DATE: MAR 30 2007

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

FROM: Deborah H. Cureton
    Associate Inspector General for Audit

SUBJECT: NSF OIG Audit Report No. 07-1-015 - Supplemental Schedule
         Questioning Additional Fringe Benefit Costs to NSF OIG Audit Report
         No. OIG-06-1-023, Audit of Raytheon Polar Services Company’s Costs
         Claimed For Fiscal Years 2003 to 2004

In response to NSF’s request for audit assistance, we contracted with the Defense
Contract Audit Agency (DCAA) to perform a series of audits of the Raytheon Polar
Services Company’s (RPSC) Fiscal Year (FY) 2000-2004 incurred cost proposal
submitted under NSF Contract OPP-0000373. As these audits are completed and issued
to the NSF OIG by DCAA’s Herndon Branch Office, we provide the results and our
recommendations to the Division of Acquisition and Cooperative Support (DACS) for
appropriate action. We previously provided your office with two Defense Contract Audit
Agency (DCAA) Audit Reports, dated September 25, 2006 and September 26, 2006 that
provided the results of its audit of [redacted] costs claimed for payment by RPSC
under NSF Contract No. OPP-0000373 from January 1, 2003 through December 31,
2004.

The purpose of this memorandum is to transmit the results of DCAA’s audit of
RPSC’s FY 2004 Fringe Benefits which resulted in questioned costs of [redacted]. At the
time we issued the DCAA FY 2004 audit to your office the FY 2004 Fringe Benefit
audit, performed by DCAA under a separate assignment, was not complete. RPSC
claimed [redacted] in estimated fringe benefit costs. However, DCAA determined that
the actual amount of Fringe Benefit costs incurred was [redacted]. Therefore, RPSC
claimed more fringe benefit costs than it actually incurred, thus increasing questioned
Fringe Benefit costs by [redacted]. These additional questioned 2004 Fringe Benefit costs
increase DCAA’s total questioned costs to [redacted], or [redacted] of the total
[redacted] that RPSC claimed for payment for FYs 2003 and 2004. We are
providing your office with an attachment that replaces Schedule B-2 of the original report
We continue to recommend that NSF ensure that RPSC establishes adequate policies and procedures to routinely adjust the amount of its claimed costs to reflect actual rather than budgeted fringe benefit costs. Implementation of this recommendation will allow RPSC to report its costs correctly to NSF.

We are providing a copy of this memorandum to the Director of the Office of Polar Programs, the Director of Budget, Finance and Award Management, and the Director of the Division of Institution and Award Support. 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 Schedule B-2 Fringe Benefits Computation of Audit Adjustments and the conclusions expressed. The NSF OIG does not express any opinion on the conclusions presented in DCAA’s Schedule B-2.

We thank you and your staff for the assistance that was extended to us during the audit. If you have any questions about the attached schedule, please contact Kenneth Stagner or Jennifer Jenkins at (703) 292-4996.


cc: Karl Erb, Director, OPP  
Thomas Cooley, Director, BFA  
Mary Santonastasso, DIAS
FRINGE BENEFITS
COMPUTATION OF AUDIT ADJUSTMENT

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**Total Fringe Questioned/Audit Adjustment**

**EXPLANATORY NOTE:**

1. **Fringe Expense:**
   a. **Summary of Conclusions:**

   An audit of the claimed fringe expenses resulted in questioned costs of [redacted] for FY 2004. The questioned costs resulted from the application of audited RTSC rates as opposed to the contractor’s claimed rates to the applicable fringe codes to Polar Services.

   b. **Basis of Contractor’s Cost:**

   The contractor applies RTSC claimed fringe rates to the labor bases that the Polar program participates in. Participation is based on the various union codes applicable to the labor incurred.

   c. **Audit Evaluation:**

   We determined the applicable labor bases for each of the union codes that RPSC participates in. The RTSC audited fringe rates for FY 2004 were applied to the labor according to the union code associated with the labor bases. The applied fringe was then compared to the claimed fringe from the contractor’s incurred cost submission for the same time frame resulting in an over application of claimed fringe cost of [redacted] (See Schedule B-2).