplements applicable to the contracts to which the final indirect cost rates will apply; and

2. This proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements.

Firm: Compuware Corporation
Signature: ____________________________
Name of Certifying Official: ____________________________
Title: ____________________________
Date of Execution: October 5, 2005
Compuware Corporation
Detroit, MI

Certificate of Final Indirect Costs
Fiscal Year 2004

This is to certify that I have reviewed this proposal to establish final indirect cost rates and to the best of my knowledge and belief:

1. All costs included in the proposals #0137903 to establish final indirect cost rates for Fiscal Year 2004 are allowable in accordance with the cost principles of the Federal Acquisition Regulation (FAR) and its supplements applicable to the contracts to which the final indirect cost rates will apply; and

2. This proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements.

Firm: Compuware Corporation
Signature: [Signature]
Name of Certifying Official: [Name]
Title: [Title]
Date of Execution: October 5, 2005