



**NATIONAL SCIENCE FOUNDATION**  
4201 Wilson Boulevard  
ARLINGTON, VIRGINIA 22230

**OFFICE OF  
INSPECTOR GENERAL**

**MEMORANDUM**

**DATE:** September 30, 2010

**TO:** Greg Steigerwald, Acting Director  
Division of Acquisition and Cooperative Support (DACS)

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

**SUBJECT:** NSF OIG Audit Report No. OIG-10-1-014, Audit Report on Joint Oceanographic Institutions' FY 2006 (12 months) and FY 2007 (8 months) Incurred Costs

We contracted with the Defense Contract Audit Agency (DCAA), Chesapeake Branch Office to perform a review of \$65,763,738 in claimed incurred costs from October 1, 2005 through May 31, 2007, by the Joint Oceanographic Institutions (JOI) under NSF Contract No. OCE-0352500. Under this contract, JOI provided NSF with systems integration services in support of shipboard and shore-based ocean drilling science and staff support for the International Ocean Drilling Program (IODP). This audit also included a review of the \$54,327,709 ( [REDACTED] ) claimed by JOI's major subcontractor, Texas A&M Research Foundation (TAMRF) and TAMRF's lower-tier subcontract costs incurred by Overseas Drilling Limited (ODL) and Jurong Shipyard (Jurong).

The objectives of the audit were to 1) determine the allowability of direct and indirect costs claimed to NSF by JOI for the contract; and 2) report any instances of noncompliance with laws, regulations, provisions of the contract or significant weaknesses in internal controls, which impact the ability of JOI to comply with the requirements in the contract and associated acquisition regulations.

**Background**

The Joint Oceanographic Institutions (JOI) and the Consortium for Oceanographic Research and Education (CORE) merged their staffs and operations as of May 31, 2007. The consolidated organization is now known as Consortium for Ocean Leadership, Inc. (COL)<sup>1</sup>. JOI was a Washington, DC based nonprofit organization that managed ocean research and education programs. JOI had [REDACTED] employees in FY 2006 and revenues of approximately [REDACTED]. The merged organization, COL, had [REDACTED] employees in FY 2007 and revenues for the fiscal year

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<sup>1</sup> OIG concurrently issued Audit Report No. OIG-10-1-015, *Audit Report on Consortium of Ocean Leadership FY 2007 (4 months) Incurred Costs*, dated September 30, 2010, which reports the results of the audit of incurred costs claimed by COL for the 4 months remaining in FY 2007 after the merger.

ending September 30, 2007 were approximately [REDACTED]. JOI's accounting period was from October 1 through September 30. However, DCAA reported that they were not requested nor did they perform an accounting system review at JOI to determine if JOI's accounting system was adequate to perform government contracts. As a result, DCAA performed additional testing of transactions to determine the allowability of JOI's claimed costs under Contract No. OCE-0352500<sup>2</sup>.

After the merger, COL undertook JOI's mission under the NSF contract to provide for systems integration in support of shipboard and shore-based ocean drilling science and staff support for the International Ocean Drilling Program. COL also assumed JOI's cost reimbursable subcontract with TAMRF, which provides for the overhaul and enhancement of the research vessel, the JOIDES Resolution, which is the U.S. contribution to the IODP fleet, into an enhanced Scientific Ocean Drilling Vessel (SODV) and subsequent scientific drilling and coring operations in all oceans and accessible seas.

### **Summary Results of Audit of Incurred Costs**

A total of \$376,571 of General and Administrative (G&A) indirect costs and \$15,738 of direct costs were questioned for FYs 2006 and 2007 (October 1, 2005 to May 31, 2007).

#### **a. Indirect Costs:**

\$324,500 of the G&A costs were questioned because of inadequately supported consultant costs. Specifically, the Tatum, LLC consultant agreement did not adequately describe the scope of work. Neither the consultant agreement nor billing invoices between Tatum LLC and JOI specified tasks that were completed by Tatum LLC, therefore DCAA could not determine whether the costs were allowable or allocable to the JOI contract.

Further, \$32,709 of the G&A costs were questioned because they were organization costs (related to the merger) for consultant, publication, airline ticket, and other travel expenses that are not allowable under federal requirements, without prior NSF approval. The novation agreement between JOI and NSF stated that the government would not be obligated to pay any costs or related increases resulting from the merger other than those the government would have had to pay under the terms of the contract. \$19,362 of the G&A costs were questioned because they were recorded as Office Supplies and consisted of water, soda, coffee and snacks that are unallowable goods or services for personal use per the federal requirements.

Based on the audited contract's share of JOI's proposed G&A base, approximately [REDACTED] of JOI's questioned \$376,371 in G&A indirect costs are attributable to NSF Contract No. OCE-0352500. DCAA's audit-determined indirect cost rates for JOI for FYs 2006 and 2007 through May 31, 2007 were [REDACTED] and [REDACTED] respectively.

