



National Science Foundation

4201 Wilson Boulevard
Arlington, Virginia 22230

Office of Inspector General

MEMORANDUM

DATE:

TO: Bradley Poston, Interim Director
Division of Acquisition and Cooperative Support (DACS)

FROM: Deborah H. Cureton
Associate Inspector General for Audit

SUBJECT: NSF OIG Audit Report No. 06-1-011, Raytheon Polar Services Company's Failure to File Required Cost Accounting Disclosure Statement

In response to your request for audit support of the Raytheon Polar Services Company (RPSC) Fiscal Year (FY) 2000 to 2004 incurred cost proposal submission of costs claimed under Contract No. DACS-OPP-0000373, we have coordinated a series of audits to be performed by the Defense Contract Audit Agency (DCAA), Herndon Branch Office. Attached is the final audit report dated November 18, 2005, on RPSC's noncompliance with contractual and federal requirements to file a statement disclosing its cost accounting practices.

As background, previously we reported to you¹ that DCAA found that RPSC did not comply with Cost Accounting Standard 418, which requires that RPSC consistently classify costs on the United States Antarctic Program (USAP) contract as stated in its Cost Accounting Standards Board (CASB) Disclosure Statement. RPSC was included in the Disclosure Statement of its parent company, Raytheon Technical Services Company (RTSC), and did not have a separate Disclosure Statement. However, since the inception of the USAP contract through December 31, 2004 (five years), RPSC did not comply with RTSC's disclosed accounting practices, resulting in RPSC incorrectly claiming approximately [REDACTED] for the period Fiscal Years (FY) 2000-2002.²

In addition, as discussed in the attached audit report, DCAA found that, effective January 1, 2005, Raytheon removed RPSC from the RTSC parent company CASB Disclosure Statement. This removal resulted in RPSC performing the USAP contract without any CASB Disclosure Statement to describe its cost accounting practices, contrary to Federal Acquisition Regulations and the USAP contract. Without a Disclosure Statement, NSF lacks a common understanding with RPSC of the basis for determining the correctness and accuracy of billings to NSF.

¹ NSF OIG Audit Report No. 06-1-001 dated March 21, 2006—Audit of Raytheon Polar Services Company's Noncompliance with Cost Accounting Standard 418, Allocation of Direct and Indirect Costs for Fiscal Years 2000 to 2002

² The incorrect amount claimed for FY 2003 and 2004 will soon be reported to you in a separate NSF OIG Audit Report.

On April 5, 2006, subsequent to completing this audit, Defense Contract Management Agency (DCMA) cited RTSC with an initial finding of noncompliance with CASB 9903.202-1, Disclosure Statement General Requirements for failing to disclose the cost accounting practices of RPSC in a CASB Disclosure Statement. In response, Raytheon submitted on April 17, 2006, an initial CASB Disclosure Statement for RPSC, retroactively effective to January 1, 2005.

However, despite the fact that this Disclosure Statement describes changes in disclosed and established cost accounting practices which RPSC proposes to use in the performance of the USAP contract, RPSC did not submit the associated cost impact proposal required by Federal regulations for any change in cost accounting practice. As a result, DCMA will request that RPSC submit a cost impact proposal that identifies the cost impact of the changes on the NSF contract from the time of change (January 1, 2005) until the anticipated completion of the contract.

We recommend that NSF's Director of the Division of Acquisition and Cooperative Support (DACs) coordinate with and allow DCMA to take the lead in obtaining the required cost impact proposal and in determining if the April 17, 2006 Disclosure Statement adequately describes RPSC's cost accounting practices and complies with the Cost Accounting Standards.

We consider the issue in the DCAA audit report to be significant. Accordingly, to help ensure findings are resolved within six months of issuance of the audit report, please coordinate with our office during the resolution period to develop a mutually agreeable audit resolution memorandum.

We are providing a copy of this memorandum to the Director of the Office of Polar Programs. However, since the responsibility for audit resolution rests with DACs, we ask that no action be taken concerning the report's findings without first consulting DACs at (703) 292-8242.

OIG Oversight of Audit

To fulfill our responsibilities under Government Auditing Standards, the Office of Inspector General:

- Reviewed the audit report prepared by DCAA to ensure compliance with Government Auditing Standards and Office of Management and Budget Circulars; and
- Coordinated issuance of the audit report to NSF.

DCAA is responsible for the attached auditor's report on RPSC and the conclusions expressed in the report. The NSF OIG does not express any opinion on the conclusions presented in DCAA's audit report.

We also want to bring to your attention that DCAA has briefly discussed the results of several other audits performed at RTSC or Raytheon Corporate Headquarters beginning on page 6 of the attached DCAA report. Many of the reports have information that may be useful to NSF in

administering its USAP contract with RPSC. If NSF desires a copy of any of the referenced DCAA reports, please contact Kenneth Stagner at (303) 312-7655 or David Willems at (703) 292-4979.

