

Summary: Investigation of Contractor's Inflated Indirect Cost Rates and Ineligible Direct Costs

Report Date: November 18, 2014

OIG investigated allegations that The Aerospace Corporation (TAC) in El Segundo, CA, had mischarged \$29,702 to a U.S. Geological Survey (USGS) contract. TAC self-reported the charge through a Contractor Disclosure to USGS, and TAC conducted an internal investigation, which determined that an employee had charged direct labor hours to the contract when the hours should have either been charged as overhead or to an unrelated contract. The employee also charged direct labor hours to the contract that she spent supporting a company affinity group, the Aerospace Latino Members Association.

In addition to our investigation, our Office of Audits, Inspections, and Evaluations was also conducting an audit of the contract in question. The final audit report, published on December 27, 2013, questioned a total of \$4,005,514, including \$91,372 in ineligible costs and \$3,914,142 in unsupported costs.

The audit examined the \$29,702 mischarge that TAC disclosed, but only calculated the amount as \$28,200 and characterized it as ineligible costs. We discovered that TAC reimbursed the contract for the entire \$29,702 that it reported as mischarged. That credit occurred before we initiated this investigation, and therefore, we considered that issue resolved.

The audit also determined that the remaining \$63,172 in ineligible costs resulted from inflated indirect cost rates billed by TAC. We reviewed all of the public vouchers TAC submitted regarding these costs and noted that TAC openly reported the cost rates it was billing. USGS inadvertently approved and paid the vouchers, even though the rates exceeded those listed in the contract. In its response to the audit report, TAC concurred that it improperly calculated the rates and offered to reimburse the contract \$63,172.

We referred our findings of \$63,172 in ineligible costs to the United States Attorney's Office, Central District of California, which declined to pursue a civil false claims action. We considered the \$3,914,142 in unsupported costs an administrative issue under the purview of the USGS contracting office to resolve, and we did not investigate that aspect of the audit findings.

We provided our report to USGS for any action deemed appropriate but did not require a response.

This is a summary of an investigative report that was issued internally to the U.S. Department of the Interior. This summary was posted to the web on February 11, 2015.

