

**DATE:** March 1, 2007

**TO:** David A. Elizalde, Director  
Division of Acquisition and Cooperative Support (DACS)

**FROM:** Jannifer Jenkins  
Senior Audit Manager, OIG

**SUBJECT:** NSF OIG Audit Report No. OIG-07-1-002, Audit of Mathematica Policy Research (MPR), Inc.'s Incurred Costs Under Contract Nos. SRS-0244879 and SRS-0420325, and DOB-0133044 for Fiscal Years (FY) 2001 through 2004

In response to your request for an audit of Mathematica Policy Research (MPR), Inc.'s Fiscal Years (FYs) 2001 to 2004 (January 1, 2001 to December 31, 2004) incurred cost proposal submissions claimed under NSF Contract Nos. SRS-0244879 and SRS-0420325, we contracted with the Defense Contract Audit Agency (DCAA). DCAA performed these audits to: 1) recommend contracting officer determined indirect cost rates for FYs 2001 through FY 2004; 2), determine allowability of direct and indirect costs claimed by MPR for FYs 2001 to 2004; and 3) determine whether MPR's accounting system is adequate for accumulating, reporting, and billing costs on government contracts and subcontracts. In addition, DCAA audited the claimed direct and indirect costs on Contract No. DOB-0133044. The DCAA audits were performed in accordance with Generally Accepted Government Auditing Standards. The results of DCAA audits are summarized below. The complete audit reports are attached.

### **Background**

MPR was incorporated in the State of Delaware in 1976 and its sales totaled [REDACTED] million for the year ended December 31, 2005. MPR employs [REDACTED] personnel to provide economic research and data collection services to various customers. Approximately

████ or █████ million of MPR's income is from Federal government contracts and subcontracts. MPR's remaining █████ million of income is generated from sales to commercial entities. NSF awarded MPR a total of \$10,745,007 in contracts between FYs 2001 to 2006. MPR claimed costs totaling \$6,572,140 under contract nos. SRS-0244879, SRS-0420325, and DOB-0133044 for FYs 2001 to 2004.

### Summary of Audit Results

In its audit of MPR, Inc., DCAA Southern New Jersey Branch Office found the following:

**Indirect Costs Rates:** The DCAA auditors determined that, except for the adjustments summarized below MPR's proposed indirect cost rates for FYs 2001 through 2004 are acceptable. The following is the summary of questioned indirect expenses for FY 2001 through FY 2004.

The DCAA auditors questioned a total of \$43,644 █████ of the total █████ million claimed in the overhead expense pools for FYs 2001 through 2003 (i.e. \$30,667, \$5,584 and \$7,393 was questioned for FYs 2001, 2002, and 2003, respectively). For FY 2001, \$31,467 █████ of the total █████ million claimed was questioned in the G&A expense pool and \$8,016 █████ of the █████ million claimed was added to the G&A base. For FY 2004, \$31,779 █████ of the total █████ million claimed was added to the G&A total cost input base and \$8,115 █████ of the █████ million claimed was questioned from the overhead expenses.

Specifically, \$43,644 in the overhead expense pools for FYs 2001 through 2003 were questioned primarily because of unallowable costs claimed for outside services, travel, subsistence, license fees, employee morale and miscellaneous expenses; duplicate and misclassified miscellaneous expenses; and a misallocation of indirect costs to an affiliated MPR company. The auditors questioned \$31,467 of the FY 2001 G&A expense pool because of unallowable travel and other costs; unallowable bid and proposal costs which resulted due to adjustments of the claimed and audited overhead burden rates; and adjustments of overhead expenses related to misallocations of indirect costs to MPR's affiliated company. The FY 2001 G&A base was increased by █████ because of reclassified food, beverage and printing costs and the misallocation of indirect costs to an affiliated MPR company. For FY 2004, █████ was added to the G&A expense pool to accurately reflect immigration expenses and \$8,115 was questioned in the of the FY 2004 overhead base because of unallowable license fees, travel, subsistence, recruiting, and miscellaneous expenses and unallocable outside legal services and travel costs.

A summary of proposed and recommended indirect cost rates that resulted from the audit can be found in Attachment 1.

**Direct Costs:** The DCAA auditors determined that, except for the qualifications

previously noted above in MPR's indirect cost rates, MPR's claimed direct costs totaling \$2,818,747 for NSF contract nos. SRS-0244879, SRS-0420325, and DOB-0133044 for FYs 2001 through FY 2004, are acceptable.

**Contractor's Accounting System:** The DCAA auditors found that MPR's accounting system is adequate for accumulating, reporting, and billing costs on government contracts and subcontracts.

### **Recommendation**

Based on the attached DCAA audit reports and the disclosed findings we are making the following recommendation:

Recommendation No. 1: We recommend that the Director of the Division of Acquisition and Cooperative Support (DACS) negotiates MPR, Inc.'s indirect cost rates to reflect DCAA's audit findings and adjust claimed costs accordingly.

MPR, Inc.'s representatives concurred with DCAA's audit findings and its recommended indirect cost rates for FY 2001 through FY 2004.

We are providing a copy of this memorandum to the Directors of the Division of Science Resources Statistics (SRS) and the Division of Budget (DOB). The responsibility for audit resolution rests with DACS. Accordingly, we ask that no action be taken concerning the reports' 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 DCAA's approach and planning of the audit;
- Monitored the progress of the audit at key points;
- Coordinated periodic meetings with DCAA and OIG management to discuss audit progress, findings, and recommendations;
- Reviewed the audit reports, prepared by DCAA to ensure compliance with Generally Accepted Government Auditing Standards; and
- Coordinated issuance of the audit reports.

DCAA is responsible for the attached auditor's reports on MPR, Inc. and the conclusions expressed in the reports. The NSF OIG does not express any opinion on MPR's incurred cost submissions, indirect cost rates, accounting system, or the conclusions presented in DCAA's audit report.

We thank you and your staff for the assistance that was extended to us during the audit. If you have any questions about the attached report, please contact David Eid at (703) 292-4975 or Jannifer Jenkins at (703) 292-4996.

Attachment

cc: Linda T. Carlson, Director, SRS  
Martha A. Rubenstein, Director, DOB  
Mary Santonastasso, Director, DIAS

Summary of Results of Audits of Indirect Rates

Indirect Category	Proposed			Questioned			DCAA
	Base	Expense Pool	Rate	Base	Expense Pool	Rate	Recommended Rates Rate
<b>Indirect Category FY 2001</b>							
					\$ 0	0.00%	
					\$ 0	0.00%	
					\$ 30,667.00		
					\$ 0	0.00%	
					\$ 31,467.00		
<b>Indirect Category FY 2002</b>							
					\$ 0	0.00%	
					\$ 0	0.00%	
					\$ 5,584.00		
					\$ 0	0.00%	
					\$ 0	0.00%	
<b>Indirect Category FY 2003</b>							
					\$ 0	0.00%	
					\$ 0	0.00%	
					\$ 7,393.00		
					\$ 0	0.00%	
					\$ 0	0.00%	
<b>Indirect Category FY 2004</b>							
					\$ 0	0.00%	
					\$ 0	0.00%	
					\$ 8,115.00		
					\$ 0	0.00%	
					\$0	0.01%	



# DEFENSE CONTRACT AUDIT AGENCY

## AUDIT REPORT NO. 6341-2001A10100017



August 22, 2003

**PREPARED FOR:** Department of Health and Human Services  
Centers for Medicare & Medicaid Services  
ATTN: Christopher Hagepanos, M.S. C2-21-15  
7500 Security Blvd.  
Baltimore, MD 21244

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**SUBJECT:** Audit of Fiscal Years 1999 and 2000 Direct Costs and  
Fiscal Year 2001 Direct and Indirect Costs

**CONTRACTOR:** Mathematica Policy Research, Inc.  
600 Alexander Park  
Princeton, NJ 08543-2393

**REPORT RELEASE RESTRICTIONS:** See Page 20

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**SUBJECT OF AUDIT**

We examined the Mathematica Policy Research, Inc. (MPR) July 28, 2000, June 22, 2001, October 23, 2002 certified final indirect cost rate proposals and related books and records for reimbursement of the Fiscal Years Ended December 31, 1999, December 31, 2000, and December 31, 2001, incurred costs, respectively. The purpose of the examination was to determine the allowability and allocability of direct costs and Time and Material (T&M) amounts for the Fiscal Years of January 1, 1999 through December 31, 1999 and January 1, 2000 through December 31, 2000 for the Department of Health and Human Resources (DHHS) contracts and subcontracts and to determine the allowability and allocability of direct costs, T&M amounts and indirect costs and establish audit determined indirect cost rates for the Fiscal Year of January 1, 2001 through December 31, 2001 for the DHHS, Department of Defense (DoD), and Social Security Administration (SSA) contracts and subcontracts. The proposed rates for FY 2001 apply primarily to the flexibly priced contracts and subcontracts listed in Exhibit B. Copies of the Mathematica Policy Research Certificate of Final Indirect Costs dated October 23, 2002 for FY 2001 is included as Appendix 1 to this report.

The proposal is the responsibility of the contractor. Our responsibility is to express an opinion based on our examination.

**SCOPE OF AUDIT**

Except for the qualifications discussed below, 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 data and records are free of material misstatement. 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 amounts and disclosures in the data and records reviewed;
- assessing the accounting principles used and significant estimates made by the contractor;
- evaluating the overall data and records presentation; and
- determining the need for technical specialist assistance.

We evaluated the proposal using the cost principles contained in the:

- Federal Acquisition Regulation (FAR), and
- Defense Federal Acquisition Regulation (DFARS)
- Cost Accounting Standards.



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The Mathematica Policy Research, Inc. accounting system is considered adequate for the accumulation, reporting, and billing costs on government contracts and subcontracts as described in the Contractor's Organization and Systems section of this report. Our audit scope reflects the risk of unallowable costs being included in the proposal and includes expanded testing to provide a reasonable basis for our opinion.

The concurrent verification of both labor and materials were omitted in this examination.

**QUALIFICATIONS**

1. Due to the Department of Agriculture, Department of Labor and Department of Education, Department of Justice, and National Science Foundation's (NSF) inability to fund this audit, our review of direct cost was limited to the direct costs and T&M amounts related to the DHHS for FYs 1999 and 2000 auditable prime contract effort and DHHS, DoD, and SSA for FY 2001 auditable prime and subcontract effort. Our audit is qualified to the extent that the audit of direct and indirect costs for the reimbursable departments mentioned above that did not fund their share of the audit. Therefore, we express no opinion on the allowability, allocability, and reasonableness of the recorded cost related to flexibly priced contracts and subcontracts for the Agencies identified above. The information contained in the report is not acceptable as a basis for determining allowability, allocability, and reasonableness of the unaudited direct costs for contract closeout purposes that pertain to Agriculture, Labor, Education, Justice, and NSF.

2. Due to the DHHS inability to fund required assist audits of auditable subcontracts, our audit of these direct costs under DHHS flexibly priced prime contracts for FYs 1999, 2000, and 2001 in the amounts of \$2,841,709, \$3,168,921, and \$1,719, 049, respectively is qualified to the extent that the audit of the auditable subcontract direct and indirect costs billed to MPR was limited to the verification of the recorded direct costs on the contractor's books of record. Therefore, we express no opinion on the allowability, allocability, and reasonableness of these recorded direct costs related to auditable subcontracts under the auditable DHHS flexibly priced prime contracts for FYs 1999, 2000, and 2001. The information contained in the report is not acceptable as a basis for determining allowability, allocability, and reasonableness of the direct costs for contract closeout purposes that pertain to subcontract direct costs under auditable DHHS flexibly priced prime contracts for FYs 1999, 2000, and 2001.

**RESULTS OF AUDIT**

Indirect Rates. In our opinion, the contractor's proposed indirect rates are acceptable as adjusted by our examination. The examination results and recommendations are presented below. The enclosed Indirect Cost Rate Agreement, Appendix 1, documents the contractor's concurrence with our findings and recommendations.



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Direct Costs. In our opinion, except for qualification 2 as noted above, the claimed direct costs for FYs 1999 and 2000 under the DHHS flexibly priced contracts and subcontracts and for FY 2001 under DHHS flexibly priced contracts and subcontracts, DoD subcontract delivery orders, and the SSA contract are acceptable and are provisionally approved pending final acceptance. Final acceptance of amounts under government contracts does not take place until performance under the contract is completed and accepted by the cognizant authorities and the audit responsibilities have been completed.

Penalties for Unallowable Costs. The examination found expressly unallowable costs subject to the penalties of \$25,261 and \$15,107 in the Overhead and G&A expense pools, respectively. Refer to Notes 2 through 6 and 9 through 11 of Exhibit A for details. Of these amounts, \$5,998 and \$3,461 in the Overhead Burden and G&A expense pools, respectively were allocable to the contracts specified in provided in FAR 42.709(b). Affected prime contracts are identified in Exhibit B, Page 17. The amounts are recommended for penalties, but are less than the \$10,000 waiver threshold discussed in FAR 42-709-5. Additional information regarding the above penalties will be provided upon request. Our recommendations concerning the interest to be recovered on unallowable costs paid will be furnished when we receive your determination on penalties to be assessed.

**SUMMARY OF AUDIT RESULTS**  
Fiscal Year Ended December 31, 2001

Indirect Category		Proposed Expense Pool			Questioned Expense Pool			Ref.
		Base	Rate	Base	Rate	Base	Rate	
[REDACTED]	a	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	\$0	-	-
	b	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	\$0	-	-
	c	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	\$30,667	[REDACTED]	Ex. A
	d	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	\$0	-	-
	e	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	\$31,467	[REDACTED]	Ex. A

( ) Denotes an upward adjustment

Description of Allocation Bases:

- a. [REDACTED]
- b. [REDACTED]
- c. [REDACTED]
- d. [REDACTED]
- e. [REDACTED]



**GOVERNMENT PARTICIPATION IN ALLOCATION BASES**  
**Fiscal Year Ended December 31, 2001**

<b>Category</b>	<b>Contract Type In Allocation Base</b>		<b>Total</b>
	<b>Government Flexibly Priced Contracts/Subs</b>	<b>Government Firm Fixed Price and Commercial Work</b>	
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

We have included a listing of the cumulative allowable costs for the flexibly priced DHHS contracts, DoD subcontract delivery orders, and the SSA contract as an attachment to the Indirect Cost Rate Agreement Letter for FY 2001 (Appendix 2). This information should assist your monitoring the status of contract awaiting closeout. Upon receipt of the contractor's final voucher, our office will issue you a Contract Audit Closing Statement (CACS).

We provided and discussed the audit results with [REDACTED] and [REDACTED] Contractor Representatives, on June 17, 2003. They concurred with our findings. The enclosed Indirect Cost Rate Agreement for FY 2001 (Appendix 4) documents the contractor's concurrence with our findings and recommendations.



**EXHIBIT A**

		<u>Overhead</u>	<u>G&amp;A</u>	<u>Ref.</u>
<u>Contractor's Indirect Expenses:</u>				
Total Indirect Expenses		██████████	██████████	
Voluntary Deletions		██████████	██████████	Note 1
Claimed Costs	(A)	██████████	██████████	
Results of Audit Review				
Questioned Expenses:				
Outside Services		██████████		Note 2
Travel & Subsistence		██████████		Note 3
Licenses and fees		██████████		Note 4
Miscellaneous Expenses		██████████		Note 5
Employee Morale Expenses		██████████		Note 6
Travel			██████████	Note 7
Other Expenses			██████████	Note 8
B&P Adjustment			██████████	Note 9
Allocation to Affiliated Company		██████████	██████████	Note 10
Total Questioned Expenses	(B)	██████████	██████████	
Adjusted Expenses (A-B)	(C)	██████████	██████████	
Allocation Bases:				
Claimed Bases	(D)	██████████	██████████	
Adjustments to Bases				
Reclassified Food and Beverage Costs			██████████	Note 5
Reclassified Printing Costs			██████████	Note 8
Allocation to Affiliated Company			██████████	Note 10
Audit Adjusted Bases	(E)	██████████	██████████	
Indirect Expense Rates				
Claimed Rates	(A/D)	██████████	██████████	
Audit Adjusted Rates	(C/E)	██████████	██████████	
Questioned Rates		██████████	██████████	

( ) Denotes an upward adjustment



Explanatory Notes:

1. Voluntary Deletions

a. Summary of Conclusions:

We take no exceptions to MPR's proposed voluntary deletions for FY 2001.

b. Basis of Contractor's Cost:

The contractor's voluntary deletions of [REDACTED] and [REDACTED] in the Overhead Burden and G&A expense pools, respectively consist mainly of FAR 31.205 expressly unallowable costs for idle facility rent costs, entertainment, officers life insurance, contributions and donations, legal, travel and transportation. The contractor also made voluntary deletions for the costs of a non-qualified pension plan, and sublease rental income and expenses.

c. Audit Evaluation:

We traced and verified the proposed voluntary deletions to the contractor's books of record. We reviewed the contractor's financial statements, income tax return, Board of Director's minutes, and year-end adjusting journal entries. We reviewed the contractor's established accounting policies and procedures. We performed a review to determine that the contractor included all directly associated unallowable costs with the voluntary deleted amounts.