We thank your staff for the assistance that was extended to us during the audit. If you have any questions about this report, please contact Jannifer Jenkins at (703) 292-4996, Kenneth Stagner, or David Willems.

Attachment: DCAA Report No. 6161-2005T19200303, dated November 18, 2005

cc: Thomas Cooley, Director, BFA
Mary Santonastasso, Director, DIAS
Karl Erb, Director, OPP



DEFENSE CONTRACT AUDIT AGENCY
AUDIT REPORT NO. 6161-2005T19200303



November 18, 2005

PREPARED FOR: Director
ATTN: DCMDE-GVOG ([REDACTED])
DCMA - Virginia
10500 Battleview Parkway, Suite 200
Manassas, VA 20109-2342

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SUBJECT: Report on Audit of Noncompliance with Cost Accounting Standards Board (CASB) 9903.202-1, Disclosure Statement General Requirements - Raytheon Polar Services Company

CONTRACTOR: Raytheon Technical Services Company (Cage Code 05WG2)
12160 Sunrise Valley Drive
Reston, VA 20191

REPORT RELEASE RESTRICTIONS: See Page 18

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SUBJECT OF AUDIT

By submitting a CAS disclosure statement, Raytheon Technical Services Company, (RTSC) asserts that its disclosed cost accounting practices used to estimate, accumulate, and report costs incurred or to be incurred on Government contracts comply with the CAS Board rules, regulations, and standards appearing in 48 C.F.R. Chapter 99. We examined the subject disclosure statement to evaluate whether the disclosed cost accounting practices comply with the CAS Board rules, regulations, and standards. We also examined the disclosed practices to evaluate whether they comply with applicable FAR Part 31 requirements. The contractor is responsible for compliance with CAS and FAR requirements. Our responsibility is to express an opinion on compliance based on our examination.

EXECUTIVE SUMMARY

RTSC disclosed and established cost accounting practices are in noncompliance with CASB 9903.202-1, Disclosure Statement General Requirements. Specifically, effective January 1, 2005, RTSC Raytheon Polar Services Company (RPSC) business unit does not have a separate disclosure statement to describe its unique cost accounting practices used to account for direct and indirect costs.

SCOPE OF AUDIT

We conducted our examination in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the contractor has complied with the requirements referred to above. An examination includes:

- evaluating 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 supporting the cost accounting practices;
- assessing the descriptions of the cost accounting practices which, when implemented, should be compliant with applicable requirements; and
- evaluating the overall disclosure statement presentation.

We evaluated the contractor's disclosed cost accounting practices using the applicable requirements contained in the:

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



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Our examinations of RTSC's Control Environment, SAP Accounting System and EDP General Controls and Related Internal Controls resulted in adequate determinations. The control risk assessments for RTSC's Control Environment, SAP Accounting System and EDP General Controls and Related Internal Controls were found to have no bearing on the originating disclosure statement examination; accordingly, we assessed control risk as low with a minimum level of substantive testing. Incidentally, our control risk assessment was unchanged as a result of the completed internal control examinations discussed above. 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 RTSC compliance with the specified requirements.

RESULTS OF AUDIT

In our opinion, during this period (January 1, 2005 through the current date) the contractor was in noncompliance with CASB 9903.202-1, Disclosure Statement General Requirements. As of the date of this report, the condition causing the noncompliance has not been corrected.

This report is limited to the cited instance of noncompliance. Accordingly, we express no opinion on whether other practices are proper, approved, or agreed to for pricing proposals, accumulating costs, or reporting contractor performance data.

STATEMENT OF CONDITION AND RECOMMENDATION

Our examination identified a disclosed and established contractor practice which we believe is in noncompliance with the Cost Accounting Standards, as follows:

CONDITION:

[REDACTED]. While we agree with this change, RTSC has not yet submitted a separate disclosure statement effective January 1, 2005, for Raytheon Polar Services Company (RPSC) cost accounting practices in order to comply with CASB Part 9903.202-1, General Requirements. Specifically, CASB Part 9903.202-1(b) (1) states:



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“Any business unit that is selected to receive a CAS-covered contract or subcontract of \$50 million or more shall submit a Disclosure Statement before award.”

Furthermore, CASB Part 9903.202-1(c) states:

“When a Disclosure Statement is required, a separate Disclosure Statement must be submitted for each segment whose costs included in the total price of any CAS covered contract or subcontract exceed \$500,000, unless (i) The contract or subcontract is of the type that is exempted by 9903.201-1 or (ii) in the most recently completed cost accounting period the segment’s CAS-covered awards are less than 30 percent of total segment sales for the period and less than \$10 million.”

