



National Science Foundation • Office of Inspector General
4201 Wilson Boulevard, Suite I-1135, Arlington, Virginia 22230

MEMORANDUM

DATE: March 25, 2016

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

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

SUBJECT: **NSF OIG Report No. OIG-16-1-016**, *Supplemental Memorandum on Crediting Station Proceeds for Raytheon Technical Service Company (RTSC), Polar Services' Draft Final Completion Invoice under Contract No. NSFPRSS-000073*

We contracted with the Defense Contract Audit Agency (DCAA) to review the RTSC Raytheon Polar Services' draft "Final Completion Invoice" under Contract No. NSFPRSS-000073, dated March 29, 2013, to ensure that sustained questioned costs and station proceeds were accurately credited to the contractor's claimed costs and to the final invoice prior to final payment.

In the attached memorandum, dated September 21, 2015, DCAA explains that it has supplemented its memorandum on the same subject dated June 30, 2015 (OIG Report No. OIG-16-1-014) with regards to station proceeds. DCAA explains questioned costs and the contractor's response related to the treatment of the bar alcohol and retail stores purchases with regard to station proceeds.

DCAA did not agree with the contractor's response and further explains that Calendar Years 2005-2012 incurred costs are overstated because the contractor did not annually credit the contract with any proceeds received from sales. As a result, DCAA was unable to verify whether the Government has received the applicable portion of any income through a credit to costs incurred.

To fulfill our oversight responsibilities, we monitored the review including:

- Reviewed the approach and planning of the review;
- Evaluated the qualifications and independence of the auditors;
- Monitored the progress of the work at key points;
- Attended periodic meetings with DCAA;
- Reviewed DCAA's memorandum; and

- Coordinated issuance of the memorandum.

DCAA is responsible for the attached memorandum and resulting conclusions. We do not express an opinion on the conclusions presented in DCAA's memorandum.

We thank you and your staff for the assistance extended during the audit. If you have any questions about this memorandum, please contact Sherrye McGregor at (703) 292-5003 or Jannifer Jenkins at (703) 292-4996.

Attachment: DCAA Supplemental Memorandum No. 02801-2015D49200001-01-S1, *National Science Foundation (NSF) Negotiation Effort for Raytheon Technical Service Company (RTSC), Polar Services' Draft Invoice under Contract No. NSFPRSS-000073*, dated September 21, 2015.

cc: Richard Buckius
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DEFENSE CONTRACT AUDIT AGENCY

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IN REPLY REFER TO:

02801-2015D49200001-01-S1

September 21, 2015

SUPPLEMENTAL MEMORANDUM FOR NATIONAL SCIENCE FOUNDATION,
4201 WILSON BOULEVARD, ARLINGTON,
VIRGINIA 22230

ATTENTION: Ms. Sherrye McGregor, NSF Office of Inspector General (smcgrego@nsf.gov)

SUBJECT: National Science Foundation (NSF) Negotiation Effort for Raytheon Technical Service Company (RTSC), Polar Services' (RPS) Draft Invoice under Contract No. NSFPRSS-000073

As discussed on August 5, 2015, between NSF OIG and DCAA representatives, we have supplemented Memorandum No. 2801-2015D49200001-01, dated June 30, 2015, with regards to the station proceeds, for the RTSC Polar Services Draft "Final Completion Invoice" under Contract No. NSFPRSS-000073, dated March 29, 2013. We have explained our questioned costs and RSPC's response related to the treatment of bar and alcohol, retail stores purchases.