2. Outside Services

a. Summary of Conclusions:

Questioned indirect outside services represent unallowable entertainment costs in accordance with FAR 31.205-14 and are expressly unallowable and subject to a level one penalty.

b. Basis of Contractor's Cost:

Represents entertainment costs charged to account # 4100-008-000 in the Overhead burden expense pool.

c. Audit Evaluation:

We traced and verified the proposed costs to the contractor's books of record. We selected a sample of the outside services incurred. We reviewed the sampled supporting invoices and purchase orders in order to make a determination of allocability, allowability, and reasonableness in accordance with the FAR cost principles.

d. Contractor's Reaction:

The contractor's representative [REDACTED] concurs with the questioned costs.

3. Travel & Subsistence

a. Summary of Conclusions:

Questioned indirect travel and subsistence costs of \$5,754 in the Overhead burden expense pool represent unallowable costs in accordance with FAR 31.205-14, FAR 31.205-3 and FAR 31.205-46(a) (2) and are subject to a penalty. The applicability of penalty costs is summarized in the Penalties for Unallowable Costs paragraph.

b. Basis of Contractor's Cost:

Represents indirect travel and subsistence costs incurred by employees while on business related travel charged to account # 4100-015-000 in the Overhead burden expense pool.

c. Audit Evaluation:

We traced and verified the proposed costs to the contractor's books of record. We selected a sample of the indirect travel and subsistence costs incurred. We reviewed sampled supporting travel expense reports, travel requisitions, and receipts in order to make a determination of allocability, allowability, and reasonableness in accordance with the FAR cost principles. We reviewed the contractor's established travel policies and procedures.

d. Contractor's Reaction:

The contractor's representative, [REDACTED], concurs with the questioned costs.

4. Licenses and Fees

a. Summary of Conclusions:

Questioned costs represent several items of unallowable indirect licenses and fees costs of \$18,013 in accordance with FAR 31.205-20, FAR 31.201-4 and FAR 31.205-15(a). The applicability of penalty costs is summarized in the Penalties for Unallowable Costs paragraph.

b. Basis of Contractor's Cost:

Represents indirect licenses and fees incurred charged to account # 4100-016-000 in the Overhead burden expense pool.

c. Audit Evaluation:

We traced and verified the proposed costs to the contractor's books of record. We selected a sample of the indirect licenses and fees incurred. We reviewed sampled supporting invoices, bank debit advices, state income tax forms and schedules, adjusting journal entries, general ledger edit reports, and e-mails in order to make a determination of allocability, allowability, and reasonableness in accordance with the FAR cost principles.

d. Contractor's Reaction:

The contractor's representative, [REDACTED], concurs with the questioned costs.

5. Miscellaneous Expenses

a. Summary of Conclusions:

Questioned indirect miscellaneous expenses of \$4,206 in the Overhead burden expense pool represents \$1,250 for costs related to social activities and costs of alcoholic beverages, \$1,081 for duplicate expenses, and \$1,875 for reclassified food and beverage costs at contract meetings which should have been charged direct to the contract, but were charged to the miscellaneous expense account. The costs are questioned in accordance with FAR 31.205-14 and FAR 31.205-51. The applicability of penalty costs is summarized in the Penalties for Unallowable Costs paragraph.

b. Basis of Contractor's Cost:

Represents indirect miscellaneous expenses incurred charged to account # 4100-017-000 in the Overhead burden expense pool.

c. Audit Evaluation:

We traced and verified the proposed costs to the contractor's books of record. We selected a sample of the indirect miscellaneous expenses incurred. We reviewed sampled supporting invoices, purchase orders and requisitions, conference agendas, and vendor history reports in order to make a determination of allocability, allowability, and reasonableness in accordance with the FAR cost principles.

d. Contractor's Reaction:

The contractor's representative, [REDACTED], concurs with the questioned costs and upward adjustment to the G&A value added allocation base.

6. Employee Morale Expenses

a. Summary of Conclusions:

Questioned indirect employee morale expenses of \$3,177 represent unallowable costs in accordance with FAR 31.205-14. The applicability of penalty costs is summarized in the Penalties for Unallowable Costs paragraph.

b. Basis of Contractor's Cost:

Represents catered food and beverage costs charged to account # 4100-020-000 in the Overhead burden expense pool.

c. Audit Evaluation:

We traced and verified the proposed costs to the contractor's books of record. We selected a sample of the employee morale expenses incurred. We reviewed the sampled supporting invoices and purchase orders in order to make a determination of allocability, allowability, and reasonableness in accordance with the FAR cost principles.

d. Contractor's Reaction:

The contractor's representative, [REDACTED], concurs with the questioned costs.

7. Travel

a. Summary of Conclusions:

Questioned indirect travel costs of \$3,135 in the G&A expense pool represents unallowable costs in accordance with FAR 31.205-14, 31.205-46(a) (2) and FAR 31.205-51. The applicability of penalty costs is summarized in the Penalties for Unallowable Costs paragraph.

b. Basis of Contractor's Cost:

Represents indirect travel expenses incurred by employees while on business related travel charged to account # 5510-004-000 in the G&A expense pool.

c. Audit Evaluation:

We traced and verified the proposed costs to the contractor's books of record. We selected a sample of the indirect travel and subsistence costs incurred. We reviewed sampled supporting travel expense reports, travel requisitions, and receipts in order to make a determination of allocability, allowability, and reasonableness in accordance with the FAR cost

principles. We reviewed the contractor's established travel policies and procedures dated January 6, 2001.

d. Contractor's Reaction:

The contractor's representative, [REDACTED], concurs with the questioned costs.

8. Other Expenses

a. Summary of Conclusions:

Questioned other costs of \$19,411 in the G&A expense pool represents unallowable costs in accordance with FAR 31.205-17 (b) and FAR 31.205-20 and also involves an upward adjustment to the G&A base. The applicability of penalty costs is summarized in the Penalties for Unallowable Costs paragraph.

b. Basis of Contractor's Cost:

Represents indirect other expenses incurred charged to account # 5510-007-000 in the G&A expense pool. Other expenses incurred consisted of finance and accounting expense, legal and professional costs, insurance costs, director's fees, postage charges, shipping & freight costs, payroll service costs (ADP), printing costs, publication & subscription costs, bank charges, and other miscellaneous other expenses.

c. Audit Evaluation:

We traced and verified the proposed costs to the contractor's books of record. We selected a sample of the indirect costs incurred. We reviewed sampled supporting documentation in order to make a determination of allocability, allowability, and reasonableness in accordance with the FAR cost principles.

d. Contractor's Reaction:

The contractor's representative, [REDACTED] concurs with the questioned costs and upward adjustment to the G&A value added allocation base.

9. Bid & Proposal (B&P) Costs

a. Summary of Conclusions:

Questioned bid and proposal (B&P) costs of \$2,417 in the G&A expense pool represents a [REDACTED] rate adjustment between the Overhead Burden claimed rate of [REDACTED] and the audit



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adjusted rate of [REDACTED] applied to the claimed B&P direct labor and fringe benefits of the professional staff [REDACTED]. The applicability of penalty costs are summarized in the Penalties for Unallowable Costs paragraph.

b. Basis of Contractor's Cost:

The contractor computed its B&P expense allocations in accordance with the provisions of FAR 31.205-18 and CAS 420.

c. Audit Evaluation:

We traced and verified the proposed B&P costs to the contractor's books of record. We verified for proper classification and compliance the B&P costs with the terms of government contracts and any related agreements. We evaluated the contractor's B&P costs to make a determination of allowability, allocability and reasonableness per FAR cost principles and CAS 420.

d. Contractor's Reaction:

The contractor's representative, [REDACTED], concurs with the questioned costs.

10. Allocation to Affiliated Company

a. Summary of Conclusions:

The upward adjustment of [REDACTED] in the Overhead Burden expense pool and the questioned cost of [REDACTED] in the G&A expense pool represent an adjustment to overhead expenses related to the allocation to MPR's sister subsidiary, the Center of Health Systems Change (CHSC). We also adjusted the G&A value added allocation base to reflect the upward adjustment of (\$1,005) in overhead expense because the upward adjustment in overhead expenses were from the MPR overhead rate and represent a portion of CHSC's indirect burden. The applicability of penalty costs are summarized in the Penalties for Unallowable Costs paragraph.

b. Basis of Contractor's Cost:

MPR provides administrative support for a sister subsidiary. CHSC is an affiliated company and picks up a proportionate share of costs via a monthly journal which is reflected in the MPR accounting system. MPR claimed costs exclude the direct and indirect allocations to CHSC.

c. Audit Evaluation:

We traced and verified the proposed costs to the contractor's books of record. We evaluated the costs that are allocated to CHSC. We reviewed the agreement dated June 26, 2000 between MPR and CHSC. We evaluated and accepted the contractor's revision of the allocated CHSC overhead expenses which reflected the actual experience.

d. Contractor's Reaction:

The contractor's representative, [REDACTED], concurs with the questioned costs and upward adjustment to the G&A allocation base.

**SCHEDULE OF FLEXIBLY PRICED CONTRACTS  
AND SUBCONTRACTS FOR FY 1999, FY 2000, and FY 2001**

**Department of Health and Human Services (DHHS)**

PRIME CONTRACT

MPR Project No.

[REDACTED]

Prime Contract No.

[REDACTED]

Contract Type

[REDACTED]

[REDACTED]

PRIME CONTRACT

MPR Project No.

[REDACTED]

Prime Contract No.

[REDACTED]

Contract Type

[REDACTED]

**Department of Health and Human Services (DHHS)**

[REDACTED]

PRIME CONTRACT

MPR Project No.

[REDACTED]

Prime Contract No.

[REDACTED]

Contract Type

[REDACTED]

SUBCONTRACTS

MPR Project No.

[REDACTED]

Prime Contract No.

[REDACTED]

Prime Contractor

[REDACTED]

Contract

[REDACTED]

**Department of Health and Human Services (DHHS)**

[REDACTED]

SUBCONTRACTS

<u>MPR Project No.</u>	<u>Prime Contract No.</u>	<u>Prime Contractor</u>	<u>Contract Type</u>
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

**Department of Defense**

SUBCONTRACTS

<u>MPR Project No.</u>	<u>Prime Contract No.</u>	<u>Prime Contractor</u>	<u>Contract Type</u>
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

**Social Security Administration**

PRIME CONTRACT

<u>MPR Project No.</u>	<u>Prime Contract No.</u>	<u>Contract Type</u>
[REDACTED]	[REDACTED]	[REDACTED]



**CONTRACTOR ORGANIZATION AND SYSTEMS**

**I. ORGANIZATION**

Mathematica Policy Research Inc. was incorporated in the State of Delaware in 1976. Sales totaled [REDACTED] for the Year Ended December 31, 2001. Approximately [REDACTED] of Mathematica Policy Research Inc. sales are applicable to government flexibly priced contracts for Fiscal Year Ending December 31, 2001. The remaining sales represent commercial and firm fixed-price contracts. The majority of Mathematica Policy Research Inc. sales relate to the providing of social science research and surveys. Mathematica Policy Research Inc. has approximately [REDACTED] employees.

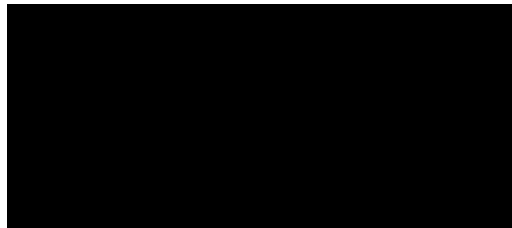
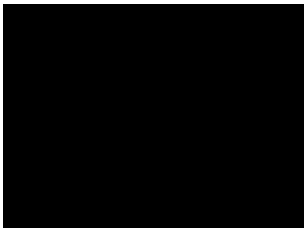
**II. ACCOUNTING SYSTEM**

Mathematica Policy Research Inc. maintains a Deltek job cost accounting system wherein contracts are assigned individual project numbers that are used to accumulate associated direct costs and ODC costs booked in multiple service centers. Indirect costs are identified with and accumulated under indirect cost pools and multiple service centers. Indirect expenses are recorded and billed to projects using predetermined rates less a reduction factor for estimated unallowable costs. The predetermined indirect pool rates, which include the multiple service center variances, are adjusted to actual allowable rates at final voucher submission following contract completion. The contractor's accounting system is considered to be adequate for the accumulation, reporting, and billing costs on government contracts. The following schedule describes Mathematica Policy Research Inc. indirect cost pools and related allocation bases:

Indirect Cost Pools and Allocation Bases:

Indirect Cost Pool

Allocation Base



**DCAA PERSONNEL**

	<u>Telephone No.</u>
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George B. Dowd, Supervisory Auditor	(732) 532-5692
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	<u>FAX No.</u>
Southern New Jersey Branch Office	(856) 354-7520
	<u>E-mail Address</u>
Southern New Jersey Branch Office	dcaa-fao6341@dcaa.mil

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

**AUDIT REPORT AUTHORIZED BY:**

/signed/  
**JOSEPH F. ALTER**  
Branch Manager  
DCAA Southern New Jersey Branch Office



**AUDIT REPORT DISTRIBUTION AND RESTRICTIONS**

**DISTRIBUTION**

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Social Security Administration Office of Acquisition and Grants ATTN: Robert Austin, Contracting Officer 1710 Gwynn Oak Avenue Baltimore, MD 21207	Robert.austin@ssa.gov Suzanne.valett@ssa.gov
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**Audit Report No. 6341-2001A10100017**

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Southern New Jersey Branch Office Woodcrest Pavilion 10 Melrose Avenue, Suite 200 Cherry Hill, NJ 08003	dcaa-fao6341@dcaa.mil
Pennsylvania Branch Office 700 American Avenue, Suite 100 King of Prussia, PA 19406	dcaa-fao6701@dcaa.mil
Mathematica Policy Research, Inc. 600 Alexander Park Princeton, NJ 08543-2393	(Copy furnished thru ACO)

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

Mathematica Policy Research, Inc.  
Princeton, New Jersey

Schedule N

**Certificate of Final Indirect Costs**

This is to certify that I have reviewed this proposal to establish final indirect cost rates and to the best of my knowledge and belief:

1. All costs included in this proposal **of Indirect Costs** to establish final indirect cost rates for **for the year ending December 31, 2001** are allowable in accordance with the cost principles of the Federal Acquisition Regulation (FAR) and its supplements applicable to the contracts to which the final indirect cost rates will apply;
2. This proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements.

Firm: Mathematica Policy Research, Inc.

Signature: [REDACTED]

Name of Certifying Official: [REDACTED]

Title: [REDACTED]

Date of Execution: 23-Oct-02

**NOTE:** The Certificate of Final Indirect Costs is contained in FAR 52.242-4.



MID-ATLANTIC REGION  
SOUTHERN NEW JERSEY BRANCH OFFICE  
DEFENSE CONTRACT AUDIT AGENCY  
WOODCREST PAVILION  
10 MELROSE AVENUE, SUITE 200  
CHERRY HILL, NJ 08003-3647  
TELEPHONE (856) 354-7550  
FAX (856) 354-7520

6341(2001A10100017)

August 13, 2003

[Redacted]

Mathematica Policy Research, Inc.  
P.O. Box 2393  
Princeton, NJ 08543-2393

Dear [Redacted]:

This letter sets forth the agreed-upon final indirect cost rates established by audit determination in accordance with FAR 42.705-2(b)(2)(ii) and DoD FAR Supplement 242.705-2(b)(2)(ii).

The final annual indirect cost rates for the Fiscal Year Ended December 31, 2001 are as follows:

Indirect Category		Base	Expense Pool	Rate %
FY 2001				
[Redacted]	(a)	[Redacted]	[Redacted]	[Redacted]
[Redacted]	(b)	[Redacted]	[Redacted]	[Redacted]
[Redacted]	(c)	[Redacted]	[Redacted]	[Redacted]
[Redacted]	(d)	[Redacted]	[Redacted]	[Redacted]
[Redacted]	(e)	[Redacted]	[Redacted]	[Redacted]

- (a) [Redacted]
- (b) [Redacted]
- (c) [Redacted]
- (d) [Redacted]
- (e) [Redacted]

These rates are applicable to the base costs specified for each of the flexibly priced contracts and subcontracts performed during your Fiscal Year Ended December 31, 2001 as listed in Schedule 1. The allowable costs and T&M amounts by flexibly priced contracts and subcontracts for the Fiscal Year Ended December 31, 2001 are included in Schedule 1.

[Redacted]

**Audit Report No. 6341-2001A10100017**

6341(2001A10100017)

This indirect rate understanding shall not change any monetary ceiling, contract obligation or specific cost allowance or disallowance provided for in the flexibly priced contracts and subcontracts listed in Schedule 1. This understanding is incorporated into the affected subcontract upon execution.

The subject indirect rate does not include any specific indirect cost items which were treated as direct costs in the settlement of the subject rates.

Please confirm your acceptance of the terms of this indirect cost rate, direct and indirect cost and time and material billing agreement by signing and returning this letter to me. A duplicate of this letter is enclosed for your records.