RECOMMENDATION:

We recommend that the contractor formally submit a disclosure statement for RPSC. The significance of RTSC not submitting a separate disclosure statement for RPSC to disclose the cost accounting practices that differ from those of all other RTSC business units resulted in recent questioned costs and a CAS 418 noncompliance that were identified during our incurred cost audits for RPSC for FY 2000 through FY 2002. Should the contractor continue to fail to submit a separate disclosure statement for RPSC, additional questioned costs may result from our incurred cost audits for RPSC for FY 2003 and FY 2004 scheduled for performance later this fiscal year.

CONTRACTOR’S REACTION:

The contractor’s written response to our condition and recommendation is included as an appendix to this report, and summarized within this section of the report.

The contractor indicated that RTSC and its customer, National Science Foundation (NSF), are in the process of discussing the DCAA audit findings; the construct of the ‘Polar Services’ contract; and the practices of accumulating and billing of costs. The contractor also indicated its intention not to submit an RPSC disclosure statement until after discussions with NSF are complete. No timeframe was provided for anticipated submission.

AUDITOR’S RESPONSE:

The contractor’s response did not include any information to change our opinion. Accordingly, we continue to recommend the contractor formally submit a separate disclosure statement for RPSC in accordance with the express general requirements enumerated within CASB Part 9903.202-1.

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We discussed the results of our examination with [REDACTED], RTSC Business Governance Manager, in an exit conference held on September 19, 2005. We provided a draft copy of the Statement of Condition and Recommendation to the RTSC Controller on August 16, 2005. In response to our findings, the contractor neither agreed nor disagreed that RTSC is in noncompliance with CAS. The Contractor's Reaction section of this report includes a synopsis of the contractor's response. Also, the complete text of the contractor's response dated September 14, 2005 is included as an appendix to this report.

CONTRACTOR ORGANIZATION AND SYSTEMS

I. Organization

RTSC headquarters is located in Reston, VA. [REDACTED]

[REDACTED]

[REDACTED]

Pages 6-16 have been redacted in their entirety.

DCAA PERSONNEL

Primary contacts regarding this audit:

Telephone No.

[REDACTED]

[REDACTED]

Other contact regarding this audit report:

[REDACTED]

[REDACTED]

Herndon Branch Office

FAX No.

[REDACTED]

Herndon Branch Office

E-mail Address

[REDACTED]

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

AUDIT REPORT AUTHORIZED BY:

/Signed/

[REDACTED]

Branch Manager
DCAA Herndon Branch Office

[REDACTED]

AUDIT REPORT DISTRIBUTION AND RESTRICTIONS

DISTRIBUTION

	<u>E-mail Address</u>
Director ATTN: DCMDE-GVOG ([REDACTED]) DCMA - Virginia 10500 Battleview Parkway, Suite 200 Manassas, VA 20109-2342	[REDACTED]
Defense Corporate Executive ATTN: [REDACTED], DCMDI-RO/Raytheon Defense Contract Management Agency (DCMA) 2 Wayside Road Burlington, MA 01803-0901	[REDACTED]
Raytheon Corporate Resident Office ATTN: [REDACTED], CAS Technical Specialist 47 Foundry Avenue Waltham, MA 02453-8313	[REDACTED]
National Science Foundation ATTN: [REDACTED] Associate Inspector General for Audit 4201 Wilson Boulevard Arlington, VA 22230	[REDACTED]
Raytheon Technical Services Company	(Copy furnished through the DACO)

RESTRICTIONS

[REDACTED]

[REDACTED]

Page 19 has been redacted in its entirety.

**Raytheon Technical Services Company
Reston, Virginia**

CONTRACTOR'S WRITTEN RESPONSE



**Raytheon Technical
Services Company**

12160 Sunrise Valley Drive
Reston, Virginia
20191-3461 USA

September 14, 2005

To: Defense Contract Audit Agency
Attn: Larry Tatem
171 Elden Street
Herndon, VA 20170

Subject: Adequacy and Compliance Examination
RTSC Business Unit Disclosure Statement Revision 12 dated March 23, 2005, and DRAFT
Revision 12a dated August 15, 2005, both effective January 1, 2005

Reference: Report 05-03L-031, dated August 16, 2005
6161-2005T19200301

Over the past six months RTSC has been in discussion with the National Science Foundation (NSF) regarding the DCAA audit findings. The major topic has been the construct of the contract and the practices of accumulating and billing of costs. The discussions have been very positive and we believe that the basic understanding is forthcoming.

We believe that it is most efficient to complete the discussions with the NSF prior to submitting the RPSC Disclosure Statement. We will keep you informed as we progress in the process.

RTSC appreciates your patience in this matter.

If you have any questions please feel free to contact me.

Sincerely,

Cc: