



National Science Foundation • Office of Inspector General
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MEMORANDUM

DATE: February 19, 2016

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

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

SUBJECT: **NSF OIG Audit Report No. OIG-16-1-009**, *Independent Audit of Booz Allen Hamilton, Inc's. Revised Disclosure Statement No 14, amended by Revisions number 14a, 14b, 14c, 14d, and 14e, effective April 1, 2010*

We contracted with the Defense Contract Audit Agency (DCAA) to participate in an incurred cost audit of Booz Allen Hamilton (BAH) for FY 2008 that included two NSF contracts. That report was transmitted separately as OIG Report No. OIG-16-1-005.

In conjunction with that audit, DCAA also conducted an audit of BAH's Revised Disclosure Statement No 14, amended by Revisions number 14a, 14b, 14c, 14d, and 14e. The report is attached.

Overall, DCAA concluded that the contractor's disclosure statement, Revision number 14, dated February 1, 2010, with amended pages, effective on April 1, 2010, adequately described the contractor's revised cost accounting practices.

To fulfill our oversight responsibilities, the Office of Inspector General monitored the audit in conjunction with the BAH FY 2008 incurred cost audit.

DCAA is responsible for the attached report and resulting conclusions.

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 Sherrye McGregor at (703) 292-5003 or Jannifer Jenkins at (703) 292-4996.

Attachment: DCAA Audit Report No. 6151-2012Q19100004; *Independent Audit of Booz Allen Hamilton, Inc's. Revised Disclosure Statement No 14, amended by Revisions number 14a, 14b, 14c, 14d, and 14e, effective April 1, 2010, dated September 20, 2012.*

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SUBJECT OF AUDIT

We examined the Booz Allen Hamilton, Inc.'s (BAH) Revised Disclosure Statement No. 14, dated February 1, 2010, with amended pages submitted as Revisions No. 14a, 14b, 14c, 14d, and 14e, dated July 29, 2010, November 29, 2011, March 1, 2012, July 18, 2012, and August 13, 2012, respectively, and effective on April 1, 2010. By submitting its revised Cost Accounting Standards (CAS) disclosure statement, BAH asserts that the disclosure statement adequately describes its cost accounting practices, and the disclosed practices comply with Cost Accounting Standards Board rules, regulations and standards contained in 48 C.F.R Chapter 99. The purpose of our examination was to determine whether BAH's Disclosure Statement Revision No. 14, dated February 1, 2010, with amended pages submitted as Revisions No. 14a, 14b, 14c, 14d, and 14e, dated July 29, 2010, November 29, 2011, March 1, 2012, July 18, 2012, and August 13, 2012, respectively, adequately describes the cost accounting practices that the contractor proposes to use in performing Government contracts covered by 48 C.F.R. Chapter 99 and whether the revised practices comply with applicable Cost Accounting Standards and FAR Part 31. We also evaluated the consistency of the revised cost accounting practices with actual practices.

The contractor is responsible for the disclosure statement and compliance of the disclosed accounting practices with applicable Cost Accounting Standards and FAR Part 31. Our responsibility is to express an opinion on the adequacy of the disclosure statement and whether the disclosed accounting practices comply with those requirements based on our examination.

SCOPE OF AUDIT

We conducted our examination in accordance with Generally Accepted Government Auditing Standards (GAGAS), except DCAA does not currently have an external opinion on its quality control system as required by GAGAS 3.55. The most recent external quality control review opinion expired on August 26, 2009. GAGAS require that we plan and perform the audit to obtain reasonable assurance about whether the contractor has complied with the requirements referred to above. An examination includes:

- obtaining an understanding of 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 relating to the descriptions of the proposed cost accounting practices;
- assessing the descriptions of the revised cost accounting practices proposed and determining whether they describe practices which, when implemented, should be compliant with applicable requirements; and
- evaluating the overall disclosure statement presentation.



Audit Report No. 6151-2012Q19100004

We evaluated the contractor’s revised disclosure statement using applicable requirements contained in the:

- Federal Acquisition Regulation (FAR); and
- CAS Board rules, regulations and standards.