You are requested to promptly submit adjustment vouchers or final vouchers for all flexibly priced contracts and subcontracts in Schedule 1. Audit adjustments should be clearly delineated so as to be readily identifiable for verification by this office. Care should be taken that amounts claimed do not exceed contract limitations or contract indirect cost rate ceilings.

Sincerely,

  
JOSEPH F. ALTER  
Branch Manager

Enclosure

Schedule 1 – Summary Schedule of Cumulative Allowable Costs and T&M Amounts Through  
FY 2001 for Flexibly Priced Contracts and Subcontracts

Mathematica Policy Research, Inc. accepts the above stated final indirect cost rates.

Name:  Signature: 

Title:  Date: August 15, 2003

Contractor: Mathematica Policy Research, Inc.

# Audit Report No. 6341-2001A10100017

Audit Report No. 6341-2001A10100017

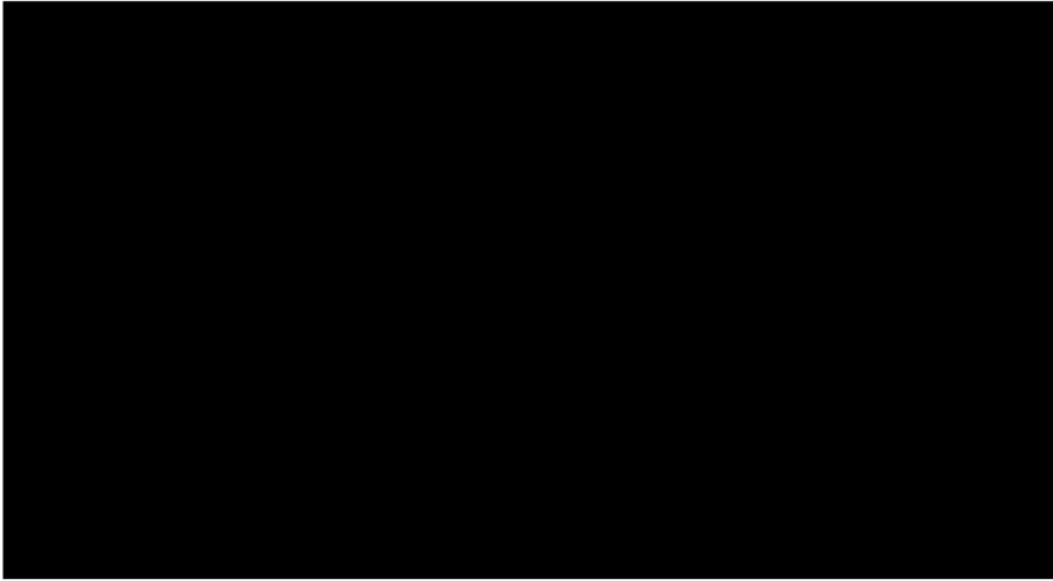
Mathematica Policy Research, Inc.  
Princeton, New Jersey

Schedule 1

Summary Schedule of Cumulative Allowable Costs and TEM Amounts  
Through FY-2001 for Flexibly Priced Contracts and Subcontracts

Contract #	Subject to FAR	MPR Prop. #	Penalty Clause (1)	Prior Years Settled Total Costs (2)	1999 Costs	2000 Costs	2001 Costs	Subtotal	Less Out of Period of Performance Costs (3)	Less Contract Limitations (4)	Less SubContract Limitations (5)	Total	Contract Physically Complete	Ready to Close	Fee

HHS -Prime-Cost Type



# Audit Report No. 6341-2001A10100017

Audit Report No. 6341-2001A10100017

Mathematica Policy Research, Inc.  
Princeton, New Jersey

Schedule 1

Summary Schedule of Cumulative Allowable Costs and TSM Amounts  
Through FY-2001 for Fixed Priced Contracts and Subcontracts

Contract #	Subject to FAR MPR #	Prior Years Settled Total Costs (2)	1999 Costs	2000 Costs	2001 Costs	Subtotal	Less Out of Period of Performance Costs (3)	Less Contract Limitations (4)	Less SubContract Limitations (5)	Total	Contract Physically Complete	Ready to Close	Fee
[Redacted Content]													





# Audit Report No. 6341-2001A10100017

Audit Report No. 6341-2001A10100017

Mathematica Policy Research, Inc.  
Princeton, New Jersey

Schedule 1

Summary Schedule of Cumulative Allowable Costs and T&M Amounts  
Through FY-2001 for Fixedly Priced Contracts and Subcontracts

Contract #	Subject to FAR Penalty MPR Prop. #	Phor Years Settled Total Costs (1)	1999 Costs	2000 Costs	2001 Costs	Subtotal	Less Out of Period of Performance Costs (2)	Less Contract Limitations (3)	Less SubContract Limitations (4)	Total	Contract Physically Complete	Ready to Close	Fee
[Redacted Content]													



# Audit Report No. 6341-2001A10100017

Audit Report No. 6341-2001A10100017

Mathematica Policy Research, Inc.  
Princeton, New Jersey

Schedule 1

Summary Schedule of Cumulative Allowable Costs and T&M Amounts  
Through FY 2001 for Fixedly Priced Contracts and Subcontracts

Contract #	Subject to FAR MPR Proj. #	Penalty Clause (1)	Prior Years Settled Total Costs (2)	Costs			Subtotal	Less Out of Period of Performance Costs (3)	Less Contract Limitations (4)	Less SubContract Limitations (5)	Total	Contract Physically Complete	Ready to Close	Fee
				1999 Costs	2000 Costs	2001 Costs								

**Explanatory Notes:**

(1) Indicates those contracts covered by the penalty clause as required by FAR 42.709.

(2) Prior years' settled costs are qualified inasmuch as DCAA did not audit the direct costs prior to FY 1999 on DHHS contracts. Therefore, we express no opinion on the allowability, allocability, and reasonableness of the direct costs incurred under the DHHS fixedly priced prime contracts and subcontracts prior to FY 1999.

(3) Costs incurred outside the period of contract performance.

(4) In excess of contract ceiling amounts.

(5) In excess of subcontract ceiling amounts on prime contract.

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•  
•  
•



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**MATHEMATICA**  
Policy Research, Inc.

P.O. Box 2393  
Princeton, NJ 08543-2393  
Telephone (609) 799-3535  
Fax (609) 799-0005  
www.mathematica-mpr.com

609/275-2311

ACC-1551

June 6, 2003

George Dowd  
Supervisory Auditor  
Defense Contract Audit Agency  
Southern New Jersey Branch Office  
Woodcrest Pavilion  
10 Melrose Avenue, Suite 200  
Cherry Hill, NJ 08003-3647

Dear Mr. Dowd:

MPR objects to the release of the audit report for the incurred cost audit for fiscal years 1999, 2000, and 2001 to any prime contractor for contracts which were in effect during those years. We will permit that agency provide the rate agreement to these prime contractors for the purposes of verifying our rates, however we consider the cost information contained in the body of the audit report to be proprietary information, and do not authorize its release.

Sincerely,



**DEFENSE CONTRACT AUDIT AGENCY**  
**AUDIT REPORT NO. 6341- 2002A10100015**



May 20, 2004

**PREPARED FOR:** Department of Health and Human Services  
Centers for Medicare & Medicaid Services  
ATTN: Marie E. Dodge, M.S. C2-21-15  
7500 Security Blvd  
Baltimore, MD 21244

**PREPARED BY:** DCAA Southern New Jersey Branch Office  
Woodcrest Pavilion  
10 Melrose Place, Suite 200  
Cherry Hill, NJ 08003  
Telephone No. 856-354-7550  
FAX No. 856-354-7520  
E-mail Address dcaa-fao6341@dcaa.mil

**SUBJECT:** Audit of Fiscal Year 2002 Incurred Costs

**CONTRACTOR:** Mathematica Policy Research, Inc. (5D318)  
600 Alexander Park  
Princeton, NJ 08543-2393

**REPORT RELEASE RESTRICTIONS:** See Page 16

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Results of Audit	3
Contractor Organization and Systems	12
DCAA Personnel and Report Authorization	13
Audit Report Distribution and Restrictions	14
Certificate of Final Indirect Costs	Appendix 1
Indirect Cost Rate Agreement Letter	Appendix 2
Contractor's Objection to Release Statement	Appendix 3



## **SUBJECT OF AUDIT**

We examined the Mathematica Policy Research, Inc.'s (MPR) June 25, 2003 certified final indirect cost rate proposal and related books and records for reimbursement of the fiscal year ended 31 December 2002 incurred costs and T&M amounts. The purpose of the examination was to determine the allowability of the direct and indirect costs and T&M amounts for the fiscal year of January 1, 2002 through December 31, 2002 for the Department of Health and Human Resources (DHHS), Department of Defense (DOD), and Social Security Administration (SSA) contracts and subcontracts. The proposed rates for FY 2002 apply primarily to the flexibly priced contracts and subcontracts listed in Exhibit B. A copy of Mathematica Policy Research's Certificate of Final Indirect Costs dated June 25, 2003 is included as Appendix 1 to this report.

The proposal is the responsibility of the contractor. Our responsibility is to express an opinion based on our examination.

## **SCOPE OF AUDIT**

Except for the qualifications discussed below, 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 data and records are free of material misstatement. 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 amounts and disclosures in the data and records reviewed;
- assessing the accounting principles used and significant estimates made by the contractor;
- evaluating the overall data and records presentation; and
- determining the need for technical specialist assistance.

We evaluated the proposal using the cost principles contained in the:

- Federal Acquisition Regulation (FAR), and
- Defense Federal Acquisition Regulation (DFARS)
- Cost Accounting Standards

Mathematica Policy Research, Inc.'s accounting system is considered adequate for the accumulation, reporting, and billing costs on government contracts as described in the Contractor's Organization and Systems section of this report. Our audit scope reflects the risk of unallowable costs being included in the proposal and includes expanded testing to provide a reasonable basis for our opinion.

The concurrent verification of both labor and materials were omitted in this examination.



## **QUALIFICATIONS**

1. Due to the Department of Agriculture, Department of Labor and Department of Education, Department of Justice, and National Science Foundation (NSF)'s inability to fund this audit, our review of direct costs was limited to the costs related to the DHHS, DOD, and SSA for FY 2002 auditable prime and subcontract effort. Our audit is qualified to the extent that the audit of direct and indirect costs for the reimbursable departments mentioned above that did not fund their share of the audit. Therefore, we express no opinion on the allowability of the recorded cost related to flexibly priced contracts and subcontracts for the Agency's identified above. The information contained in the report is not acceptable as a basis for determining allowability of the unaudited direct costs for contract closeout purposes that pertain to Agriculture, Labor, Education, Justice, and NSF.

2. Due to the DHHS's inability to fund required assist audits of auditable subcontracts, our audit of these direct costs under DHHS flexibly priced prime contracts for FY 2002 in the amount of \$1,455,794 is qualified to the extent that the audit of the auditable subcontract direct and indirect costs billed to MPR was limited to the verification of the recorded direct costs on the contractor's books of record. Therefore, we express no opinion on the allowability of these recorded direct costs related to auditable subcontracts under the auditable DHHS flexibly priced prime contracts for FY 2002. The information contained in the report is not acceptable as a basis for determining allowability and allocability of the unaudited direct costs for contract closeout purposes that pertain to subcontract direct costs under auditable DHHS flexibly priced prime contracts for FY 2002.

## **RESULTS OF AUDIT**

Indirect Rates. In our opinion, the contractor's proposed indirect rates are based on allowable cost and are therefore acceptable as adjusted by our examination. The examination results and recommendations are presented below. The enclosed Indirect Cost Rate Agreement documents the contractor's concurrence with our findings and recommendations.

Direct Costs. In our opinion, except for Qualification No. 2 as noted above, claimed direct costs and T&M amounts are also allowable and are provisionally approved pending final acceptance. Final acceptance of amounts proposed under government contracts does not take place until performance under the contract is completed and accepted by the cognizant authorities and the audit responsibilities have been completed.

Penalties for Unallowable Costs. The examination found expressly unallowable costs subject to the penalties of \$3,737 in the Overhead Burden expense pool. Refer to Notes 2 and 4 of Exhibit A for details. Of these amounts, \$958 in the Overhead Burden expense pool were allocable to the contracts specified in provided in FAR 42.709(b). Affected contracts are identified in Exhibit B,

page 8. The amounts are recommended for penalties, but less than the \$10,000 waiver threshold discussed in FAR 42-709-5. Additional information regarding the above penalties will be provided upon request. Our recommendations concerning the interest to be recovered on unallowable costs paid will be furnished when we have received your determination on penalties to be assessed.

**SUMMARY OF AUDIT RESULTS**  
Fiscal Year Ended December 31, 2002

Indirect Category		Proposed Expense Pool			Question Expense Pool			Ref.
		Base	Pool	Rate	Base	Pool	Rate	
	A						-	-
	B						-	-
	C						.02%	Ex. A
	D						-	-
	E						-	-

Description of Allocation Bases:

- a. [REDACTED]
- b. [REDACTED]
- c. [REDACTED]
- d. [REDACTED]
- e. [REDACTED]

**GOVERNMENT PARTICIPATION IN ALLOCATION BASES**  
Fiscal Year Ended December 31, 2002

Category	Contract Type In Allocation Base		Total
	Government Flexibly Priced Contracts/Subs	Government Firm Fixed Price and Commercial Work	
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]



**Audit Report No. 6341-2002A10100015**

Cumulative Allowable Cost Worksheet. We have included a copy of the cumulative allowable costs for the flexibly priced DHHS contracts, DOD subcontract delivery orders, and the SSA contracts as an attachment to the Indirect Cost Rate Agreement Letter for FY 2002 (Appendix 2). It should be noted that we have questioned \$24,134 and \$56,833 for costs outside the period of performance on contracts and subcontracts, respectively and \$745,444 and \$7,336 for costs in excess of ceiling amounts on contracts and subcontracts, respectively. This information should assist your monitoring the status of contract awaiting closeout.

We provided and discussed the audit results with [REDACTED], the contractor's representative, on April 5, 2004, who concurred with our findings. The enclosed Indirect Cost Rate Agreement for FY 2002 (Appendix 2) documents the contractor's concurrence with our findings and recommendations.



**SUMMARY OF AUDIT RESULTS OF OVERHEAD COSTS**  
Fiscal Year Ended December 31, 2002

**EXHIBIT A**

	<u>Overhead</u>	<u>Ref.</u>
<u>Contractor's Indirect Expenses:</u>		
Total Indirect Expenses	██████████	
Voluntary Deletions	██████████	Note 1
Claimed Costs (A)	██████████	
Results of Audit Review		
Questioned Expenses:		
Travel & Subsistence	██████████	Note 2
Miscellaneous Expenses	██████████	Note 3
Employee Morale Expenses	██████████	Note 4
Total Questioned Expenses (B)	██████████	
Adjusted Expenses (A-B) (C)	██████████	
Allocation Bases:		
Claimed Bases (D)	██████████	
Adjustments to Bases:		
Audit Adjusted Bases (E)	██████████	
Indirect Expense Rates		
Claimed Rates (A/D)	██████████	
Audit Adjusted Rates (C/E)	██████████	
Questioned Rates	██████████	

Explanatory Notes:

1. Voluntary Deletions

a. Summary of Conclusions:

We take no exceptions to MPR's proposed voluntary deletions for FY 2002.

b. Basis of Contractor's Cost:



**Audit Report No. 6341-2002A10100015**

The contractor's voluntary deletions of [REDACTED] in the Overhead Burden expense pool consist mainly of FAR 31.205 expressly unallowable costs for entertainment, travel and subsistence.

c. Audit Evaluation:

We traced and verified the proposed voluntary deletions to the contractor's books of record. We reviewed the contractor's financial statements, income tax return, Board of Director's minutes, and year-end adjusting journal entries. We reviewed the contractor's established accounting policies and procedures. We performed a review to determine that the contractor included all directly associated unallowable costs with the voluntary deleted amounts.

2. Travel & Subsistence

a. Summary of Conclusions:

Questioned indirect travel and subsistence costs of \$4,382 in the Overhead burden expense pool represent unallowable costs in accordance with FAR 31.205-14, FAR 31.205-46(a) (3)(ii) through (iv) and (7)(ii). Of the total questioned, \$3,053 are expressly unallowable costs and subject to a level one penalty.

b. Basis of Contractor's Cost:

Represents indirect travel and subsistence costs incurred by employees while on business related travel charged to account # 4100-015-000 in the Overhead burden expense pool.

c. Audit Evaluation:

We traced and verified the proposed costs to the contractor's books of record. We selected a sample of the indirect travel and subsistence costs incurred. We reviewed sampled supporting travel expense reports, travel requisitions, and receipts in order to make a determination of allocability, allowability, and reasonableness in accordance with the FAR cost principles. We reviewed the contractor's established travel policies and procedures.

3. Miscellaneous Expenses

a. Summary of Conclusions:

Questioned indirect miscellaneous expenses of \$518 in the Overhead burden expense pool represents unallowable costs in accordance with FAR 31.205-46(a)(7)(ii). These questioned costs are not subject to penalty.

b. Basis of Contractor's Cost:

Represents indirect miscellaneous expenses incurred charged to account # 4100-017-000 in the Overhead burden expense pool.

c. Audit Evaluation:

We traced and verified the proposed costs to the contractor's books of record. We selected a sample of the indirect miscellaneous expenses incurred. We reviewed sampled supporting invoices, purchase orders and requisitions, conference agendas, and vendor history reports in order to make a determination of allocability, allowability, and reasonableness in accordance with the FAR cost principles.

