

**NATIONAL SCIENCE FOUNDATION**

4201 WILSON BOULEVARD  
ARLINGTON, VIRGINIA 22230



OFFICE OF  
INSPECTOR GENERAL

**MEMORANDUM**

**DATE:** SEP 18 2002

**TO:** Ms. Donna Fortunat, Director  
Division of Contracts, Policy and Oversight

**FROM:** *Deborah H. Cureton*  
Ms. Deborah H. Cureton  
Associate Inspector General for Audit

**SUBJECT:** Audit Report No. 02-1014  
Crabtree + Company

Attached is the final report prepared by McBride, Lock & Associates, a Certified Public Accounting Firm, on the audit of NSF Contract LPA 97-14153 awarded to Crabtree + Company (C+C). The audit covers costs incurred from May 1, 1997 to August 31, 2000. Overall, we found that most of C+C's \$4.9 million in claimed costs were allowable. However, the auditors were unable to evaluate the allowability of \$1,018,781 of indirect costs claimed by C+C because the NSF award provision related to the overhead recovery was ambiguous and conflicted with agreements C+C had negotiated with NSF during its preaward review. As a result, the audit reported these costs as unresolved and identified a material noncompliance with award terms and conditions finding.

Additionally, the audit found that C+C did not have adequate internal controls to ensure that indirect costs were appropriately classified, indirect cost rates were appropriately determined and that indirect cost recoveries were consistent with award stated application bases. CPO should ensure that appropriate corrective action is taken by the awardee. We also intend to issue a separate memorandum with a recommendation for improved NSF administration over awards as a result of this financial audit.

We thank your staff for the assistance that was extended to our auditors during this review. If you have any questions about this report or need assistance on any matter contained in this memorandum, please contact Jannifer Jenkins at 703-292-4996 or Ulysses Goodwin, Jr. at 703-292-4990.

Attachment

#02-1-014

Crabtree + Company  
200 Park Avenue  
Falls Church Virginia 22046

National Science Foundation Award Number LPA 97-141:53

Financial Schedules

and

Independent Auditors Reports

For the period March 1997 to August 2000

SEP 9 20 02

MMcBRIDE, LOCK & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS  
KANSAS CITY...

Crabtree + Company  
200 Park Avenue  
Falls Church, Virginia 22046

National Science Foundation Award Number LPA 97-14153

Financial Schedules

and

Independent Auditors' Reports

For the period May 1, 1997 to August 31, 2000

**REPORT RELEASE RESTRICTION**

This report may not be released to anyone outside the National Science Foundation without the approval of the National Science Foundation - Office of Inspector General, except to an agency involved in negotiating or administering the award. Furthermore, information contained in this audit report should not be used for purposes other than intended without prior consultation with the National Science Foundation - Office of Inspector General regarding its applicability.

Crabtree + Company

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## MCBRIDE, LOCK & ASSOCIATES

### INDEPENDENT AUDITORS' REPORT

National Science Foundation  
Office of Inspector General  
4201 Wilson Boulevard  
Arlington, Virginia 22230

We have audited the costs claimed by Crabtree + Company to the National Science Foundation on the Public Voucher for Purchases and Services Other Than Personal (No. 63) for the National Science Foundation award listed below. This Public Voucher for Purchases and Services Other Than Personal, as presented in the Schedule of Award Costs (Schedule A) is the responsibility of the Awardee's management. Our responsibility is to express an opinion on this Schedule based on our audit.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
LPA 97-14153	5/1/97 - 5/31/01	5/1/97 - 8/31/00

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States, and the *National Science Foundation Audit Guide* (September 1996). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The accompanying financial schedule was prepared for the purpose of complying with the requirements of the *National Science Foundation Audit Guide* as described in Note 1, and is not intended to be a complete presentation of financial position in conformity with generally accepted accounting principles.

In our opinion, the financial schedule referred to above presents fairly, in all material respects, the costs claimed on the Public Voucher for Purchases and Services Other Than Personal (No. 63) as presented in the Schedule of Award Costs (Schedule A), for the period May 1, 1997 to August 31, 2000 in conformity with the *National Science Foundation Audit Guide*, NSF Grant Policy Manual, the award terms and conditions and on the basis of accounting described in Note 1.

Schedule B contains costs in the amount of \$1,018,781 that are being reported as unresolved. The final determination on this amount will be made by the National Science Foundation and therefore, the ultimate outcome of this determination cannot presently be determined. Accordingly, no adjustment has been made to costs claimed for any potential disallowance by NSF.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 16, 2001 on our consideration of Crabtree + Company's internal control structure and a report dated February 16, 2001 on its compliance with laws and regulations.

This report is intended solely for the information and use of the National Science Foundation. Upon acceptance by the National Science Foundation, this report is a matter of public record, subject to the redaction of material that either constitutes confidential business or personal information covered by 18 U.S.C. Sec. 1905 or 5 U.S.C. Sec. 552a, or is covered by 5 U.S.C. Sec. 552(b).



McBride, Lock & Associates

February 16, 2001

REPORT SUMMARY AND HIGHLIGHTS



National Science Foundation  
Office of Inspector General  
4201 Wilson Boulevard  
Arlington, Virginia 22230

### PURPOSE AND SCOPE OF AUDIT

We have performed an audit of the costs claimed by Crabtree + Company to the National Science Foundation on the following NSF award:

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
LPA 97-14153.	5/1/97 _ 5/31/01	5/1/97 - 8/31/00

The objectives of our audit were to determine whether:

1. Financial reports prepared by the auditee presented fairly the financial condition of the award;
2. The internal control structure was adequate to safeguard Federal funds;
3. The Awardee had adequate procedures and controls to ensure compliance with Federal laws, NSF regulations and award conditions; and
4. The Award costs reported to NSF were documented and allowable in accordance with the award terms and conditions.

Our audit was made in accordance with generally accepted auditing standards, *Government Auditing Standards* (1994 Revision) issued by the Comptroller General of the United States, and the *National Science Foundation Audit Guide* (September 1996). Those standards and the *National Science Foundation Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed to the National Science Foundation as presented in the Schedule of Award Costs (Schedule A), are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in Schedule A. An audit also includes assessing the accounting principles used and significant estimates made by the Awardee, as well as evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

## SUMMARY OF AUDIT RESULTS

An audit was performed on the costs claimed by Crabtree + Company to the National Science Foundation as shown in Schedule A, and summarized as follows:

<u>NSF Award Number</u>	<u>Award Budget</u>	<u>Claimed Costs</u>	<u>Unresolved Costs</u>
LPA 97-14153	\$7,199,364	\$4,986,432	\$1,018,781

As a result of our audit of the aforementioned award, we are reporting \$1,018,781 of claimed overhead costs as unresolved. Unresolved costs are costs that have been claimed, but can not be evaluated at the time of the audit because: 1) the criteria for their measurement has not been established; 2) the period for establishing the criteria is not complete; or 3) the criteria is unclear or ambiguous. Because we believe the award provision related to the overhead application base is ambiguous and conflicts with NSF's preaward review recommendations, we are deferring the matter to the NSF Contracts, Policy and Oversight Division for resolution.

We have used non-statistical sampling to test the costs claimed by the Awardee to NSF. Based upon this sampling plan, questioned costs in this report may not represent total costs that may have been questioned had all expenditures been tested. In addition, we have made no attempt to project such costs to total expenditures claimed, based on the relationship of costs tested to total costs.

The following is a brief description of the various findings which resulted from our audit. For a complete discussion of each finding, refer to the Independent Auditors' Report on Compliance or Independent Auditors' Report on Internal Control Structure.

### Material Compliance Finding

- The Awardee did not comply with the award provisions relating to overhead recoveries. The award stated that the overhead application base is "direct salaries and wages *excluding* vacation, holiday, sick pay, and direct freelancers but not including subcontract labor." However, the Awardee recovered overhead on fringe benefits and direct freelancer costs (see Independent Auditors' Report on Compliance).

### Reportable Condition Internal Control Finding

- The Awardee does not have adequate internal controls to ensure that indirect costs are appropriately classified, indirect cost rates are appropriately determined, and that indirect cost recoveries are consistent with the award stated application base (see Independent Auditors' Report on Internal Control Structure).

## BACKGROUND

Crabtree + Company is a for-profit corporation. The project under the direction of Crabtree + Company is described as follows:

<u>Award Number</u>	<u>Type of Award</u>	<u>Award Description</u>
LPA 97-14153	Contract	<p data-bbox="755 331 1432 779">The core National Science &amp; Technology Week (NSTW) program includes year-long activities of both educational and promotional content. Each of these components requires the conceptualization, design, and production of materials, events, and activities to focus national attention and interest on the importance of science and technology in daily life. The program is a year-long campaign to achieve that objective, culminating each year in National Science &amp; Technology Week, held traditionally in late April and highlighting the themes and activities of each year's campaign.</p> <p data-bbox="755 814 1432 1682">Crabtree + Company provides the required services of science and education writers, science/mathematics/technology Pre-K-12 education specialists, graphics designers, original artists, illustrators, publicists, public relations and promotional specialists, and reviewers of education and other materials from the fields of science, engineering and technology; as well as printers and other necessary vendors to showcase both education and promotional materials through print and other media. Crabtree + Company distributes educational and promotional materials, ensuring accurate, effectively targeted, and timely deliveries. Crabtree + Company provides radio and TV production, and training of educators-formal and informal, such as volunteers and parents-in education and promotion activities of NSTW. Crabtree + Company organizes and manages a national contest, which is mounted annually throughout the U.S. and beyond. Crabtree + Company provides management and support of the growth of NSTW's Regional Network, and program evaluation of impact and quality.</p> <p data-bbox="755 1717 1432 1898">Activities and events to be coordinated within annual NSTW themes include training of teachers as well as informal science/mathematics/technology educators of information education settings throughout the U.S.</p> <p data-bbox="755 1934 1432 2007">NSTW is currently facilitated by its Regional Network for Training and Materials Distribution,</p>

located in 48 U.S.- sites; these sites are, considered; hubs of expanding program functions in communities through grass roots activities. Crabtree + Company coordinates and expands upon Network activities in accordance with the approved Annual Program Plan.

### EXIT CONFERENCE

An exit conference was held on February 16, 2001 at the Awardee's office located at 200 Park Avenue, Falls Church, Virginia. Findings and recommendations contained in this report were discussed with those attending.

**For Crabtree + Company**

**For McBride, Lock & Associates;**

## McBRIDE, LOCK & ASSOCIATES

### INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

National Science Foundation  
Office of Inspector General  
4201 Wilson Boulevard  
Arlington, Virginia 22230

We have audited the Schedule of Award Costs, as presented in Schedule A which summarizes the financial reports submitted by Crabtree + Company to the National Science: Foundation for the award listed below, and have issued our report thereon dated February 16, 2001.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
LPA 97-14153	5/1/97 - 5/31/01	5/1/97 - 8/31/00

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States, and the *National Science Foundation Audit Guide* (September 1996). Those standards and the *National Science Foundation Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether the financial. schedule is free of material misstatement.

Compliance with laws and regulations, the provisions of the *National Science Foundation Audit Guide* and the award terms and conditions is the responsibility of Crabtree + Company's management. As part of obtaining reasonable assurance about whether the financial schedule is free of material misstatement, we performed tests of Crabtree + Company's compliance with certain provisions of laws, regulations, the provisions of the *National Science Foundation Audit Guide* and the award. However, providing an opinion on overall compliance with such provisions was not an objective of our audit of the financial schedule. Accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed the following instance of material noncompliance that is required to be reported herein under *Government Auditing Standards* and the *National Science Foundation Guide*.

The Awardee did not comply with the award provisions relating to overhead recoveries. The award document states that the overhead application base is "direct salaries and wages *excluding* vacation, holiday, sick pay, and direct freelancers but not including subcontract labor." However, the Awardee recovered overhead on fringe benefits and direct freelancer costs. The Awardee has indicated that the award stated application base is not consistent with its indirect rate negotiations with the NSF (see Awardee's response Appendix II). Because we believe the award provision related to the overhead application base is ambiguous and conflicts with NSF's preaward review recommendations, we are reporting \$1,018,781 of claimed overhead costs as unresolved and deferring the matter to the NSF, Division of Contracts, Policy and Oversight for determination of the application base which is applicable to this award.

Recommendation:

We recommend in the future that the Awardee ensure that award stated provisions are consistent with those agreed to during contract negotiation.

Awardee Response:

The Awardee does not agree with this finding (see Awardee's response Appendix II).

Audit Conclusion:

The audit position remains unchanged.

We considered this instance of material noncompliance in forming our opinion on whether Schedule A is presented fairly in all material respects, in conformity with National Science Foundation policies and procedures, and have determined that this report does not affect our report dated February 16, 2001 on those financial schedules.

This report is intended solely for the information and use of the National Science Foundation. Upon acceptance by the National Science Foundation, this report is a matter of public record, subject to the redaction of material that either constitutes confidential business or personal information covered by 18 U.S.C. Sec. 1905 or 5 U.S.C. Sec. 552a, or is covered by 5 U.S.C. Sec. 552(b).

  
McBride, Lock & Associates

February 16, 2001

McBRIDE, LOCK & ASSOCIATES

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE

National Science Foundation  
Office of Inspector General  
4201 Wilson Boulevard  
Arlington, Virginia 22230

We have audited the Schedule of Award Costs, as presented in Schedule A which summarizes the financial report submitted by Crabtree + Company to the National Science Foundation for the award listed below, and have issued our report thereon dated February 16, 2001.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
LPA 97-14153	5/1/97 - 5/31/01	5/1/97 - 8/31/00

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States, and the *National Science Foundation Audit Guide* (September 1996). Those standards and the *National Science Foundation Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedule is free of material misstatement.

The management of Crabtree + Company is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and ' recorded properly to permit the preparation of financial statements in accordance with accounting principles prescribed by the National Science Foundation. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of Schedule A for the period May 1, 1997 through August 31, 2000, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on- the financial schedules and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Crabtree + Company's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial schedules being audited, may occur and not be detected within a timely period by employees: in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

We noted the following matter involving the internal control structure over financial reporting and its operation that we consider to be a reportable condition. However, we do not believe this reportable condition is a material weakness.

- The Awardee did not have adequate internal controls to ensure that indirect costs are appropriately classified, indirect cost rates are appropriately determined and that indirect cost recoveries are consistent with award stated application bases. Specifically, (1) the Awardee's internal control structure did not provide a final verification for comparing Public Voucher direct costing to the general ledger chart of accounts depicting items of cost as either direct or indirect; and (2) the Awardee did not have a system to verify that methodology and application of overhead rates complied with contract provisions and indirect cost rate negotiations. These verification procedures are essential to ensure that costs claimed as direct charges to the NSF Award are not recovered secondarily through the indirect cost rate and that indirect cost recoveries are not in excess of those allowed based on the award provisions (see Schedule B detailing reported \$1,018,781 unresolved overhead costs). Further, the Federal Acquisition Regulations (FARs) Sections 31.202 and 31.203 requires the awardees to maintain an adequate system of internal control and an accounting system which clearly distinguishes and controls the recovery of costs as either direct or indirect, but not as both or in an excessive manner.

#### Recommendation:

We recommend the Awardee implement procedures to ensure that the submission of Public Vouchers include final verifications to the general ledger and rate negotiation agreements. This determination should verify that costs are properly classified as either direct or correctly



used in the computation of indirect cost recovery and that indirect cost recoveries are consistent with award provisions.

Awardee Response:

The Awardee does not agree with this finding (see Awardee's response Appendix II).

Audit Conclusion:

The audit position remains unchanged.

This report is intended solely for the information and use of the National Science Foundation. Upon acceptance by the National Science Foundation, this report is a matter of public record, subject to the redaction of material that either constitutes confidential business or personal information covered by 18 U.S.C. Sec. 1905 or 5 U.S.C. Sect. 552a, or is covered by 5 U.S.C. Sec. 552(b).

*McBride, Lock & Associates*  
McBride, Lock & Associates

February 16, 2001

## FOLLOW-UP OF PRIOR AUDIT FINDINGS

There was no prior audit of NSF awards to Crabtree + Company.

FINANCIAL SCHEDULES

**This page has been redacted**

Crabtree + Company  
National Science Foundation Award Number LPA 97-14153  
Schedule of Unresolved Costs  
From May 1, 1997 to August 31, 2000

I. \$1,018,781 Overhead Claimed Unresolved

Per Section B.4.a. (Rate Application Bases) of the award document the overhead application base applicable to the award is "direct salaries and wages *excluding* vacation, holiday, sick pay, and direct freelancers but not including subcontract labor." However, the Awardee claimed overhead on salaries, wages, fringe benefits and direct freelancers. The Awardee has stated that the application base stated in the award document is a "typographical error" and that it allocated overhead and fringe benefits precisely as was negotiated and directed by NSF audit personnel (see Awardee response Appendix II). The NSF Cost Analysis and Audit Resolution Branch provided a draft "For-Profit Rate Agreement" to the Awardee which states that the Awardee's overhead application base is total salaries and wages plus fringe benefits (purchased labor salaries are not included) (see Appendix I)..

We believe that it is the responsibility of the Awardee to ensure award documents reflect provisions which are consistent with the related negotiations. However, because the award provision related to the overhead application base is ambiguous and conflicts with NSF's preaward review recommendation, we have reported \$1,018,781 overhead claimed by the Awardee as unresolved and defer the matter to the NSF, Contracts, Policy and Oversight Division for resolution.

Recommendation: We recommend the Awardee negotiate indirect cost rates with NSF for the period of award and if amounts claimed for overhead are greater than allowed based on these negotiated rates, refund excess recoveries to NSF. Further, we recommend the Awardee establish procedures to ensure that award provisions are consistent with related award negotiations in the future.

Awardee's Comment:

The Awardee does not agree with this finding (see Awardee response Appendix II).

Audit Conclusion:

The audit position remains unchanged.

Crabtree + Company  
Notes to the Financial Schedules  
From May 1, 1997 - August 31, 2000

1. Summary of Significant Accounting Policies:

Accounting Basis

The accompanying financial schedules have been prepared in conformity with National Science Foundation (NSF) instructions. Schedules A and B have been prepared from the reports submitted to NSF. The basis of accounting utilized in preparation of these reports differs from generally accepted accounting principles. The following information summarizes these differences:

A. Equity

Under the terms of the award, all funds not expended according to the award agreement and budget at the end of the award period are to be returned to the National Science Foundation. Therefore, the awardee does not maintain any equity in the award and any excess of cash received from NSF over final expenditures is due back to the National Science Foundation.

B. Equipment

Equipment purchases were not provided for in the NSF award.

C. Inventory

Minor materials and supplies are charged to expense during the period of purchase. As a result, no inventory is recognized for these items in the financial schedules.

2. Income Taxes

Crabtree + Company is a for-profit corporation, incorporated under the laws of the State of Virginia subject to income taxes under provisions of the Internal Revenue Code and statutes of the State of Virginia.

FPrfVA

Crabtree &amp; Company 3/31/97

**DRA**

## FOR-PROFIT RATE AGREEMENT

E IN #

NSF INS CODE: ?

ORGANIZATION:

DATE: March 31, 1997

Crabtree & Company  
 1137 North Highland Street  
 Arlington, VA 22201

FILING REF: This is the first formal agreement

The rates approved in this agreement are for use on grants, contracts and other agreements with the Federal Government, subject to the conditions in Section II.

## SECTION I: INDIRECT COST RATES

Type	Effective Period	Rate	Base
Provisional or Billing Rate	9/30/96 - 12/31/97	160%	(a)
Overhead Ceiling Rate	9/30/96 - 12/31/97	176%	(a)
Provisional Fringe Benefits	9/30/96 - 12/31/97	25%	(b)
Fringe Benefit Ceiling	9/30/96 - 12/31/97	28%-	(b)

Rate Application Base

- (a) Total salaries and wages plus fringe benefits (purchased labor salaries are included).
- (b) Total salaries and wages of employees

Ceiling rates are not *subject* to upward adjustment. However, provisional or billing rates are subject to downward adjustment when final rates are lower than the awarded provisional rates.

Note: Fringe benefits associated with direct salaries and wages are treated as direct costs and included in the indirect cost rate application base.

ORGANIZATION:  
Crabbier & Company

Page 2

SECTION II: GENERAL TERMS

- A LIMITATIONS: Use of the rate contained in this agreement are subject to any applicable contractual or grant limitations. Acceptance of these rates agreed to herein is predicated upon the conditions: (1) that no costs other than those incurred by the contractor or grantee were included in its indirect cost proposal and that such costs are legal obligations of the contractor or grantee, (2) that the same costs that have been treated as indirect costs have not been claimed as direct costs, and (3) that similar types of costs have been accorded consistent treatment
- B. ACCOUNTING CHANGES: The rates contained in this agreement are based on the accounting system in effect at the time the proposal was prepared and the rates were negotiated. Changes to the method of accounting which effect the amount of reimbursement resulting from the use of these rates require the prior approval of this office. Failure to obtain such approval may result in subsequent cost disallowances.
- C. NOTIFICATION TO FEDERAL AGENCIES: Copies of this document may be provided to other Federal offices as a means of notifying them of the rates agreed to herein.

BY THE ORGANIZATION:  
Crabbier & Company  
(Organization)

ON BEHALF OF 1B FEDERAL GOVERNMENT:  
National Science Foundation  
(Agency)

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Signature)

(Name)

Joan Kelly  
(Name)

\_\_\_\_\_  
(Title)

Deputy Branch Chief, CAAR/CPO/BFA  
(Title)

\_\_\_\_\_  
(Date)

\_\_\_\_\_  
(Date)

NSF Negotiator Charles Zeigler  
Telephone: (703)306-1244



**AWARDEE RESPONSE  
(APPENDIX II)**

September 3, 2002

McBride, Lock & Associates  
1221 Baltimore Avenue, Suite 406  
Kansas City, MO 65105

Dear

Reference is made to your revised Draft Independent Auditors' Reports for the period May 1, 1997 to August 31, 2000.

Crabtree + Company, Inc. understands the language in the awarded contract and contends that this language contained a typographical error. Officials of this company directed the auditor's attention to the obvious typographical error at the exit conference, provided a copy of the unsigned agreement negotiated with the National Science Foundation, and this error is noted in the referenced reports.

It is understood that the auditor must rely on the signed contractual agreement. Errors or not, this is precisely what the auditor has based the entire audit's "questioned costs" and comments. Nevertheless, the independent auditor will confirm that there were no direct costs billed to NSF that were not allowable and allocable to the contract and that there were no "questioned " costs that could not be tracked and verified by the auditor.

In all three reports, the auditor relies solely on the contract paragraph containing the typographical error that should have been caught prior to contract signing. Because we knew what had been negotiated, we misread the error. At that time, we were anxious to start work on the contract and were focusing our energy on the actual scope of work, setting schedules, and organizing systems to manage the contract efficiently. Although the contract was signed effective May 1, 1997, the actual contract start date had been delayed by NSF, thereby, necessitating us to accelerate actions to assure that the initial deadlines were met.

Prior to the award, however, the National Science Foundation (NSF) performed a pre-award audit. The NSF auditor visited our facilities, reviewed our accounting system, tested our reported information against backup documents, and established the provisional overhead and fringe benefit rates that we used throughout performance of the contract. This auditor also provided us with a comprehensive format for the display of expenditures that was preferred by NSF to review and audit the costs involved. In order for our company to receive the award, NSF made a

determination that, among other attributes, our company had the necessary organization, accounting, and operational controls to perform the required services.

Originally, this audit was scheduled to begin in the fall of 2000 and we believed that the independent auditor would ascertain the final overhead rate. Except for that fall, at the end of each C+C fiscal year, we submitted the chart of C+C expenditures to the NSF Contracting Officer - using the format provided by NSF - for use in establishing the final overhead rate for the previous year. In addition, each Public Voucher submitted for payment was, also, provided to the Contracting Officer Technical Representative who worked hand-in-hand with the Contracting Officer when it involved costs. Although reminded from time to time, at no time did anyone at NSF object to the rates we were billing or did anyone make any attempt to finalize the rates.

To conclude, in accordance with the contract, Crabtree + Company, Inc. could have billed overhead rates anywhere between the range of 160% and 176% and fringe benefits between the range of 25% and 28%. Our company billed at the lowest rates during the entire contract.

Sincerely,

cc: NSF Contracting Officer