For CFY 2011, we considered BAH’s accounting system and related overall internal controls to be inadequate in part due to inadequately accounting for maintenance and service agreements spanning more than one fiscal year and a lack of policies and procedures for adjusting costs billed to the Government for any income, rebates, allowances, or miscellaneous credits received. BAH submitted a corrective action plan in response to this audit on August 29, 2008.

The scope of our examination reflects our assessment of control risk and includes audit tests designed to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on BAH’s compliance with the specified requirements.

STATEMENT OF CHANGES

The subject Revised Disclosure Statement No. 14, dated February 1, 2010, with amended pages submitted as Revisions No. 14a, 14b, 14c, 14d, and 14e dated July 29, 2010, November 29, 2011, March 1, 2012, July 18, 2012, and August 13, 2012, respectively, reflects the following changes to the contractor's accounting practices (or operations, organization, etc.), and is effective on April 1, 2010:

BAH, Inc.’s Disclosure Statement Revision No. 14, as amended by Revisions No. 14a, 14b, 14c, 14d, and 14e, effective April 1, 2010			
<u>D/S Item</u>	<u>Description of Change</u>	<u>Type of Change</u>	<u>Adequate/Compliant</u>
█	█	Update	Yes
█	█	Cost Accounting Practice Change	Yes
█	█	Update	Yes



BAH, Inc.'s Disclosure Statement Revision No. 14, as amended by Revisions No. 14a, 14b, 14c, 14d, and 14e, effective April 1, 2010			
D/S Item	Description of Change	Type of Change	Adequate/Compliant
[REDACTED]	[REDACTED]	Correction	Yes
[REDACTED]	[REDACTED]	Correction	Yes
[REDACTED]	[REDACTED]	Update	Yes
[REDACTED]	[REDACTED]	Update	Yes

The unilateral changes have not been agreed to by the contracting parties. Terms and conditions are therefore subject to negotiation with the CFAO under FAR 52.230-2(a)(4)(ii).

RESULTS OF AUDIT

In our opinion, the subject Revised Disclosure Statement No. 14, dated February 1, 2010, with amended pages submitted as Revisions No. 14a, 14b, 14c, 14d, and 14e, dated July 29, 2010, November 29, 2011, March 1, 2012, July 18, 2012, and August 13, 2012, respectively, and effective on April 1, 2010, adequately describes the contractor's revised cost accounting practices. Originally, the Revised Disclosure Statement No. 14, as amended by Revisions No. 14a, 14b and 14c, was inadequate. BAH corrected the inadequacies in the Disclosure Statement Revision No. 14, as amended by Revisions No. 14a, 14b, and 14c, by submitting amended pages through Revisions No. 14d and 14e. For additional information, see the Appendix to this report on page 10. However, during our examination we identified certain of the contractor's disclosed practices which we believe is in noncompliance with CAS 416. The details of the noncompliance have been reported separately in audit report number 6151-2012Q19200001.

We discussed the results of our examination with [REDACTED], Lead Associate, Regulatory Compliance, in an exit conference held on August 31, 2012. At the exit conference, we provided a draft of the Statement of Conditions and Recommendations to the contractor's representative for the CAS noncompliance that was reported in Audit Report No. 6151-2012Q19200001. The contractor withheld comment.



CONTRACTOR ORGANIZATION AND SYSTEMS

I. Organization

Booz Allen Hamilton, Inc. (BAH) is an international management and technology consulting firm committed to helping senior management solve complex problems. BAH was founded as a private corporation in 1914, and recently went public with its IPO on June 21, 2010. Its website address is www.boozallen.com. Effective August 1, 2008, BAH completed the separation of its commercial and Government business operations. The global commercial business is now a separate company, Booz and Company. Also, on August 1, 2008, BAH completed the sale of the majority stake in the remaining portion (all U.S. Government work) to The Carlyle Group, a private equity firm, which retains the majority stake following the IPO. This company, the previous U.S. Government segment, retains the name Booz Allen Hamilton, Inc.