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<sup>2</sup> After JOI merged, OIG had an audit of COL's accounting system performed and issued the audit results in OIG Audit Report No. OIG-10-1-011, *Audit of Consortium of Ocean Leadership's Accounting System*, dated September 30, 2010.

b. Direct Costs:

\$15,738 of direct rent costs were questioned from the IODP project because DCAA did not agree that they were reasonable or in compliance with federal requirements. JOI claimed seven months of relocation costs for an employee. DCAA determined that one month of rent is a reasonable allowable amount of relocation costs and questioned the remaining six months.

**COL's Response to the Questioned Costs**

COL (formerly JOI) did not agree with the questioned consultant costs because it believes that sufficient documentation has been provided to evidence that the charges are for services to assist in evaluating and upgrading its accounting system and administrative staff skills, after the merger and are therefore allowable and related to the contract. COL also did not agree with the questioned Office Supplies because it provides free beverages, snacks and food to employees citing morale improvement. COL further disagreed that the rent costs claimed were unreasonable. However, COL agreed that all but \$5,000 of the organization costs, which were the consultant costs, were unallowable.

**Cost Accounting Standard Administration**

In the "Other Matters to be Reported" section of DCAA's audit report, DCAA noted that NSF was the cognizant federal agency for JOI, and stated that JOI was subject to Cost Accounting Standards (CAS) and was therefore required to have an adequate CAS Disclosure Statement describing its cost accounting practices<sup>3</sup>. JOI had submitted a CAS Disclosure Statement to NSF dated September 2003 that was applicable during the 20-month period of this incurred cost audit. Nevertheless, NSF did not issue a determination of adequacy or compliance of JOI's Disclosure Statement, which is a cognizant federal agency responsibility stated in FAR 30.202-6, nor did NSF request DCAA to review JOI's Disclosure Statement for adequacy or compliance.

Further, in this audit DCAA found that JOI's G&A (General & Administrative) allocation base used to allocate its G&A expenses (those expenses which are for the general management and administration of the business unit as a whole) is in noncompliance with Cost Accounting Standards (CAS) 410. This standard requires that JOI's G&A expenses be allocated to final cost objectives (all JOI's contracts and awards) using one of three cost input bases: total cost input, value-added (total cost input less material and subcontract costs), or single-element. The cost input base selected is required to be the base which best represents the total activity of JOI's typical cost accounting period. [REDACTED]

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<sup>3</sup> JOI was required to follow CAS because its Contract No. OCE-0352500 with NSF dated September 2003 included the FAR clause that incorporates CAS into the contract. NSF was responsible for CAS administration at JOI because NSF was the cognizant federal agency for JOI.

[REDACTED]

[REDACTED]

DCAA also stated that there could be a material impact to the government in future periods because the merger brought additional work from other organizations and other federal agencies into the total activity of COL. Therefore, the risks of misallocating G&A costs between NSF programs and different government agencies will increase as COL takes on more business and other programs with NSF and with other federal and non-federal organizations. DCAA is unable to determine the full impact of the CAS noncompliance because DCAA does not have a cost impact proposal from JOI.

### **Recommendation**

We recommend that the NSF Director of the Division of Acquisition and Cooperative Support resolve the questioned costs identified in the audit report in its review of JOI's claim for final payment on NSF Contract No. OCE-0352500 for FYs 2006 and 2007.

In accordance with OMB Circular A-50, please coordinate with our office during the six-month resolution period to develop a mutually agreeable resolution of the audit findings. Also, the findings should not be closed until NSF determines that the recommendation has been adequately addressed and the proposed corrective actions have been satisfactorily implemented.

We are providing a copy of this memorandum to the Division Director, Ocean Sciences (OCE) and the OCE Contracting Officer's Technical Representative. The responsibility for audit resolution rests with Cost Analysis and Audit Resolution Branch (CAAR). Accordingly, we ask that no action be taken concerning the report's findings without first consulting CAAR 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;

- Evaluated the qualifications and independence of the auditors;
- 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 Office of Management and Budget Circulars; and
- Coordinated issuance of the audit report.

DCAA is responsible for the attached auditor's report on JOI and the conclusions expressed in the report. The NSF OIG does not express any opinion on JOI'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 Ken Stagner at (303) 312-7655 or Jannifer Jenkins at (703) 292-4996.

Attachment 1: DCAA Audit Report No. 6171-2006J10100007/2007J10100008, *Audit Report on Audit of FY 2006 (12 months) and FY 2007 (8 months) Incurred Costs for Joint Oceanographic Institutions*, dated September 14, 2010.

cc: Martha Rubenstein, CFO and Director BFA  
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