DCAA issued incurred cost audit reports for CYs 2005 through 2012 as follows:

<u>Audit Report No.</u>	<u>Date</u>	<u>Reference</u>
2801-2005D10100002	March 21, 2012	Exhibit A, Schedule A-2, Note 1. a. (2) (ii), (iii), (iv); page 8
2801-2006D10100002	July 13, 2012	Exhibit A, Schedule A-2, Note 1. a. (2) (i), (ii), (iv); page 8
2801-2007D10100002	September 26, 2012	Exhibit A, Schedule A-2, Note 1. a. (2) (i), (ii); page 8
2801-2008D10100001	September 23, 2013	Exhibit A, Schedule A-2, Note 1. a. (2) (i), (ii); page 11
2801-2009D10100001	September 30, 2013	Exhibit A, Schedule A-2, Note 1. a. (2); page 9
2801-2010D10100001	April 24, 2014	Exhibit A, Schedule A-2, Note 1. a. (2) (i), (ii); page 8
2801-2011D10100001	September 22, 2014	Exhibit A, Schedule A-2, Note 1. a. (2) (i), (ii); page 8
2801-2012D10100001	September 25, 2014	Exhibit A, Schedule A-2, Note 1. a. (2) (i), (ii); page 8

We have reiterated below our notes and RSPC's response for your convenience. In addition, it will help explain the issue in the current context.



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Notes in DCAA Audit Reports:

Bar and Alcohol: "We questioned Bar inventory, which represents the amount charged to applicable work breakdown structure (WBS) in their entirety. The charges pertain to alcohol and mixer purchases for the Antarctica program. The costs are unallowable under FAR 31.205-51-Costs of Alcoholic Beverages. Further, the contractor is unable to demonstrate on annual basis, that the sales of beverages are credited" to the contractor year (CY) incurred costs."

Retail Stores: We had the same note as above.

Contractor's Reaction: "Within the "Material" section of the reference audit report questions \$.... of costs associated with bar alcohol and retail purchases. In the case of each of these items, RSPC has charged the costs of purchasing the items as direct costs on the contract, in accordance with contract requirements and the Annual Program Plan. These costs were questioned because, in the auditor's opinion, the contractor was unable to demonstrate that the customer had been credited for the proceeds resulting from the sale of these items. RSPC provided the customer with the benefits of these proceeds via the cash flow reconciliation in the Quarterly Expenditure Report (QER). This methodology, which has been in place since the beginning of the program, identifies the net proceeds resulting from the sale of these items and credits them to the NSF. As of the March 2012 QER, these proceeds totaled [REDACTED], which significantly exceeds the expenditures charged to the contract for these items. When the contract is closed, the final invoice on the contract will be reduced by these proceeds, effectively incorporating the effect of these credits on the contract. This methodology has been approved by the NSF and is consistent with how these proceeds have been accounted for during the entire 12 year duration of the contract."

Auditor Response: "We do not agree with the contractor's response. The contractor states that all credits resulting from the bar, retail and asset sales are credited to the National Science Foundation (NSF) through the quarterly expenditure report (QER). The QER is cumulative and therefore separate and distinct from the certified claim submitted by the contractor annually. As the contractor does not annually credit the contract with any proceeds received by sales, the credits are not shown in the incurred cost claim. We, therefore, believe that the CYs 2005 through 2012 incurred costs are overstated. Further, we are unable to verify whether the Government has received the applicable portion of any income through a credit to costs incurred

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on the contract. Contract costs are certified and charged to the contract in the year in which they were incurred; therefore, it is DCAA's opinion that the credits should be applied to the year in which the income is received."

As can be seen from the notes above, the RSPC incurred cost claim for CYs 2005 to 2012 did not include credits from the bar alcohol and retail store purchases in its incurred costs claimed as part of the Schedule H - Schedule of Direct Costs by Contract/Subcontract and Indirect Expenses Applied at Claimed Rates, which we use to verify incurred costs for the applicable CY.

[Redacted]

The scope of work performed does not constitute an audit or attestation engagement under generally accepted government auditing standards (GAGAS).

Any questions on this matter should be directed to, [Redacted], Acting Supervisory Auditor at [Redacted], or email: [Redacted] or [Redacted], Auditor, at [Redacted], or email: [Redacted]

Digitally signed by

[Redacted Signature]

DCAA Raytheon Integrated Defense Systems
Resident Office

Copy furnished to:
Ms. Pamela Franzel, Contracts (pfranzel@nsf.gov)

[Redacted]