Sales for the U.S. Consulting business were approximately [REDACTED] for FYE March 31, 2011. Approximately 98% of the sales were to the U.S. Government.

Effective April 1, 2008, Booz Allen Hamilton, Inc. reorganized its U.S. Consulting segment. The commercial work, including two cost centers, was removed from USC and used to create a new segment, North America Consulting (NAC). This segment does no Government work. BAH renamed its U.S. Consulting segment to U.S. Government (USG). BAH expects approximately 98% of the work to be sales to the U.S. Government.

II. Systems

Compensation System

Audit Report No. 6151-2007Q13020001, dated September 28, 2007, concluded that the compensation system is considered inadequate for ensuring allowable and reasonable compensation levels as required by FAR 31.205-6, Compensation for Personal Services. The following deficiencies within the compensation internal controls were found during our audit:

- Inadequate Policies and Procedures for performing management reviews, and
- Inadequate compensation policies and procedures for determining the reasonableness of executives' compensation.

As part of our incurred cost audits for CFYs 1999 through 2005, we have questioned a combined total of more than \$100 million in compensation costs for executives and principals which were found to be unreasonable per FAR 31.205-6(a) and (b). The questioned amounts are primarily related to the lack of adequate compensation policies for determining reasonable compensation levels for its executives.

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The ACO and the contractor have negotiated a settlement of the final indirect rates covering CFY's 1999 through 2005. These settlements did not address the underlying executive compensation deficiency. As a result, our position on the executive compensation issue remains unchanged.

DCAA has not performed a recent audit of BAH's Compensation System.

EVMS

Audit Report No. 6151-2007Q17750001, dated April 26, 2007, concluded that the contractor's Earned Value Management System (EVMS) met the intent of the Earned Value Management Criteria related to management processes for indirect cost and accounting, and generated valid data.

DCAA has not performed a recent audit of BAH's EVMS.

Accounting System

Audit Report No. 6151-2007Q11070001, dated September 11, 2007, concluded that BAH's control environment and overall accounting control system is inadequate in part.

DCAA has not performed a recent audit of BAH's Accounting System.

IT System General Internal Controls

Audit Report No. 6151-2009R11510006, dated January 20, 2012, concluded that BAH's IT system general internal controls are inadequate.

Budget and Planning System

Audit Report No. 6151-2007Q11020001, dated March 14, 2008, concluded that BAH's budget and planning system and related internal control policies and procedures are adequate.

DCAA has not performed a recent audit of BAH's Budget and Planning System.

Purchasing System

The contractor operates under a self governance program with DCMA for monitoring and review of the purchasing system. In DCMA Memorandum for the Record dated March 14, 2008, the ACO determined that the purchasing system continues to be adequate.

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Labor Accounting System

Audit Report No. 6151-2006Q13010001, dated January 19, 2007, concluded that BAH's labor accounting system and related internal control policies and procedures are adequate.

DCAA has not performed a recent audit of BAH's Labor Accounting System.

Indirect and ODC System

Audit Report No. 6151-2006Q14980001, dated January 29, 2007, concluded that BAH's indirect and other direct cost system and related internal control policies and procedures are inadequate in part due to [REDACTED]. The impact of the findings results in an increased audit effort by DCAA during the review of BAH's incurred cost submissions and forward pricing rate proposals.

DCAA has not performed a recent audit of BAH's Indirect and ODC System.

Billing System

In Assignment No. 6151-2010Q11010001, dated November 24, 2010, we examined billings for the period of April 1, 2009 through September 30, 2009. This universe period included a total of [REDACTED] billings in the amount of [REDACTED]. We examined 173 billings in the amount of \$11.5M. We found no significant deficiencies in the internal controls. We determined that the billings were acceptable for interim payment.

Estimating System

DCAA has not performed a recent audit of the BAH's Estimating System.