4. Employee Morale Expenses

a. Summary of Conclusions:

Questioned indirect employee morale expenses of \$684 represent unallowable costs in accordance with FAR 31.205-14. These costs are expressly unallowable costs and are subject to a level-one penalty.

b. Basis of Contractor's Cost:

Represents catered food and supplies charged to account #'s 4100-00-00 and 4100-020-000 in the Overhead burden expense pool.

c. Audit Evaluation:

We traced and verified the proposed costs to the contractor's books of record. We selected a sample of the employee morale expenses incurred. We reviewed the sampled supporting invoices and purchase orders in order to make a determination of allocability, allowability, and reasonableness in accordance with the FAR cost principles.

**SCHEDULE OF FLEXIBLY PRICED CONTRACTS  
AND SUBCONTRACTS IN FY 2002**

**Department of Health and Human Services (DHHS)**

PRIME CONTRACT

MPR Project No.

Prime Contract No.

Contract Type

[REDACTED]

[REDACTED]

[REDACTED]

**Department of Health and Human Services (DHHS)**

[REDACTED]

PRIME CONTRACT

MPR Project No.

[REDACTED]

Prime Contract No.

[REDACTED]

Contract Type

[REDACTED]

[REDACTED]

Department of Health and Human Services (DHHS)

SUBCONTRACTS

MPR Project No.

Prime Contract No.

Prime Contractor

Contract Type

<u>MPR Project No.</u>	<u>Prime Contract No.</u>	<u>Prime Contractor</u>	<u>Contract Type</u>
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Department of Health and Human Services (DHHS)



SUBCONTRACTS

<u>MPR Project No.</u>	<u>Prime Contract No.</u>	<u>Prime Contractor</u>	<u>Contract Type</u>
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

**Department of Defense**

SUBCONTRACTS

<u>MPR Project No.</u>	<u>Prime Contract No.</u>	<u>Prime Contractor</u>	<u>Contract Type</u>
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

**Social Security Administration**

PRIME CONTRACT

<u>MPR Project No.</u>	<u>Prime Contract No.</u>	<u>Contract Type</u>
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]



**CONTRACTOR ORGANIZATION AND SYSTEMS**

**I. ORGANIZATION**

Mathematica Policy Research Inc. was incorporated in the State of Delaware in 1976. Sales totaled [REDACTED] for the Year Ended December 31, 2002. Approximately [REDACTED] of Mathematica Policy Research Inc. sales are applicable to government flexibly priced contracts for Fiscal Year Ending December 31, 2002. The remaining sales represent commercial and firm fixed-price contracts. The majority of Mathematica Policy Research Inc. sales relate to the providing of social science research and surveys. Mathematica Policy Research Inc. has approximately [REDACTED] employees.

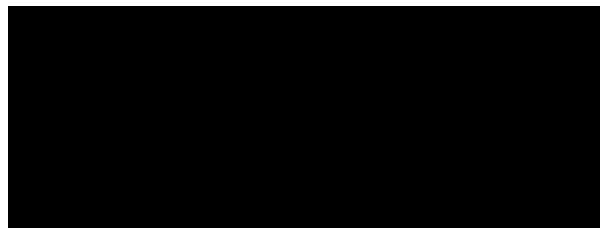
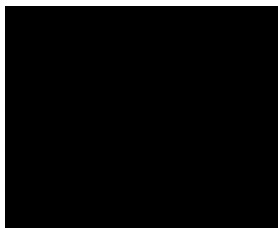
**II. ACCOUNTING SYSTEM**

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Indirect Cost Pools and Allocation Bases:

Indirect Cost Pool

Allocation Base





**DCAA PERSONNEL**

	<u>Telephone No.</u>
Primary contacts regarding this audit:	
David Carrick, Auditor	609-520-0733
George B. Dowd, Supervisory Auditor	732-532-5692

Other contact regarding this audit report:	
Joseph F. Alter, Branch Manager	856-354-7550

	<u>FAX No.</u>
Southern New Jersey Branch Office	856-354-7520

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

**AUDIT REPORT AUTHORIZED BY:**

**/signed/**  
**JOSEPH F. ALTER**  
Branch Manager  
DCAA Southern New Jersey Branch Office

**AUDIT REPORT DISTRIBUTION AND RESTRICTIONS**

**DISTRIBUTION**

Department of Health and Human Services  
Centers for Medicare & Medicaid Services  
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**Audit Report No. 6341-2002A10100015**

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DCAA Pennsylvania Branch Office  
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Mathematica Policy Research, Inc.  
600 Alexander Park  
Princeton, NJ 08543-2393

(Copy furnished thru ACO)

[REDACTED]

[REDACTED]

[REDACTED]

Mathematica Policy Research, Inc. ✓  
Princeton, New Jersey

Schedule N

**Certificate of Final Indirect Costs**

This is to certify that I have reviewed this proposal to establish final indirect cost rates and to the best of my knowledge and belief:

1. All costs included in this proposal **of Indirect Costs** to establish final indirect cost rates for **for the year ending December 31, 2002** are allowable in accordance with the cost principles of the Federal Acquisition Regulation (FAR) and its supplements applicable to the contracts to which the final indirect cost rates will apply; and
2. This proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements.

Firm: Mathematica Policy Research, Inc.

Signature: \_\_\_\_\_

Name of Certifying Official: \_\_\_\_\_

Title: \_\_\_\_\_

Date of Execution: June 25, 2003

**NOTE:** The Certificate of Final Indirect Costs is contained in FAR 52.242-4.





MIDATLANTIC REGION SOUTHERN NEW JERSEY BRANCH OFFICE  
DEFENSE CONTRACT AUDIT AGENCY  
WOODCREST PAVILION  
10 MELROSE AVENUE, SUITE 200  
CHERRY HILL, NJ 08003-3647  
TELEPHONE (856) 354-7550  
FAX (856) 354-7520

6341(2002A10100015)  
(wb:2002A10100015rl)

May 12, 2004

[Redacted]

Mathematica Policy Research, Inc.  
P.O. Box 2393  
Princeton, NJ 08543-2393

Dear [Redacted]

This letter sets forth the agreed upon final indirect cost rates established by audit determination in accordance with FAR 42.705-2(b)(2)(ii) and DoD FAR Supplement 242.705-2(b)(2)(ii).

The final annual indirect cost rates for the fiscal year ended December 31, 2002 is as follows:

<u>Indirect Category</u>		<u>Base</u>	<u>Expense Pool</u>	<u>Rate %</u>
FY 2002				
[Redacted]	(a)	[Redacted]	[Redacted]	[Redacted]
[Redacted]	(b)	[Redacted]	[Redacted]	[Redacted]
[Redacted]	(c)	[Redacted]	[Redacted]	[Redacted]
[Redacted]	(d)	[Redacted]	[Redacted]	[Redacted]
[Redacted]	(e)	[Redacted]	[Redacted]	[Redacted]

- (a) [Redacted]
- (b) [Redacted]
- (c) [Redacted]
- (d) [Redacted]
- (e) [Redacted]

These rates are applicable to the base costs specified for each of the flexibly priced contracts and subcontracts performed during your fiscal year ended December 31, 2002 as listed in Schedule 1. The allowable costs and T&M amounts by flexibly priced contracts and subcontracts for the fiscal year ended December 31, 2002 are included in Schedule 1.

[Redacted]

\_\_\_\_\_

[Redacted]

6341(2002A10100015)

This indirect rate understanding shall not change any monetary ceiling, contract obligation or specific cost allowance or disallowance provided for in the flexibly priced contracts and subcontracts listed in Schedule 1. This understanding is incorporated into the affected subcontract upon execution.

The subject indirect rate does not include any specific indirect cost items which were treated as direct costs in the settlement of the subject rates.

Please confirm your acceptance of the terms of this indirect cost rate, direct and indirect cost and time and material billing agreement by signing and returning this letter to me. A duplicate of this letter is enclosed for your records.

You are requested to promptly submit adjustment vouchers or final vouchers for all flexibly priced contracts and subcontracts in the attached schedule. Audit adjustments should be clearly delineated so as to be readily identifiable for verification by this office. Care should be taken that amounts claimed do not exceed contract limitations or contract indirect cost rate ceilings.

Sincerely,  
*Joseph F. Alter*  
Joseph F. Alter  
Branch Manager

Enclosure  
Schedule – Summary Schedule of Cumulative Allowable Costs through FY 2002 for Flexibly Priced Contracts and Subcontracts

Mathematica Policy Research, Inc. accepts the above stated final indirect cost rates.

Name: [REDACTED]

Signature: [REDACTED]

Title: [REDACTED]

Date: 5/7/04

Contractor: Mathematica Policy Research, Inc.



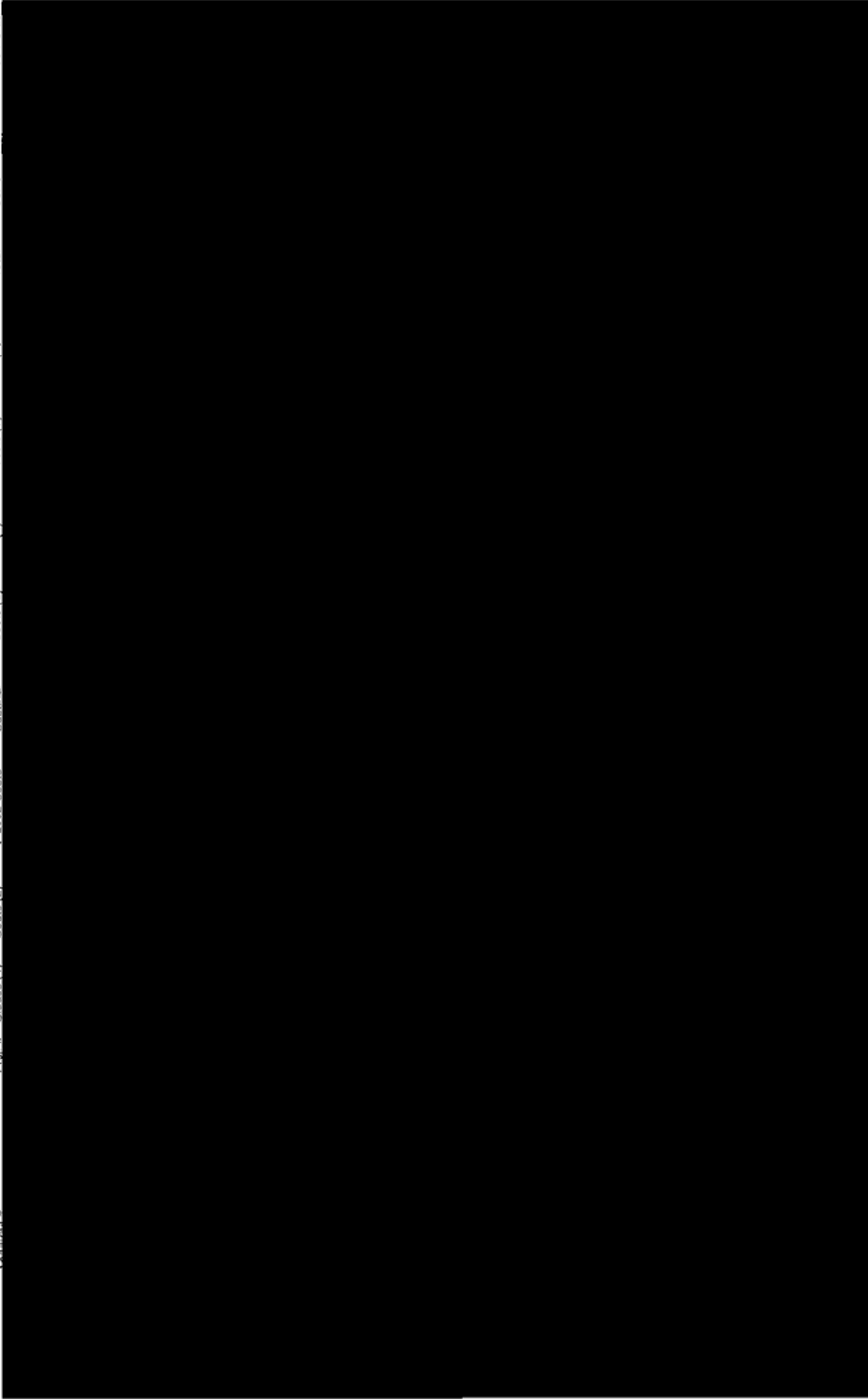
Schedule 1

Audit Report No. 6341(2002A10100015)

Mathematica Policy Research, Inc.  
Princeton, New Jersey

Cumulative Allowable Cost and ISM Amount Worksheet  
Through FY 2002

Contract #	MPR Proj. #	Subject No FAR Penalty Clause (1)	Prior Years Settled Total Costs (2)	FY 2002 Costs	Subtotal	Less Out of Period of Performance Costs (3)	Less Contract Limitations (4)	Less Out of Period of Performance Costs (5)	Less Sub-Contract Limitations (6)	Total	Contract Physically Complete	Ready to Close	Free Portion
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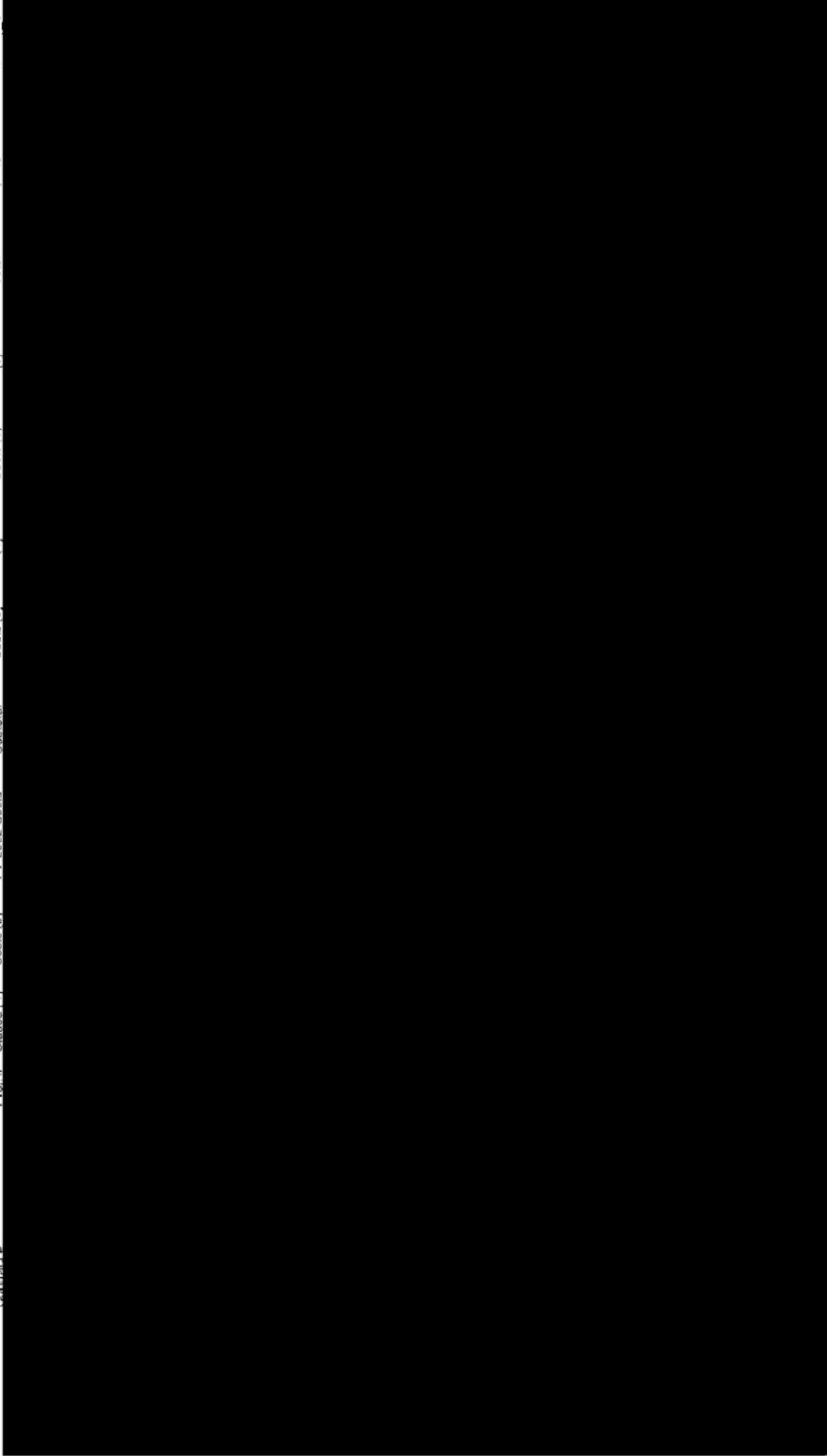
Schedule 1

Audit Report No. 6341(2002A10100015)

Mathematica Policy Research, Inc.  
Princeton, New Jersey

Cumulative Allowable Cost and TSM Amount Worksheet  
Through FY 2002

Contract #	MP3 Proj. #	Subject to FAR Penalty Clause (1)	Prior Years Settled Total Costs (2)	FY 2002 Costs	Subtotal	Less Out of Period of Performance Costs (3)	Less Contract Limitations (4)	Less Out of Period of Performance Costs (5)	Less SubContract Limitations (6)	Total	Contract Physically Complete	Ready to Close	Fee Portion
------------	----------------	--	---	---------------	----------	--	--	--	---	-------	------------------------------------	-------------------	-------------

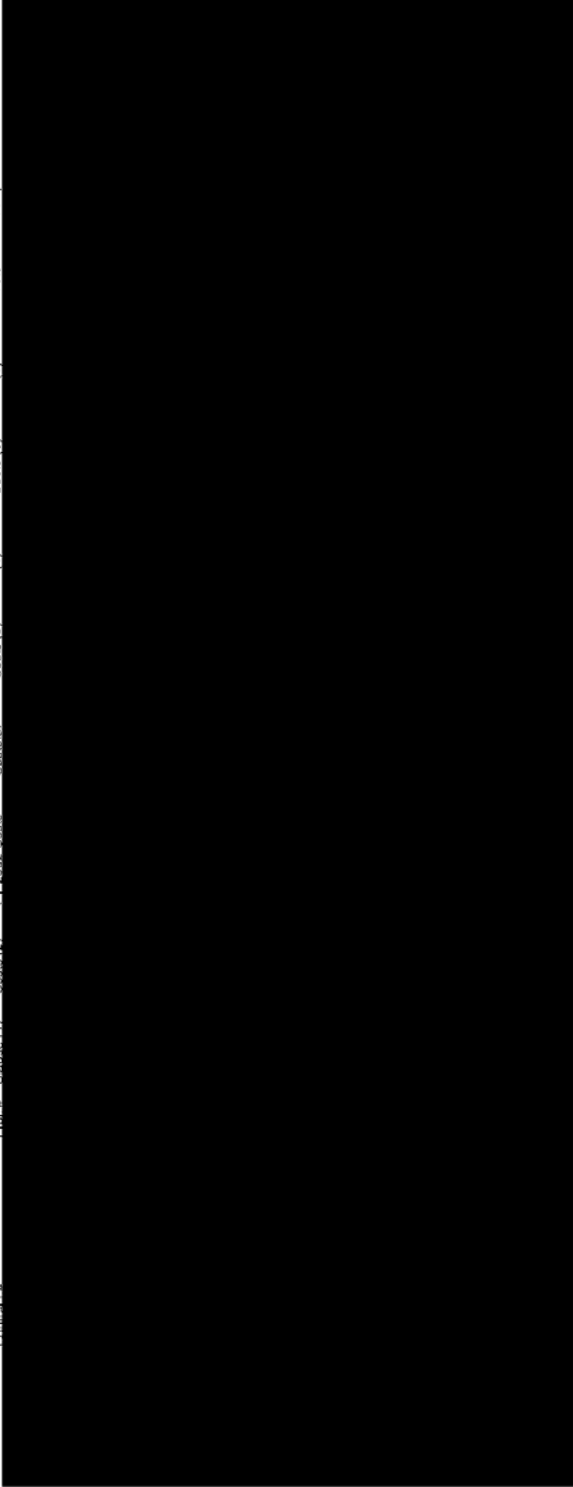


Schedule 1

Mathematica Policy Research, Inc.  
Princeton, New Jersey

Cumulative Allowable Cost and T&M Amount Worksheet  
Through FY 2002

Contract #	MPR #	Subject to FAR Penalty Clause (1)	Prior Years Settled Total Costs (2)	EY 2002 Costs	Subtotal	Less Out of Period of Performance Costs (3)	Less Contract Limitations (4)	Less Out of Period of Performance Costs (5)	Less Subcontract Limitations (6)	Total	Contract Physically Complete	Ready to Close	Fee Portion
------------	-------	-----------------------------------	-------------------------------------	---------------	----------	---	-------------------------------	---	----------------------------------	-------	------------------------------	----------------	-------------



**Explanatory Notes:**

- (1) Indicates those contracts covered by the penalty clause as required by FAR 42.709.
- (2) Prior years' settled costs are qualified inasmuch as DCAA did not audit the direct costs prior to FY 1999 on DHHS contracts. Therefore, we express no opinion on the allowability, allocability, and reasonableness of the direct costs incurred under the DHHS flexibly priced prime contracts and subcontracts prior to FY 1999.
- (3) Costs incurred outside the period of contract performance.
- (4) In excess of contract ceiling amounts.
- (5) Costs incurred outside the period of subcontract performance.
- (6) In excess of subcontract ceiling amounts on prime contract.

---

**MATHEMATICA**  
Policy Research, Inc.

P.O. Box 2393  
Princeton, NJ 08543-2393  
Telephone (609) 799-3535  
Fax (609) 799-0005  
www.mathematica-mpr.com

609/275-2311

ACC-1615

April 1, 2004

George Dowd  
Supervisory Auditor  
Defense Contract Audit Agency  
Southern New Jersey Branch Office  
Woodcrest Pavilion  
10 Melrose Avenue, Suite 200  
Cherry Hill, NJ 08003-3647

Dear Mr. Dowd:

MPR objects to the release of the audit report for the incurred cost audit for fiscal year 2002 to any prime contractor for contracts which were in effect during those years. We will permit that the agency provide the rate agreement to these prime contractors for the purposes of verifying our rates, however we consider the cost information contained in the body of the audit report to be proprietary information, and do not authorize its release.

Sincerely,



An Affirmative Action/Equal Opportunity Employer

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**DEFENSE CONTRACT AUDIT AGENCY**  
**AUDIT REPORT NO. 6341-2003A10100019**



March 21, 2005

**PREPARED FOR:** Department of Health and Human Services  
Centers for Medicare & Medicaid Services  
ATTN: Marie E. Dodge, M.S. C2-21-15  
7500 Security Blvd.  
Baltimore, MD 21244

**PREPARED BY:** DCAA Southern New Jersey Branch Office  
Woodcrest Pavilion  
10 Melrose Avenue, Suite 200  
Cherry Hill, NJ 08003-3647  
Telephone No. (856) 354-7550  
FAX No. (856) 354-7520  
E-mail Address dcaa-fao6341@dcaa.mil

**SUBJECT:** Audit of Calendar Year 2003 Incurred Costs and T&M Billing Amounts

**CONTRACTOR:** Mathematica Policy Research, Inc. (5D318)  
600 Alexander Park  
Princeton, NJ 08543-2393

**REPORT RELEASE RESTRICTIONS:** See Page 15

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Scope of Audit	2
Results of Audit	2
Contractor Organization and Systems	12
DCAA Personnel and Report Authorization	13
Audit Report Distribution and Restrictions	14
Certificate of Final Indirect Costs	Appendix 1
Indirect Cost Rate Agreement Letter	Appendix 2
Contractor's Objection to Release Statement	Appendix 3



## **SUBJECT OF AUDIT**

We examined the Mathematica Policy Research, Inc.'s (MPR) June 10, 2004 certified final indirect cost rate proposal and related books and records for reimbursement of the Fiscal Year Ended December 31, 2003 incurred costs and T&M amounts. The purpose of the examination was to determine the allowability of the direct and indirect costs and T&M amounts and establish audit determined indirect cost rates for the Fiscal Year January 1, 2003 through December 31, 2003 for the Department of Health and Human Resources (DHHS) and Social Security Administration (SSA) contracts and subcontracts. The proposed rates for FY 2003 apply primarily to the flexibly priced contracts and subcontracts listed in Exhibit B. A copy of the MPR Certificate of Final Indirect Costs dated June 10, 2004 is included as Appendix 1 to this report.

The proposal is the responsibility of the contractor. Our responsibility is to express an opinion based on our examination.

## **SCOPE OF AUDIT**

Except for the qualifications discussed below, 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 data and records examined are free of material misstatement. 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 amounts and disclosures in the data and records evaluated;
- sampled billings for T&M orders to determine usage of proper contracted labor category rates;
- assessing the accounting principles used and significant estimates made by the contractor;
- evaluating the overall data and records presentation; and
- determining the need for technical specialist assistance

We evaluated the proposal using the applicable requirements contained in the:

- Federal Acquisition Regulation (FAR);
- Defense FAR Supplement; and
- Cost Accounting Standards.



For FY 2003, we consider the Mathematica Policy Research (MPR), Inc. accounting system to be adequate for the accumulation, reporting, and billing costs on government contracts, as described in the Contractor Organization and Systems section of this report. Our assessment of control risk reflects that we have not specifically tested the effectiveness of MPR's systems and related internal controls. The scope of our examination reflects our assessment of control risk and includes tests of compliance with laws and regulations that we believe provide a reasonable basis for our opinion.

The concurrent verification of materials and labor were omitted in this examination.

## QUALIFICATIONS

1. Due to the Department of Agriculture, Department of Labor and Department of Education, Department of Justice, and National Science Foundation (NSF)'s inability to fund this audit, our review of direct costs was limited to the costs related to the DHHS and SSA for FY 2003 auditable prime and subcontract effort. Our audit is qualified to the extent that the audit of direct and indirect costs for the reimbursable departments mentioned above that did not fund their share of the audit. Therefore, we express no opinion on the allowability of the recorded cost related to flexibly priced contracts and subcontracts for the Agencies identified above. The information contained in the report is not acceptable as a basis for determining allowability of the unaudited direct costs for contract closeout purposes that pertain to Agriculture, Labor, Education, Justice, and NSF.
2. Due to the DHHS inability to fund required assist audits of auditable subcontracts, our audit of these direct costs under DHHS flexibly priced prime contracts and T&M subcontracts for FY 2003 in the amount of [REDACTED] is qualified to the extent that the audit of the auditable subcontract direct and indirect costs billed to MPR was limited to the verification of the recorded direct costs on the contractor's books of record. Therefore, we express no opinion on the allowability of these recorded direct costs related to auditable subcontracts under the auditable DHHS flexibly priced prime contracts and T&M subcontracts for FY 2003. The information contained in the report is not acceptable as a basis for determining allowability and allocability of the unaudited direct costs for contract closeout purposes that pertain to subcontract direct costs under auditable DHHS flexibly priced prime contracts and T&M subcontracts for FY 2003.

## RESULTS OF AUDIT

Indirect Rates. In our opinion, the contractor's proposed indirect rates are acceptable as adjusted by our examination. The examination results and recommendations are presented below. The enclosed Indirect Cost Rate Agreement (Appendix 2) documents the contractor's concurrence with our findings and recommendations.



**Audit Report No. 6341-2003A10100019**

Direct Costs. In our opinion, except for Qualification 2 as noted above, claimed direct costs are acceptable and are provisionally approved, pending final acceptance. Final acceptance of amounts proposed under government contracts does not take place until performance under the contract is completed and accepted by the cognizant authorities and the audit responsibilities have been completed.

Penalties for Unallowable Costs. The examination found expressly unallowable costs subject to the penalties of \$3,328 in the Overhead Burden expense pool. Refer to Notes 2 and 3 of Exhibit A for details. Of these amounts, \$1,027 in the Overhead Burden expense pool were allocable to the contracts specified in provided in FAR 42.709(b). Affected contracts are identified in Exhibit B. The amounts are recommended for penalties, but less than the \$10,000 waiver threshold discussed in FAR 42-709-5. Additional information regarding the above penalties will be provided upon request. Our recommendations concerning the interest to be recovered on unallowable costs paid will be furnished when we have received your determination on penalties to be assessed.

**SUMMARY OF AUDIT RESULTS**  
Fiscal Year Ended December 31, 2003

Indirect Category		Base	Proposed Expense Pool		Question Expense Pool		Ref.
			Rate	Base	Pool	Rate	
	a				\$0	-	-
	b				\$0	-	-
	c				\$7,393		Exh. A
	d				\$0	-	-
	e				\$0	-	-

Description of Allocation Bases:

- a. [REDACTED]
- b. [REDACTED]
- c. [REDACTED]
- d. [REDACTED]
- e. [REDACTED]



GOVERNMENT PARTICIPATION IN ALLOCATION BASES  
Fiscal Year Ended December 31, 2003

Category	Contract Type In Allocation Base		Total
	Government Flexibly Priced Contracts/Subs	Government Firm Fixed Price and Commercial Work	

Cumulative Allowable Cost Worksheet (CACWS). The costs noted on the schedule of cumulative allowable costs in Exhibit B, represent costs that are considered allowable under the listed contracts and subcontracts and are, therefore, reimbursable. It should be noted that we have questioned \$4,034 and \$3,127 for costs outside the period of performance on contracts and subcontracts, respectively and \$398,238 and \$107,011 for costs in excess of ceiling amounts on contracts and subcontracts, respectively. For those contracts and subcontracts identified as "Ready to Close," the information on the CACWS should be used to close out contracts.

We provided and discussed the audit results with [REDACTED], Contractor Representative, on February 18, 2005, who concurred with our findings. The enclosed Indirect Cost Rate Agreement for FY 2003 (Appendix 2) documents the contractor's concurrence with our findings and recommendations.



EXHIBIT A

**SUMMARY OF AUDIT RESULTS OF OVERHEAD COSTS**

Fiscal Year Ended December 31, 2003

	<u>Overhead</u>	<u>Ref.</u>
<u>Contractor's Indirect Expenses:</u>		
Total Indirect Expenses	██████████	
Voluntary Deletions	██████████	Note 1
Claimed Costs (A)	██████████	
Results of Audit Review		
Questioned Expenses:		
Travel & Subsistence	██████████	Note 2
Miscellaneous Expenses	██████████	Note 3
Total Questioned Expenses (B)	██████████	
Adjusted Expenses (A-B) (C)	██████████	
Allocation Bases:		
Claimed Bases (D)	██████████	
Adjustments to Bases:		
Audit Adjusted Bases (E)	██████████	
Indirect Expense Rates		
Claimed Rates (A/D)	██████████	
Audit Adjusted Rates (C/E)	██████████	
Questioned Rates	██████████	

EXPLANATORY NOTES:

1. Voluntary Deletions

a. Summary of Conclusions:

We take no exceptions to MPR's proposed voluntary deletions for FY 2003.

b. Basis of Contractor's Cost:

The contractor's voluntary deletions of ██████████ in the Overhead Burden expense pool consist mainly of FAR 31.205 expressly unallowable costs for entertainment, travel and subsistence.



**Audit Report No. 6341-2003A10100019**

c. Audit Evaluation:

We traced and verified the proposed voluntary deletions to the contractor's books of record. We reviewed the contractor's financial statements, income tax return, Board of Director's minutes, and year-end adjusting journal entries. We reviewed the contractor's established accounting policies and procedures. We performed a review to determine that the contractor included all directly associated unallowable costs with the voluntary deleted amounts.

2. Travel & Subsistence

a. Summary of Conclusions:

Questioned indirect travel and subsistence costs of \$6,311 in the Overhead burden expense pool represent unallowable costs in accordance with FAR 31.205-14, FAR 31.205-46(a)(2)(i) through (iii), and FAR 31.205-46(a) (3)(ii) through (iv). Of the total questioned, \$2,246 is expressly unallowable costs pursuant to FAR 31.205-14 and subject to a level one penalty.

b. Basis of Contractor's Cost:

Represents indirect travel and subsistence costs incurred by employees while on business related travel charged to account # 4100-015-000 in the Overhead burden expense pool.

c. Audit Evaluation:

We traced and verified the proposed costs to the contractor's books of record. We selected a sample of the indirect travel and subsistence costs incurred. We reviewed sampled supporting travel expense reports, travel requisitions, and receipts in order to make a determination of allocability, allowability, and reasonableness in accordance with the FAR cost principles. We reviewed the contractor's established travel policies and procedures.

3. Miscellaneous Expenses

a. Summary of Conclusions:

Questioned indirect miscellaneous expenses of \$1,082 in the Overhead burden expense pool represent unallowable costs in accordance with FAR 31.205-14. These questioned costs are expressly unallowable costs and subject to a level one penalty.

b. Basis of Contractor's Cost:

Represents indirect miscellaneous expenses incurred charged to account # 4100-017-000 in the Overhead burden expense pool.

c. Audit Evaluation:

We traced and verified the proposed costs to the contractor's books of record. We selected a sample of the indirect miscellaneous expenses incurred. We reviewed sampled supporting invoices, purchase orders and requisitions, conference agendas, and vendor history reports in order to make a determination of allocability, allowability, and reasonableness in accordance with the FAR cost principles.

**SCHEDULE OF FLEXIBLY PRICED CONTRACTS  
AND SUBCONTRACTS IN FY 2003**

**Department of Health and Human Services (DHHS)**

---

PRIME CONTRACT

MPR Project No.

Prime Contract No.

Contract Type

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Department of Health and Human Services (DHHS)

---

PRIME CONTRACT

MPR Project No.

Prime Contract No.

Contract Type

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Department of Health and Human Services (DHHS)

---

SUBCONTRACTS

MPR Project No.

Prime Contract No.

Prime Contractor

Contract Type

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

**Department of Health and Human Services (DHHS)**

---

SUBCONTRACTS

<u>MPR Project No.</u>	<u>Prime Contract No.</u>	<u>Prime Contractor</u>	<u>Contract Type</u>
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

**Social Security Administration**

---

PRIME CONTRACT

<u>MPR Project No.</u>	<u>Prime Contract No.</u>	<u>Contract Type</u>
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

**CONTRACTOR ORGANIZATION AND SYSTEMS**

1. Organization

Mathematica Policy Research, Inc. was incorporated in the State of Delaware in 1976. Sales totaled [REDACTED] for the Year Ended December 31, 2003. Approximately [REDACTED] of Mathematica Policy Research Inc. sales are applicable to government flexibly priced contracts and subcontracts for Fiscal Year Ending December 31, 2003. The remaining sales represent commercial and firm fixed-price contracts. Mathematica Policy Research, Inc. sales relate to the providing of economic research and data collection services. Mathematica Policy Research, Inc. has approximately [REDACTED] employees.

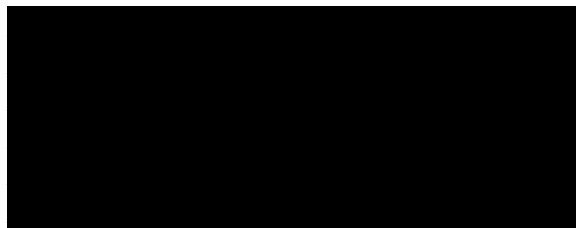
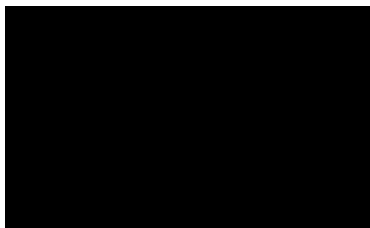
2. Accounting System

Mathematica Policy Research, Inc. maintains a Deltek job cost accounting system wherein contracts are assigned individual project numbers that are used to accumulate associated direct costs and ODC costs booked in multiple service centers. Indirect costs are identified with and accumulated under indirect cost pools and multiple service centers. Indirect expenses are recorded and billed to projects using predetermined rates less a reduction factor for estimated unallowable costs. The predetermined indirect pool rates, which include the multiple service center variances, are adjusted to actual allowable rates at final voucher submission following contract completion. The contractor's accounting system is considered to be adequate for the accumulation, reporting, and billing costs on government contracts. The following schedule describes Mathematica Policy Research Inc. indirect cost pools and related allocation bases:

Indirect Cost Pools and Allocation Bases:

Indirect Cost Pool

Allocation Base





**DCAA PERSONNEL**

	<u>Telephone No.</u>
Primary contacts regarding this audit:	
David M. Carrick, Auditor	(609) 520-0733
George B. Dowd, Supervisory Auditor	(732) 532-5692
Other contact regarding this audit report:	
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	<u>FAX No.</u>
Southern New Jersey Branch Office	(856) 354-7520
	<u>E-mail Address</u>
Southern New Jersey Branch Office	dcaa-fao6341@dcaa.mil

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

**AUDIT REPORT AUTHORIZED BY:**

/signed/  
JOSEPH F. ALTER  
Branch Manager  
DCAA Southern New Jersey Branch Office

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**DISTRIBUTION**

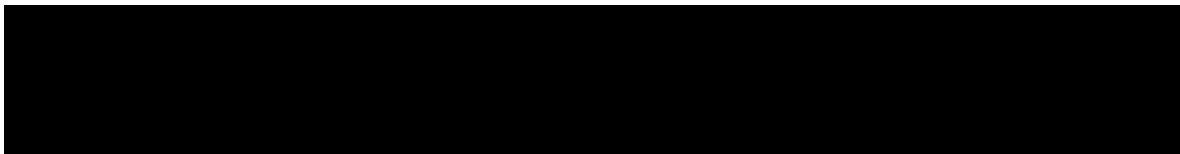
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**Audit Report No. 6341-2003A10100019**

	<u>E-mail Address</u>
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DCAA Baltimore Branch Office 8441 Belair Road, Suite 102 Baltimore, MD 21236	dcaa-fao6141@dcaa.mil
DCAA Silver Spring Branch Office 20251 Century Blvd., Suite 320 Germantown, MD 20874	dcaa-fao6221@dcaa.mil
DCAA Columbia Branch Office One Mall North, Suite 200 10025 Governor Warfield Parkway Columbia, MD 21044	dcaa-fao6311@dcaa.mil
DCAA Rosslyn Branch Office 6800 Versar Center Suite 329, 3rd Floor Springfield, VA 2151	dcaa-fao6331@dcaa.mil
DCAA Southern New Jersey Branch Office Woodcrest Pavilion 10 Melrose Avenue, Suite 200 Cherry Hill, NJ 08003	dcaa-fao6341@dcaa.mil
DCAA Pennsylvania Branch Office 700 American Avenue, Suite 100 King of Prussia, PA 19406	dcaa-fao6701@dcaa.mil
Mathematica Policy Research, Inc.  600 Alexander Park Princeton, NJ 08543-2393	(Copy furnished thru DHHS and SSA)

**RESTRICTIONS**

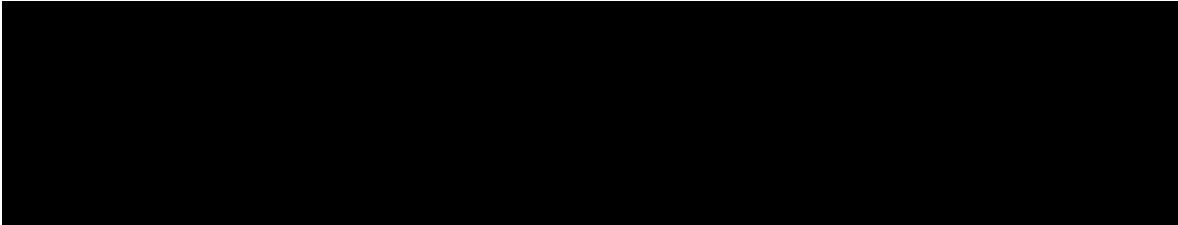
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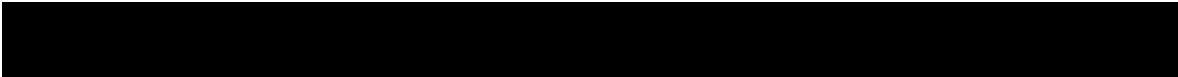
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3.



4.



Mathematica Policy Research, Inc.  
Princeton, New Jersey

Schedule N

**Certificate of Final Indirect Costs**

This is to certify that I have reviewed this proposal to establish final indirect cost rates and to the best of my knowledge and belief:

1. All costs included in this proposal **of Indirect Costs** to establish final indirect cost rates for **for the year ending December 31, 2003** are allowable in accordance with the cost principles of the Federal Acquisition Regulation (FAR) and its supplements applicable to the contracts to which the final indirect cost rates will apply; and
2. This proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements.

Firm: Mathematica Policy Research, Inc.

Signature: [REDACTED]

Name of Certifying Official: [REDACTED]

Title: [REDACTED]

Date of Execution: June 10, 2004





MID-ATLANTIC REGION  
SOUTHERN NEW JERSEY BRANCH OFFICE  
DEFENSE CONTRACT AUDIT AGENCY  
WOODCREST PAVILION  
10 MELROSE AVENUE, SUITE 200  
CHERRY HILL, NJ 08003-3647  
TELEPHONE (856) 354-7550  
FAX (856) 354-7520

IN REPLY REFER TO

6341(2003A10100019)

March 10, 2005

[Redacted]  
Mathematica Policy Research, Inc.  
P.O. Box 2393  
Princeton, NJ 08543-2393

Dear [Redacted]

This letter sets forth the agreed-upon final indirect cost rates established by audit determination in accordance with FAR 42.705-2(b)(2)(ii) and DoD FAR Supplement 242.705-2(b)(2)(ii).

The final annual indirect cost rates for Fiscal Year Ended December 31, 2003 are as follows:

<u>Indirect Category</u>		<u>Base</u>	<u>Expense Pool</u>	<u>Rate %</u>
<u>FY 2003</u>				
[Redacted]	(a)	[Redacted]	[Redacted]	[Redacted]
[Redacted]	(b)	[Redacted]	[Redacted]	[Redacted]
[Redacted]	(c)	[Redacted]	[Redacted]	[Redacted]
[Redacted]	(d)	[Redacted]	[Redacted]	[Redacted]
[Redacted]	(e)	[Redacted]	[Redacted]	[Redacted]
(a)	[Redacted]	[Redacted]	[Redacted]	[Redacted]
(b)	[Redacted]	[Redacted]	[Redacted]	[Redacted]
(c)	[Redacted]	[Redacted]	[Redacted]	[Redacted]
(d)	[Redacted]	[Redacted]	[Redacted]	[Redacted]
(e)	[Redacted]	[Redacted]	[Redacted]	[Redacted]

These rates are applicable to the base costs specified for each of the flexibly priced and T&M contracts and subcontracts performed during your Fiscal Year Ended December 31, 2003 as listed in Schedule 1.

The allowable costs by flexibly priced contracts and T&M billings on contracts and subcontracts for Fiscal Year Ended December 31, 2003 are included in Schedule 1.

[Redacted]

**Audit Report No. 6341-2003A10100019**

6341(2003A10100019)

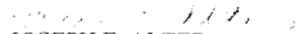
This indirect rate understanding shall not change any monetary ceiling, contract obligation or specific cost allowance or disallowance provided for the flexibly priced and T&M billings on contracts and subcontracts listed in Schedule 1. This understanding is incorporated into the affected subcontract upon execution.

The subject indirect rate does not include any specific indirect cost items which were treated as direct costs in the settlement of the subject rates.

Please confirm your acceptance of the terms of this indirect cost rate, direct and indirect cost and time and material billing agreement by signing and returning this letter to me. A duplicate of this letter is enclosed for your records.

You are requested to promptly submit adjustment vouchers or final vouchers for all flexibly priced and T&M billings on contracts and subcontracts in Schedule 1. Audit adjustments should be clearly delineated so as to be readily identifiable for verification by this office. Care should be taken that amounts claimed do not exceed contract limitations or contract indirect cost rate ceilings.

Sincerely,

  
JOSEPH F. ALTER  
Branch Manager

Attachment  
Schedule 1 – Cumulative Allowable Cost and T&M Billing Amount  
Worksheet through FY 2003 for Flexibly Priced Contracts and Subcontracts

Mathematica Policy Research, Inc. accepts the above stated final indirect cost rates.

Name:  Signature: 

Title:  Date: 3-14-03

Contractor: Mathematica Policy Research, Inc.



# Audit Report No. 6341-2003A10100019

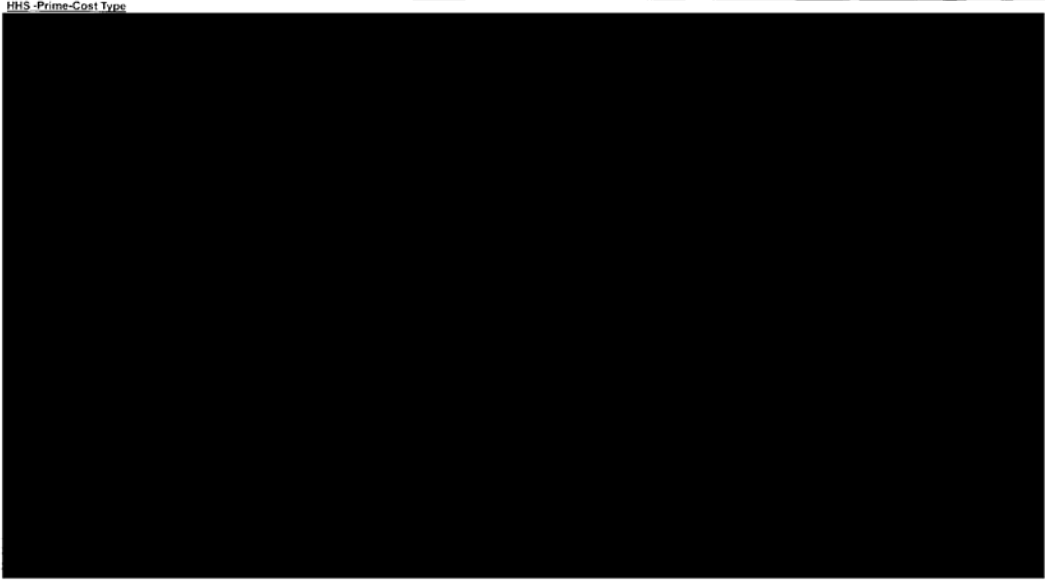
6341(2003A10100019)

Schedule 1

Mathematica Policy Research, Inc  
Princeton, New Jersey

Cumulative Allowable Cost and T&M Amount Worksheet  
Through FY 2003

Contract #	MPR Proj #	Subject to FAR Penalty Clause (1)	Prior Years Settled Total Costs (2)	FY 2003 Costs	Subtotal	Less Out of Period of Performance Costs (3)	Less Contract Cost Limitations (4)	Total	Contract Physically Complete	Ready to Close	Fee Portion
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# Audit Report No. 6341-2003A10100019

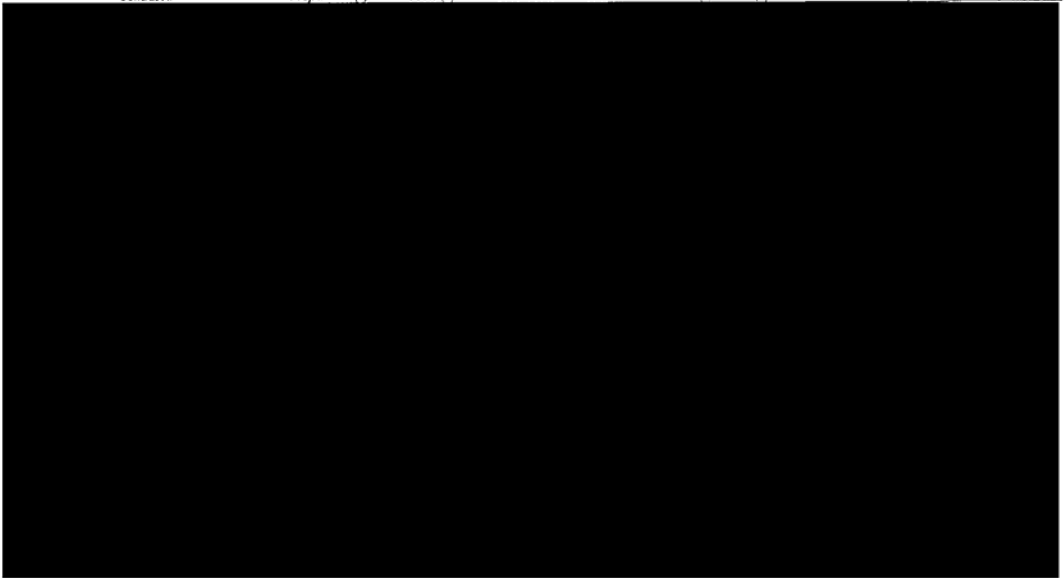
6341(2003A10100019)

Schedule 1

Mathematica Policy Research, Inc.  
Princeton, New Jersey

Cumulative Allowable Cost and T&M Amount Worksheet  
Through FY 2003

Contract #	MPR Proj. #	Subject to FAR Penalty Clause (1)	Prior Years Settled Total Costs (2)	FY 2003 Costs	Subtotal	Less Out of Period of Performance Costs (3)	Less Contract Cost Limitations (4)	Total	Contract Physically Complete	Ready to Close	Fee Portion
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# Audit Report No. 6341-2003A10100019

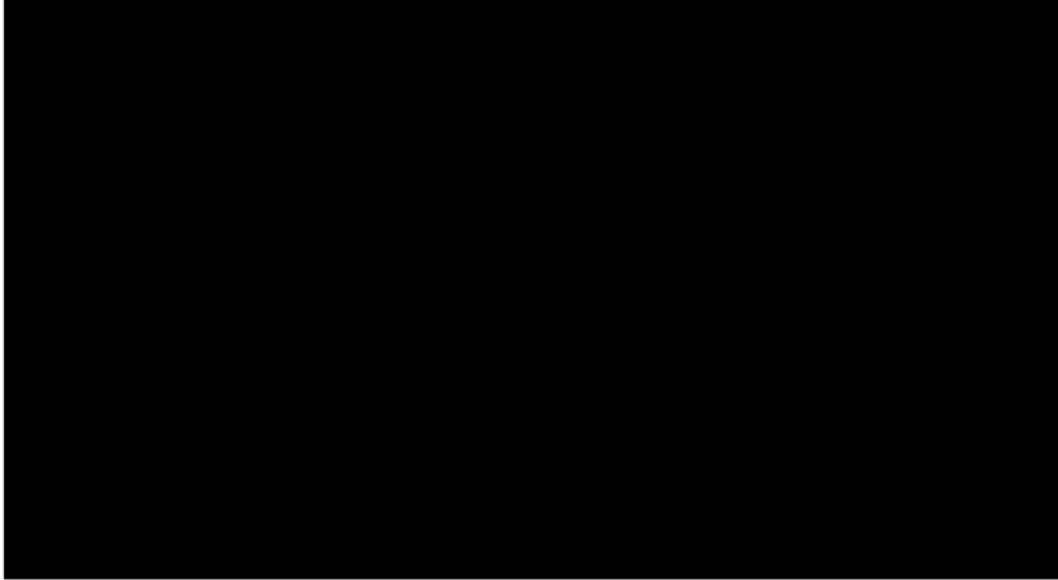
6341(2003A10100019)

Schedule 1

Mathematica Policy Research, Inc.  
Princeton, New Jersey

Cumulative Allowable Cost and T&M Amount Worksheet  
Through FY 2003

Contract #	MPR Proj. #	Subject to FAR Penalty Clause (1)	Prior Years Settled Total Costs (2)	FY 2003 Costs	Subtotal	Less Out of Period of Performance Costs (3)	Less Contract Cost Limitations (4)	Total	Contract Physically Complete	Ready to Close	Fee Portion
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# Audit Report No. 6341-2003A10100019

6341(2003A10100019)

Schedule 1

Mathematica Policy Research, Inc.  
Princeton, New Jersey

Cumulative Allowable Cost and T&M Amount Worksheet  
Through FY 2003

Contract #	MPR Proj. #	Subject to FAR Penalty Clause (1)	Prior Years Settled Total Costs (2)	FY 2003 Costs	Subtotal	Less Out of Period of Performance Costs (3)	Less Contract Cost Limitations (4)	Total	Contract Physically Complete	Ready to Close	Fee Portion
[Redacted Data]											

**Explanatory Notes:**

(1) Indicates those contracts covered by the penalty clause as required by FAR 42.709.

(2) Prior years' settled costs are qualified inasmuch as DCAA did not audit the direct costs prior to FY 1999 on DHHS contracts and subcontracts. Therefore, we express no opinion on the allowability, allocability, and reasonableness of the direct costs incurred under the DHHS flexibly priced prime contracts and subcontracts prior to FY 1999.

Includes correction of formula error by contractor in the FY 2000 submission for 9 active projects in the amount of \$40,851. For FY 2001 forward, the contractor corrected the formula error.

Includes omitted costs for project #8908 by contractor for FY 2002.

(3) Costs incurred outside the period of contract performance.

(4) In excess of contract ceiling amounts.



---

**MATHEMATICA**  
Policy Research, Inc.

P.O. Box 2393  
Princeton, NJ 08543 2393  
Telephone (609) 799-3535  
Fax (609) 799-0005  
www.mathematica-mpr.com

609/275-2311

ACC-1655

December 29, 2004

George Dowd  
Supervisory Auditor  
Defense Contract Audit Agency  
Southern New Jersey Branch Office  
Woodcrest Pavilion  
10 Melrose Avenue, Suite 200  
Cherry Hill, NJ 08003-3647

Dear Mr. Dowd:

MPR objects to the release of the audit report for the incurred cost audit for fiscal year 2003 to any prime contractor for contracts which were in effect during those years. We will permit that the agency provide the rate agreement to these prime contractors for the purposes of verifying our rates, however we consider the cost information contained in the body of the audit report to be proprietary information, and do not authorize its release.

Sincerely,



**DEFENSE CONTRACT AUDIT AGENCY**  
**AUDIT REPORT NO. 6341-2004A10100013**



September 11, 2006

**PREPARED FOR:** Department of Health and Human Services  
Centers for Medicare & Medicaid Services  
ATTN: Marie E. Dodge, M.S. C2-21-15  
Acquisition Price/Cost Analyst  
7500 Security Blvd.  
Baltimore, MD 21244

**PREPARED BY:** DCAA Southern New Jersey Branch Office  
Woodcrest Pavilion  
10 Melrose Avenue, Suite 200  
Cherry Hill, NJ 08003-3647  
Telephone No. (856) 354-7550  
FAX No. (856) 354-7520  
E-mail Address [dcaa-fao6341@dcaa.mil](mailto:dcaa-fao6341@dcaa.mil)

**SUBJECT:** Report on Audit of Incurred Costs and T&M Billing Amounts for FY 2004 and Supplemental Audit of Direct Costs for FY 2001, 2002, and 2003 for the National Science Foundation

**CONTRACTOR:** Mathematica Policy Research, Inc. (Cage Code 5D318)  
600 Alexander Park  
Princeton, NJ 08543-2393

**REPORT RELEASE RESTRICTIONS:** See Page 15

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Results of Audit	2
Contractor Organization and Systems	14
DCAA Personnel and Report Authorization	15
Audit Report Distribution and Restrictions	16
Certificate of Indirect Costs	Appendix 1
Cumulative Allowable Cost Worksheet	Appendix 2
Contractor's Objection to Release Statement	Appendix 3



**SUBJECT OF AUDIT**

We examined the Mathematica Policy Research, Inc.'s (MPR) March 14, 2006 certified final indirect cost rate proposal and related books and records for reimbursement of the fiscal year ended December 31, 2004 incurred costs and T&M amounts. We also examined the direct costs submitted for reimbursement under National Science Foundation contracts for FY-2001 through FY 2004. The purpose of the examination was to determine the allowability of the direct and indirect costs and T&M amounts and recommend Contracting Officer determined indirect cost rates for the Fiscal Year of 1 January 2004 through December 31, 2004 for the Department of Health and Human Resources (DHHS), the Social Security Administration, (SSA), the National Science Foundation (NSF) and the Department of Agriculture (USDA) contracts and subcontracts. The proposed rates for FY 2004 apply primarily to the flexibly priced contracts and subcontracts listed in Exhibit B. A copy of MPR's Certificate of Final Indirect Costs, dated March 14, 2006, is included as Appendix 1 to this report.


The proposal is the responsibility of the contractor. Our responsibility is to express an opinion based on our examination.

**SCOPE OF AUDIT**

Except for the qualifications discussed below, 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 data and records examined are free of material misstatement. 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 amounts and disclosures in the data and records evaluated;
- sampling billings for T&M orders to determine usage of proper contracted labor category rates;
- assessing the accounting principles used and significant estimates made by the contractor;
- evaluating the overall data and records presentation; and
- determining the need for technical specialist assistance.

We evaluated the proposal using the applicable requirements contained in the:

- Federal Acquisition Regulations (FAR);
  - Health and Human Services Acquisition Regulations (HHSAR);
  - Agriculture Acquisition Regulations (AGAR), Defense FAR Supplement; and
  - Cost Accounting Standards.
- 

## AUDIT REPORT NO. 6341-2004A10100013

For FY-2001 through FY-2004, we consider the Mathematica Policy Research Inc.'s (MPR) accounting system to be adequate for the accumulation, reporting, and billing costs on government contracts, as described in the Contractor Organization and Systems section of this report. The scope of our examination reflects our assessment of control risk and includes tests of compliance with laws and regulations that we believe provide a reasonable basis for our opinion. Our assessment of control risk reflects that we have not specifically tested the effectiveness of MPR's systems and related internal controls.

The concurrent verification of materials was omitted in this examination.

### QUALIFICATIONS

1. The Department of Labor (DOL) and the Department of Education (DOE) declined our offer of audit services. Our review was limited to DHHS, SSA, NSF and USDA FY 2004 auditable prime and subcontract effort. Our audit is qualified to the extent that the audit of DOL and DOE was not accomplished. Therefore, we express no opinion on the allowability of the recorded cost related to flexibly priced contracts and subcontracts for DOL and DOE. As such, the information contained in the report is not acceptable as a basis for determining allowability of the unaudited direct costs for contract closeout purposes that pertain to the U.S. Departments of Labor and Education.
2. DHHS declined our offer of audit services regarding subcontract assist audits. Our audit is qualified to the extent that audit of flexibly priced subcontractors was not accomplished. Therefore, we express no opinion on the allowability of the recorded costs related to auditable subcontracts under the auditable DHHS flexibly priced prime contracts and T&M subcontracts for FY 2004. The information contained in the report is not acceptable as a basis for determining allowability and allocability of the unaudited direct costs for contract closeout purposes that pertain to subcontract direct costs under auditable DHHS flexibly priced prime contracts and T&M subcontracts for FY 2004.

### RESULTS OF AUDIT

Indirect Rates In our opinion, the contractor's proposed indirect rates are acceptable as adjusted by our examination. The examination results and recommendations are presented below.

Direct Costs In our opinion, except for qualifications noted above, the claimed direct costs for FYs 2001, 2002 and 2003 under the NSF flexibly priced contracts and subcontracts and for FY 2004 under NSF, DHHS, NSF and the USDA flexibly priced contracts and subcontracts are acceptable and are provisionally approved pending final acceptance. However, we questioned \$1,878 of direct travel costs claimed in FY 2004 on Social Security Administration Contract Number 0600-03-60129 (see details in note below). Final acceptance of amounts under government contracts does not take place until performance under the contract is completed and accepted by the cognizant authorities and the audit responsibilities have been completed.

**AUDIT REPORT NO. 6341-2004A10100013**

FY 2004 Direct Travel Costs We questioned \$1,878 of direct travel costs claimed for FY 2004 on Social Security Administration Contract Number 0600-03-60129. We reviewed the direct travel costs for Task 111 on Voucher Nos. 125224 and 125306 booked in May 2004. Questioned costs represent the difference between the FY 2004 GSA daily lodging allowance and the daily lodging amounts incurred by MPR employees during a specific trip. The company representative agreed. The questioned direct costs have no impact on the submitted indirect rates.

Penalties for Unallowable Costs Indirect costs questioned in this examination of \$4,079 are believed to be subject to penalties provided in FAR 42-709. Refer to Notes 2, 3 and 5 of Exhibit A for details. Of these amounts, \$1,399 in the Overhead Burden expense pool were allocable to the prime contracts (listed in Exhibit B) specified in FAR 42.709(b). Subcontracts are exempt from the DFAR penalty. The amounts are not recommended for penalties; however, because they are less than the \$10,000 waiver threshold discussed in FAR 42-709-5.

Cumulative Allowable Cost Worksheet (CACWS) The purpose of this audit is to recommend Contracting Officer determined final indirect cost rates as mentioned above; nevertheless, we have quantified and provided the cumulative allowable costs as Appendix 2 based on the results of our audit and as agreed to by the contractor. These represent costs that are considered allowable under the listed contracts and subcontracts and are, therefore, reimbursable pending any further adjustments by contracting officers. It should be noted that we have questioned \$4,029 and \$3,127 for costs outside the period of performance on HHS contracts and subcontracts, respectively, and \$224,494 and \$107,011 for costs in excess of ceiling amounts on HHS contracts and subcontracts, respectively. For SSA we have questioned \$267,828 for costs in excess of ceiling amounts on SSA prime contracts. For those contracts and subcontracts identified as "Ready to Close," the information on the CACWS should be used to close out contracts.

**SUMMARY OF AUDIT RESULTS**  
Fiscal Year Ended December 31, 2004

Indirect Category		Proposed			Questioned			Ref.
		Pool	Base	Rate	Pool	Base	Rate	
	(a)					\$0	-	-
	(b)					\$0	-	-
	(c)					\$0		Exh. A
	(d)					\$0	-	-
	(e)					(\$31,779)		Exh. A

Description of Allocation Bases:

- a.
- b.
- c.
- d.
- e.

GOVERNMENT PARTICIPATION IN ALLOCATION BASES



**AUDIT REPORT NO. 6341-2004A10100013**

Fiscal Year Ended December 31, 2004

Contract Type In Allocation Base

<b>Category</b>	<b>Government Flexibly Priced Contracts/Subs</b>	<b>Government Firm Fixed Price and Commercial Work</b>	<b>Total</b>
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

We provided and discussed the audit results with [REDACTED], MPR Internal Auditor, on July 24, 2006, who concurred with our findings.



STATEMENT OF PROPOSED OVERHEAD AND G&A AND RESULTS OF AUDIT

Fiscal Year Ended December 31, 2004

		<u>Overhead</u>	<u>G&amp;A</u>	<u>Ref.</u>
<u>Contractor's Indirect Expenses:</u>				
Total Indirect Expenses		[REDACTED]	[REDACTED]	
Voluntary Deletions		[REDACTED]	[REDACTED]	Note 1
Claimed Costs	(A)	[REDACTED]	[REDACTED]	
Results of Audit Review				
Questioned Expenses:				
Licenses and Fees (Fine & Penalty)		[REDACTED]		Note 2
Miscellaneous (Entertainment)		[REDACTED]		Note 3
Outside Services (legal)		[REDACTED]		Note 4
Travel & Subsistence		[REDACTED]		Note 5
Other Recruiting Expenses		[REDACTED]	[REDACTED]	Note 6
Total Questioned Expenses	(B)	[REDACTED]	[REDACTED]	
Adjusted Expenses (A-B)	(C)	[REDACTED]	[REDACTED]	
Allocation Bases:				
Claimed Bases	(D)	[REDACTED]	[REDACTED]	
Adjustments to Bases		[REDACTED]	[REDACTED]	Note 7
Audit Adjusted Bases	(E)	[REDACTED]	\$ [REDACTED]	
Indirect Expense Rates				
Claimed Rates	(A/D)	[REDACTED]	[REDACTED]	
Audit Adjusted Rates	(C/E)	[REDACTED]	[REDACTED]	
Questioned Rates		[REDACTED]	[REDACTED]	

( ) Denotes an upward adjustment

EXPLANATORY NOTES:

1. Voluntary Deletions

a. Summary of Conclusions:

We take no exceptions to MPR's proposed voluntary deletions for FY 2004.



b. Basis of Contractor's Cost:

The contractor's voluntary deletions of [REDACTED] in the Overhead Burden expense pool consist mainly of FAR 31.205 expressly unallowable costs for merger and acquisition, relocation and travel and subsistence. The contractor's voluntary deletions of \$63,926 in the G&A expense pool consist primarily of unallowable rent and travel and subsistence.

c. Audit Evaluation:

We traced and verified the proposed voluntary deletions to the contractor's books of record. We reviewed the contractor's financial statements, income tax return, Board of Director's minutes, and year-end adjusting journal entries. We reviewed the contractor's established accounting policies and procedures. We performed a review to determine that the contractor included all directly associated unallowable costs with the voluntary deleted amounts.

2. Licenses and Fees

a. Summary of Conclusions:

We questioned indirect miscellaneous expenses of \$3,459 in the overhead burden expense pool based on FAR 31.205-15 "Fines, Penalties, and Mischarging Costs". Expense Voucher 132456 is the result of a penalty assessed by the State of New York to Mathematica Policy Research, Inc. for violation of the Disability Benefits Law for the period 11/02/2002 to 01/14/2004. These costs are expressly unallowable and subject to a penalty.

b. Basis of Contractor's Cost:

Represents indirect licenses and fees charged to Account # 4100-016-000 in the overhead burden expense pool.

c. Audit Evaluation:

We traced and verified the proposed costs to the contractor's books of record. We selected a sample of the indirect licenses and fees incurred and reviewed supporting invoices in order to make a determination of allocability, allowability, and reasonableness in accordance with the FAR cost principles.

d. Contractor's Reaction:

The contractor's representative agreed with the questioned costs.

3. Miscellaneous Expenses

**AUDIT REPORT NO. 6341-2004A10100013**

a. Summary of Conclusions:

We questioned indirect miscellaneous expenses of \$188 in the overhead burden expense pool based on FAR 31.205-14 "Entertainment Costs". Expense Voucher 127092 was for purchase of food for entertainment. These costs are expressly unallowable and subject to a penalty.

b. Basis of Contractor's Cost:

Represents indirect expenses charged to Account # 4100-017-000 in the overhead burden expense pool.

c. Audit Evaluation:

We traced and verified the proposed costs to the contractor's books of record. We selected a sample of the indirect miscellaneous expenses incurred and reviewed supporting invoices in order to make a determination of allocability, allowability, and reasonableness in accordance with the FAR cost principles.

d. Contractor's Reaction:

The contractor's representative agreed with the questioned costs.

4. Outside Services

a. Summary of Conclusions:

We questioned legal expenses of \$2,259 in the overhead burden expense pool based on FAR 31-201.4 "Determining Allocability". Legal costs were not related to work and are not allocable to government contracts.

b. Basis of Contractor's Cost:

Represents legal costs not related to work charged to Account # 4100-008-000 in the overhead burden expense pool. Legal expenses were associated with forms, processing and support.

c. Audit Evaluation:

We traced and verified the proposed costs to the contractor's books of record. We selected a sample of the indirect outside services costs incurred and reviewed the basis for the expense in order to make a determination of allocability, allowability, and reasonableness in accordance with the FAR cost principles.

d. Contractor's Reaction:

The contractor's representative agreed with the questioned costs.

**AUDIT REPORT NO. 6341-2004A10100013**

5. Travel and Subsistence

a. Summary of Conclusions:

We questioned indirect travel and subsistence costs of \$1,609 in the overhead burden expense pool. Of the questioned costs, \$1,177 represents direct travel costs of a specific non-federal contract and is considered not allocable to government contracts per FAR 31.201-4. We questioned \$332 based on FAR 31.205.14 "Entertainment Costs" for travel expenses related to a trip. We also questioned \$100 based on FAR 31.205-46 "Travel Costs" for first class airfare. The questioned entertainment cost and travel costs of \$432 are expressly unallowable and subject to a penalty.

b. Basis of Contractor's Cost:

The \$1,609 represents indirect travel and subsistence costs charged to Account # 4100-015-000 in the overhead burden expense pool.

c. Audit Evaluation:

We traced and verified the proposed costs to the contractor's books of record. We selected a sample of the indirect travel and subsistence costs incurred and reviewed supporting travel expense reports, travel requisitions, and receipts in order to make a determination of allocability, allowability, and reasonableness in accordance with the FAR cost principles. We reviewed the contractor's established travel policies and procedures.

d. Contractor's Reaction:

The contractor's representative agreed with the questioned costs.

6. Other Recruiting Expenses

a. Summary of Conclusions:

We questioned other recruiting expenses of \$600 in the overhead burden expense pool as unallocable in accordance with FAR 31.201-4 "Determining Allocability".

b. Basis of Contractor's Cost:

The \$600 relates to the portion of travel expenses reimbursed to a potential employee which were not related to the interview.

c. Audit Evaluation:

We traced and verified the proposed costs to the contractor's books of record. We selected a sample of the other recruiting expenses incurred and reviewed supporting expense reports, travel requisitions, and receipts in order to make a determination of allocability,

**AUDIT REPORT NO. 6341-2004A10100013**

allowability, and reasonableness in accordance with the FAR cost principles. We reviewed the contractor's established travel policies and procedures.

d. Contractor's Reaction:

The contractor's representative agreed with the questioned costs.

7. Total Cost Input Base

a. Summary of Conclusions:

We increased the total cost input base to reflect [REDACTED] in immigration expenses so that the expenses properly bear their pro rata share of G&A expense.

b. Basis of Contractor's Cost:

On March 14, 2006, the contractor revised its FY 2004 incurred cost submission adding immigration support and processing expenses previously considered unallowable. The expenses were added to the overhead burden expense pool, but were not added to the total cost input base.

c. Audit Evaluation:

We traced and verified the proposed adjustment to the contractor's books of record. We selected a sample of the immigration processing and support costs incurred. We reviewed the basis of the expenses in order to make a determination of allocability, allowability, and reasonableness in accordance with the FAR cost principles. We reviewed the total cost input base for G&A expense allocation to determine that the expenses were properly included.

d. Contractor's Reaction:

The contractor's representative agreed with the questioned costs.

SCHEDULE OF FLEXIBLY PRICED CONTRACTS  
AND SUBCONTRACTS IN FY 2004

Department of Health and Human Services (DHHS)

---

**PRIME CONTRACTS**

MPR Project No.

Prime Contract No.

Contract Type

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Department of Health and Human Services (DHHS)

---

PRIME CONTRACT

MPR Project No.

Prime Contract No.

Contract Type

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]



Department of Health and Human Services (DHHS)

---

**SUBCONTRACTS**

<u>MPR Project No.</u>	<u>Prime Contract No.</u>	<u>Prime Contractor</u>	<u>Contract Type</u>
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Department of Health and Human Services (DHHS)

---

**SUBCONTRACTS**

<u>MPR Project No.</u>	<u>Prime Contract No.</u>	<u>Prime Contractor</u>	<u>Contract Type</u>
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

**Social Security Administration**

---

**PRIME CONTRACT**

<u>MPR Project No.</u>	<u>Prime Contract No.</u>	<u>Contract Type</u>
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

**Department of Agriculture**

---

**PRIME CONTRACT**

<u>MPR Project No.</u>	<u>Prime Contract No.</u>	<u>Contract Type</u>
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

**National Science Foundation**

---

**PRIME CONTRACT**

<u>MPR Project No.</u>	<u>Prime Contract No.</u>	<u>Contract Type</u>
[REDACTED]	[REDACTED]	[REDACTED]

CONTRACTOR ORGANIZATION AND SYSTEMS

1. Organization

Mathematica Policy Research, Inc. was incorporated in the State of Delaware in 1976. Sales totaled [REDACTED] for the Year Ended December 31, 2005. Approximately [REDACTED] or [REDACTED] of Mathematica Policy Research Inc. sales are applicable to government flexibly priced contracts and subcontracts for Fiscal Year Ending December 31, 2005. The remaining sales represent commercial and firm fixed-price contracts. Mathematica Policy Research, Inc. sales relate to the providing of economic research and data collection services. Mathematica Policy Research, Inc. has [REDACTED] employees.

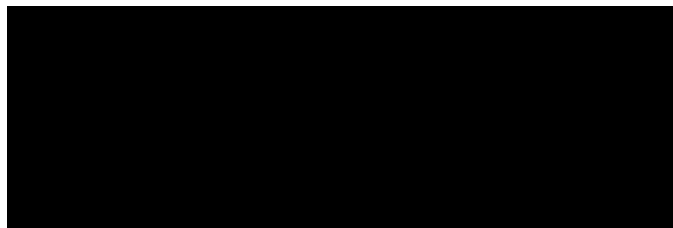
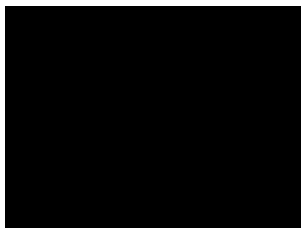
2. Accounting System

Mathematica Policy Research, Inc. maintains a Deltek job cost accounting system wherein contracts are assigned individual project numbers that are used to accumulate associated direct costs and ODC costs booked in multiple service centers. Indirect costs are identified with and accumulated under indirect cost pools and multiple service centers. Indirect expenses are recorded and billed to projects using predetermined rates less a reduction factor for estimated unallowable costs. The predetermined indirect pool rates, which include the multiple service center variances, are adjusted to actual allowable rates at final voucher submission following contract completion. The contractor's accounting system is considered to be adequate for the accumulation, reporting, and billing costs on government contracts. The following schedule describes Mathematica Policy Research, Inc.'s indirect cost pools and related allocation bases:

Indirect Cost Pools and Allocation Bases:

Indirect Cost Pool

Allocation Base



**AUDIT REPORT NO. 6341-2004A10100013**

**DCAA PERSONNEL**

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

**AUDIT REPORT AUTHORIZED BY:**

/Signed/  
JOSEPH F. ALTER  
Branch Manager  
DCAA Southern New Jersey Branch Office

**AUDIT REPORT NO. 6341-2004A10100013**

**AUDIT REPORT DISTRIBUTION AND RESTRICTIONS**

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**AUDIT REPORT NO. 6341-2004A10100013**

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600 Alexander Park  
Princeton, NJ 08543  
(Copy furnished thru  
DHHS, SSA, USDA and  
NSF)

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Mathematica Policy Research, Inc.  
Princeton, New Jersey

Schedule N

Certificate of Final Indirect Costs

This is to certify that I have reviewed this proposal to establish final indirect cost rates and to the best of my knowledge and belief:

1. All costs included in this proposal of Indirect Costs to establish final indirect cost rates for for the year ending December 31, 2004 are allowable in accordance with the cost principles of the Federal Acquisition Regulation (FAR) and its supplements applicable to the contracts to which the final indirect cost rates will apply; and
2. This proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements.

Firm: Mathematica Policy Research, Inc.  
Signature: [REDACTED]  
Name of Certifying Official: [REDACTED]  
Title: [REDACTED]  
Date of Execution: March 14, 2006



APPENDIX 2

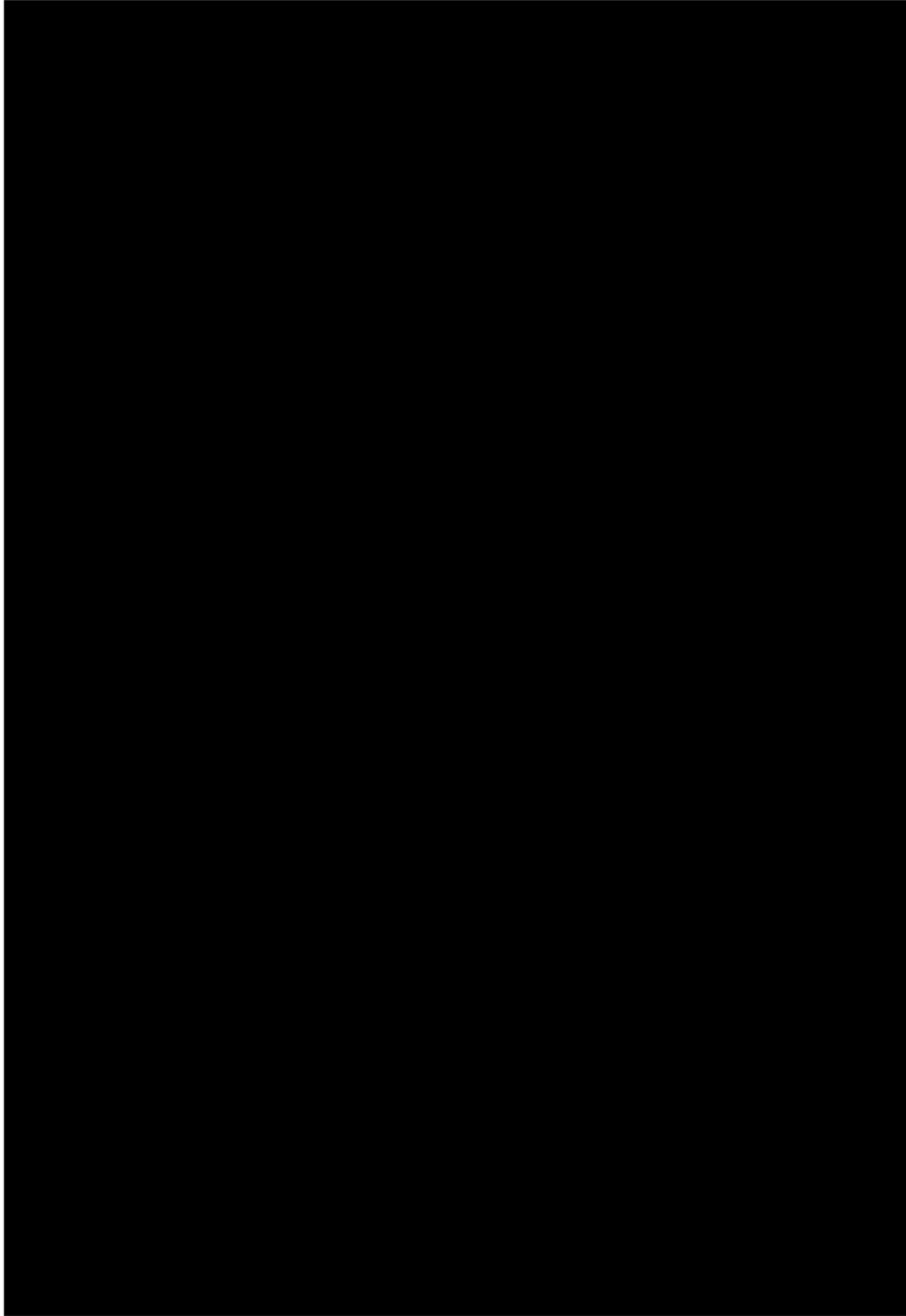
Mathematica Policy Research, Inc.  
Princeton, New Jersey

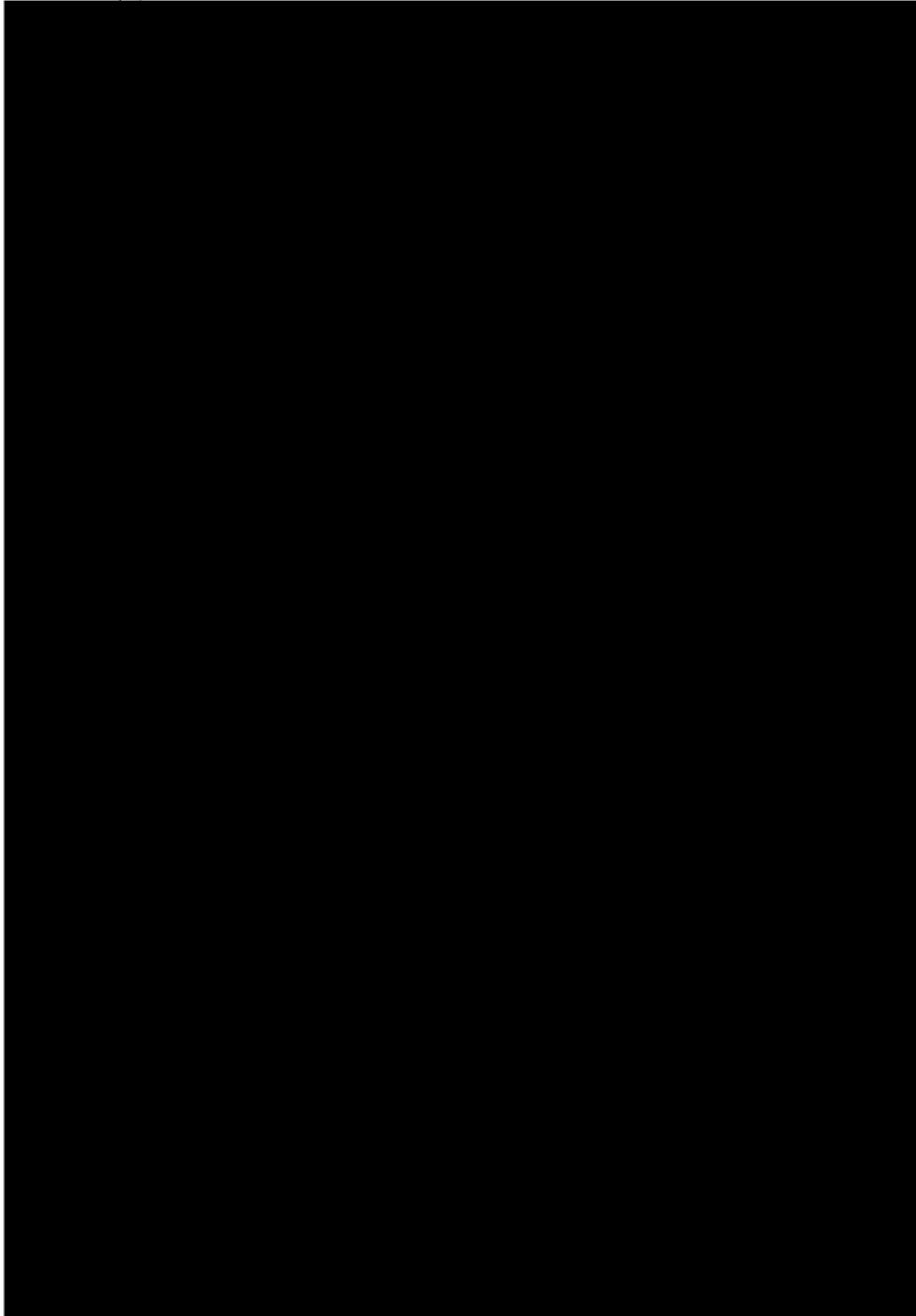
Cumulative Allowable Cost and T&M Amount Worksheet  
Through FY 2004

6341(2004A10100013)

Contract #	MPR Proj. #	Subject to FAR Penalty Clause (1)	Prior Years Settled Total Costs (2)	FY 2004 Costs	Subtotal	Less Less Out of Period of Performance Costs (3)	Contract Cost Limitations (4)	Total	Contract Physically Complete	Ready to Close	Fee Portion
<div style="background-color: black; width: 100%; height: 100%; min-height: 600px;"></div>											

HHS -Prime-Cost Type  
Ceiling Rates Applied







Explanatory Notes:

- (1) Indicates those contracts covered by the penalty clause as required by FAR 42.709.
- (2) Prior years' settled costs are qualified inasmuch as DCAA did not audit the direct costs prior to FY 1999 on any non-DOD contracts and subcontracts. Therefore, we express no opinion on the allowability, allocability, and reasonableness of the direct costs incurred under those flexibly priced prime contracts and subcontracts prior to FY 1999.
- Includes correction of formula error by contractor in the FY 2000 submission for 9 active projects in the amount of \$40,861. For FY 2001 forward, the contractor corrected the formula error.
- Includes omitted costs for project #8908 by contractor for FY 2002.
- (3) Costs incurred outside the period of contract performance.
- (4) In excess of contract ceiling amounts.



**MATHEMATICA**  
Policy Research, Inc.

P.O. Box 2393  
Princeton, NJ 08543-2393  
Telephone (609) 799-3535  
Fax (609) 799-0005  
www.mathematica-mpr.com  
609/275-2311

ACC-1762

July 21, 2006

George Dowd  
Supervisory Auditor  
Defense Contract Audit Agency  
Southern New Jersey Branch Office  
Woodcrest Pavilion  
10 Melrose Avenue, Suite 200  
Cherry Hill, NJ 08003-3647

Dear Mr. Dowd:

MPR objects to the release of the audit report for the incurred cost audit for fiscal year 2004 to any prime contractor for contracts which were in effect during those years. We will permit that the agency provide the rate agreement to these prime contractors for the purposes of verifying our rates. However, we consider the cost information contained in the body of the audit report to be proprietary information, and do not authorize its release.

Sincerely,