



National Science Foundation • Office of Inspector General
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MEMORANDUM

DATE: AUG 18 2016

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

FROM: Marie A. Maguire *Marie A. Maguire*
Assistant Inspector General for Audit (Acting)

SUBJECT: NSF OIG Report No. 16-6-006-- *Application of Consortium for Ocean Leadership's (COL) Fiscal Years (FY) 2010 and 2011 NSF Negotiated Rates to Audited Direct Costs*

We recently issued NSF OIG Audit Report No. 16-1-012, *Independent Audit Report on Consortium for Ocean Leadership, Inc.'s Proposed Direct Amounts on Unsettled Flexibly-Priced Contracts, Grants, and Cooperative Agreements for Fiscal Years 2010 and 2011*, dated March 24, 2016. As part of our request for that audit, we requested the Defense Contract Audit Agency (DCAA) to ensure the proper application of negotiated indirect cost rates to COL's FY 2010 and 2011 audited direct costs. To meet this request, DCAA issued the subject letter and applied final NSF-negotiated rates to audited direct costs for FYs 2010 and 2011 using the rates specified in COL's NSF rate agreement letter.¹ The DCAA-calculated amounts are presented for each of the two FYs within DCAA's letter dated November 18, 2015, which is attached. DCAA only applied the final negotiated rates to COL's audited direct costs. DCAA did not audit the negotiated rates or the rate methodology used.

We noted, however, that the DCAA letter states that COL's FY 2010 and 2011 incurred cost submissions were not updated to incorporate the NSF-negotiated rates. Therefore, we requested that DCAA provide the differences between the amounts COL proposed in its submissions and the amounts DCAA calculated using the NSF-negotiated final indirect cost rates. In response, DCAA provided spreadsheets that show calculated submission overstatements of [REDACTED] and [REDACTED] for FYs 2010 and 2011 respectively, for a total overstatement of \$80,672, applicable to government contracts, grants and cooperative agreements with COL, of which \$ [REDACTED] (\$ [REDACTED]) is applicable to NSF. See the schedules included in this document for summary-level details.

¹ Reference the Enclosure to DCAA letter dated November 18, 2015, entitled *Nonprofit Rate Agreement Letter*, dated August 27, 2012, and signed by COL on September 4, 2012.

The incurred cost submission is a certified representation of costs claimed for each award. There is a risk of overpayment when the official incurred cost submissions are not updated to incorporate the negotiated final indirect cost rates. It is important for NSF to be aware of the overstatements in COL's submissions and to ensure that NSF-negotiated rates are properly applied when resolving the COL incurred cost audit and in settling final award prices with COL.

Accordingly, we recommend that NSF:

1. Resolve the [REDACTED] in overstated questioned costs applicable to NSF; and
2. To prevent this situation from recurring, require COL to update all its incurred cost submissions and accounting records to incorporate final negotiated indirect cost rates.

This memo is related to the above referenced DCAA audit of COL's proposed direct amounts for FYs 2010 and 2011 (NSF OIG Audit Report No. 16-1-012), and brings to NSF's attention an issue identified during that work that warrants corrective action. DCAA is responsible for the attached letter, spreadsheets, and the conclusions and calculations presented therein.

We previously provided a copy of the complete DCAA spreadsheets that show calculated submission overstatements to appropriate NSF officials. We also provided a draft copy of this report to NSF officials for their review and response. NSF chose to provide an informal response via email instead of a formal response; therefore no formal response is attached to this report. NSF agreed in part with the recommendations, and we took NSF's response into consideration when finalizing this report.

In accordance with OMB Circular A-50, NSF and OIG should agree on a corrective action plan for resolution of reported findings and recommendations. Please provide us with your proposed corrective action plan within 60 days.

We thank you and your staff for your cooperation. If you have any further questions, please contact David Willems at 703-292-4979 or Jannifer Jenkins at 703-292-4996.

Attachments: Schedule of Questioned Costs FY 2010
Schedule of Questioned Costs FY 2011
DCAA letter - *Application of Consortium for Ocean Leadership's FYs 2010 and 2011 NSF Negotiated Rates to Audited Direct Costs*, dated November 18, 2015

cc: Richard Buckius
Martha Rubenstein
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Schedule of Questioned Costs - FY 2010

Contract/Grant/ CA #	Award Type	Total Claimed Expenses using Claimed Rates	Total Adjusted Expenses using Negotiated Rates	Difference/ Questioned Costs
OCE-0352500 (IODP)	Contract	\$ [REDACTED]	[REDACTED]	[REDACTED]
OCE-0652315	Cooperative Agreement	\$ [REDACTED]	[REDACTED]	[REDACTED]
OCE-0950403	Grant	\$ [REDACTED]	[REDACTED]	[REDACTED]
OCE-0813758	Grant	\$ [REDACTED]	[REDACTED]	[REDACTED]
OCE-0742120	Grant	\$ [REDACTED]	[REDACTED]	[REDACTED]
OCE-0964093, OCE-0957938	Cooperative Support Agreement	\$ [REDACTED]	[REDACTED]	[REDACTED]
OCE-1005697, OCE-0957938	Cooperative Support Agreement	\$ [REDACTED]	[REDACTED]	[REDACTED]
OCE-1026342, OCE-0957938	Cooperative Support Agreement	\$ [REDACTED]	[REDACTED]	[REDACTED]
OCE-0418967	Cooperative Agreement	\$ [REDACTED]	[REDACTED]	[REDACTED]
OCE-3052500 (SODV)	Contract	\$ [REDACTED]	[REDACTED]	[REDACTED]
	Subtotal NSF	\$ [REDACTED]	[REDACTED]	[REDACTED]
ONR TASK ORDER	N00014-07-D-0829	\$ [REDACTED]	[REDACTED]	[REDACTED]
	Total Government	\$ 126,428,091	[REDACTED]	[REDACTED]

Note: Minor differences are due to rounding.

Schedule of Questioned Costs – FY 2011

<u>Contract/Grant/CA #</u>	<u>Award Type</u>	<u>Total Claimed Expenses using Claimed Rates</u>	<u>Total Adjusted Expenses using Negotiated Rates</u>	<u>Difference Questioned Costs</u>
OCE-0352500 (IODP)	Contract	\$ [REDACTED]	[REDACTED]	[REDACTED]
OCE-1042742	Grant	\$ [REDACTED]	[REDACTED]	[REDACTED]
OCE-0652315	Cooperative Agreement	\$ [REDACTED]	[REDACTED]	[REDACTED]
OCE-0950403	Grant	\$ [REDACTED]	[REDACTED]	[REDACTED]
OCE-1031668	Grant	\$ [REDACTED]	[REDACTED]	[REDACTED]
OCE-0742120	Grant	\$ [REDACTED]	[REDACTED]	[REDACTED]
OCE-0964093, OCE-0957938	Cooperative Support Agreement	\$ [REDACTED]	[REDACTED]	[REDACTED]
OCE-1005697, OCE-0957938	Cooperative Support Agreement	\$ [REDACTED]	[REDACTED]	[REDACTED]
OCE-1026342, OCE-0957938	Cooperative Support Agreement	\$ [REDACTED]	[REDACTED]	[REDACTED]
OCE-3052500 (SODV)	Contract	\$ [REDACTED]	[REDACTED]	[REDACTED]
	Subtotal NSF	\$ [REDACTED]	[REDACTED]	[REDACTED]
ONR TASK ORDER	N00014-07-D-0829	\$ [REDACTED]	[REDACTED]	[REDACTED]
	Total Government	\$ 163,968,937	\$ [REDACTED]	[REDACTED]

Note: Minor differences are due to rounding.

The Attachments to this Report contain non-public information and are not posted.