However, Audit Report No. 6151-2010Q24010001, dated November 17, 2010, disclosed that as observed during our fieldwork conducted in March and April of 2010 under assignment number 6151-2010Q21000002, BAH did not estimate costs in the same manner as it accumulates costs, did not present its own material handling costs separate from the proposed subsidiary costs, and did not follow its policies and procedures for escalating costs.

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III. Cost Accounting Standards

Audit Report No. 6151-2012Q19100001, dated April 3, 2010, concluded that the contractor's disclosure statement, Revision number 12, effective July 6, 2009, adequately described the contractor's revised cost accounting practices. The practices, as described, complied with applicable CAS standards and FAR Part 31 and were consistent with the contractor's actual practices.

Audit Report No. 6151-2012Q19100003, dated August 31, 2012, concluded that the contractor's disclosure statement, Revision number 13, effective October 1, 2009, adequately described the contractor's revised cost accounting practices. The practices, as described, complied with applicable CAS standards and FAR Part 31 and were consistent with the contractor's actual practices.

Audit Report No. 6151-2009Q19410001, dated June 9, 2010, disclosed that BAH complied, in all material respects, with the requirements of CAS 410, General and Administrative Expenses to Final Objectives during the period of April 1, 2008 through March 31, 2009.





Audit Report No. 6151-2009Q19418001, dated September 21, 2010, disclosed that BAH complied, in all material respects, with the requirements of Cost Accounting Standard 418, Allocation of Direct and Indirect Costs, during CFY 2009, from April 1, 2008 through March 31, 2009.

DCAA considers BAH to be in noncompliance with CAS 409, Depreciation of Tangible Capital Assets. However, we do not consider the issue to have any material impact on contract costs. The ACO's initial determination agrees with our findings.

IV. Financial Capability

DCAA has not completed a recent detailed financial condition risk assessment for Booz Allen Hamilton, Inc.

DCAA PERSONNEL

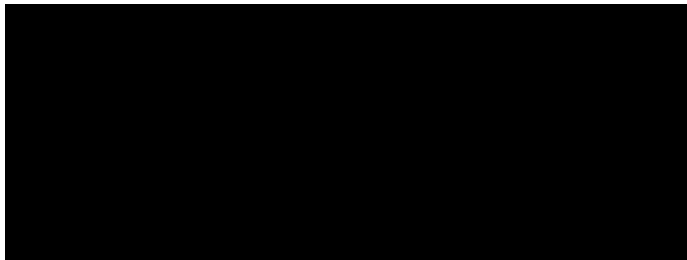
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General information on audit matters is available at <http://www.dcaa.mil/>.

RELEVANT DATES

Disclosure Statement Rev. 14 Received: February 1, 2010
Disclosure Statement Rev. 14a Received: July 29, 2010
Disclosure Statement Rev. 14b Received: November 29, 2011
Disclosure Statement Rev. 14c Received: March, 1 2012
Disclosure Statement Rev. 14d Received: July 18, 2012
Disclosure Statement Rev. 14e Received: August 13, 2012

AUDIT REPORT AUTHORIZED BY:




Branch Manager
DCAA Fairfax Branch Office



	[REDACTED]	
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

**DETAIL OF DISCLOSURE STATEMENT INADEQUACY NOTED DURING THE
AUDIT AND ADEQUATELY CORRECTED BY THE CONTRACTOR**

We identified the following inadequacies in Booz Allen Hamilton, Inc.'s (BAH) Disclosure Statement Revision No. 14, dated February 1, 2010, amended by pages of Revisions No. 14a, 14b, and 14c, dated July 29, 2010, November 29, 2011, and March 1, 2012, respectively. The inadequacies were subsequently corrected by the contractor in the Disclosure Statement Revisions No. 14d and 14e, dated July 18, 2012 and August 13, 2012, respectively. Listed below are the initial inadequacies and the contractor's corrections. We believe that BAH's corrective actions reflected in the July 18, 2012 and August 13, 2012 amendments correct the inadequacies noted below.

D/S Item	Disclosure Statement Inadequacy	BAH Response/ Corrective Action
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

