

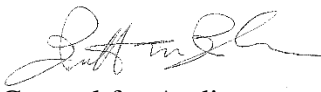


National Science Foundation • Office of Inspector General
4201 Wilson Boulevard, Suite I-1135, Arlington, Virginia 22230

MEMORANDUM

DATE: February 19, 2016

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

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

SUBJECT: *NSF OIG Audit Report No. OIG-16-1-011, Independent Audit of Booz Allen Hamilton Inc.'s (BAH) CAS 416 Noncompliance*

We contracted with the Defense Contract Audit Agency (DCAA) to participate in an incurred cost audit of Booz Allen Hamilton (BAH) for FY 2008 that included two NSF contracts. That report was transmitted separately as OIG Report No. OIG-16-1-005 DCAA also provided us with the associated CAS 416 Noncompliance audit. The report is attached.

DCAA determined that BAH's practice for accounting for Defense Base Act (DBA) Insurance costs in two fringe pools was not compliant because in doing so, the DBA insurance costs are allocated to all cost objectives, many of which do not require DBA insurance and do not benefit from the cost. DCAA recommended that BAH revise its accounting policies and disclosure statement to remove the DBA insurance costs from the two fringe pools and assign them directly to the contracts that require the insurance.

As a result, we recommend that the NSF Director of the Division of Acquisition and Cooperative Support work with the DoD cognizant cost accounting standards official to coordinate resolution of this noncompliance.

To fulfill our oversight responsibilities, the Office of Inspector General monitored the audit in conjunction with the BAH FY 2008 incurred cost audit.

DCAA is responsible for the attached report and resulting conclusions.

Please coordinate with our office during the six month resolution period, as specified by OMB Circular A-50, to develop a mutually agreeable resolution of the audit findings. Also, the

findings should not be closed until NSF determines that all recommendations have been adequately addressed and the proposed corrections actions have been satisfactorily implemented.

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

Attachment: DCAA Audit Report No. 6151-2012Q19200001; *Independent Audit of Booz Allen Hamilton Inc.'s (BAH) CAS 416 Noncompliance*, dated September 18, 2012

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SUBJECT OF AUDIT

We examined the Booz Allen Hamilton, Inc.'s (BAH) revised disclosure statement number 14, dated February 1, 2010, with amended pages submitted as revisions number 14a, 14b, 14c, 14d, and 14e, dated July 29, 2010, November 29, 2011, March 1, 2012, July 18, 2012, and August 13, 2012, respectively, and effective on April 1, 2010. By submitting a Cost Accounting Standards (CAS) disclosure statement, BAH asserts that its disclosed cost accounting practices used to estimate, accumulate, and report costs incurred or to be incurred on Government contracts comply with CAS Board rules, regulations, and standards appearing in 48 C.F.R. Chapter 99. We examined the revised disclosure statement number 14 and amended pages to evaluate whether the disclosed cost accounting practices comply with the CAS Board rules, regulations, and standards. We also examined the disclosed practices to evaluate whether they comply with applicable FAR Part 31 requirements. The contractor is responsible for compliance with CAS and FAR requirements. Our responsibility is to express an opinion on compliance based on our examination.

SCOPE OF AUDIT

We conducted our examination in accordance with Generally Accepted Government Auditing Standards (GAGAS), except DCAA does not currently have an external opinion on its quality control system as required by GAGAS 3.55. The most recent external quality control review opinion expired on August 26, 2009. GAGAS require that we plan and perform the examination to obtain reasonable assurance about whether the contractor's accounting practices comply with the requirements referred to above. An examination includes:

- obtaining an understanding of the contractor's internal controls, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment;
- examining, on a test basis, evidence supporting the cost accounting practices;
- assessing the descriptions of the cost accounting practices which, when implemented, should be compliant with applicable requirements; and
- evaluating the overall disclosure statement presentation.

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

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



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For CFY 2011, we considered BAH's accounting system and related overall internal controls to be inadequate in part due to inadequately accounting for maintenance and service agreements spanning more than one fiscal year and a lack of policies and procedures for adjusting costs billed to the Government for any income, rebates, allowances, or miscellaneous credits received. The scope of our examination reflects our assessment of control risk and includes audit tests designed to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on BAH's compliance with the specified requirements.

RESULTS OF AUDIT

In our opinion, during the period of April 1, 2010 through March 31, 2011 the contractor was in noncompliance with CAS 416 - Accounting for Insurance Costs and FAR Part 31. As of the date of this report, the condition causing the noncompliance has not been corrected.

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

STATEMENT OF CONDITIONS AND RECOMMENDATIONS

Our examination identified a disclosed and established contractor practice which we believe is in noncompliance with Cost Accounting Standards 416 - Accounting for Insurance Costs, as follows:

Noncompliance with 48 CFR 9904.416 – Accounting for Insurance Costs (Disclosure Statement Item No. [REDACTED] Booz Allen Site and Client Site Overhead Fringe (Continuation Sheet))

a. Condition:

The contractor's disclosed practice for accounting for [REDACTED] Insurance costs in item [REDACTED] Booz Allen Site and Company Site Overhead Fringe, is in noncompliance with 48 CFR 9904.416-40 (b). 48 CFR 9904.416-40 (b) states:

“The allocation of insurance costs to cost objectives shall be based on the beneficial or causal relationship between the insurance costs and the benefiting or causing cost objectives.”

[REDACTED] costs should only be assigned to the contracts that require the insurance, effectively matching the costs with the cost objectives that drive them.

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The contractor's current policy includes the [REDACTED] as an element of cost in the BAH Site and Client Site Overhead fringe pools, which is allocated over a total direct labor base. We confirmed this accounting treatment by examining journal entry forms for [REDACTED] costs. The contractor implemented this policy to "ease the administrative burden associated with tracking the cost". As a result of the change, [REDACTED] costs are allocated to all cost objectives, many of which do not require [REDACTED] and do not benefit from the cost.

The actual [REDACTED] costs incurred in FY 2011 were [REDACTED]. We do not believe the noncompliance identified above results in a material cost impact to the Government at this time. However, we are reporting the noncompliance because of the potential cost impact it could have if the contractor continues to recognize these costs as fringe benefit expenses and the costs increase.

b. Recommendation:

In order to be in compliance with 48 CFR 9904.416-40 (b), we recommend the contractor to revise its accounting policies and disclosure statement to remove the [REDACTED] costs from the BAH Site and Client Site Overhead fringe pools and assign them directly to the contracts that require the insurance.

c. Contractor's Reaction:

The contractor did not concur with our results. See the Appendix of this audit report for the contractor's formal response.

d. Auditor's Response:

We maintain our position that the contractor's current policy is in noncompliance with 48 CFR 9904.416-40 (b). We do not believe the noncompliance results in a material cost impact to the Government at this time. However, we are reporting the noncompliance because it is a violation of a major requirement of CAS 416, regardless of its effect on contract costs, and because of the potential cost impact in the future.

We discussed the results of our examination with [REDACTED] Associate, Regulatory Compliance, in an exit conference held on August 31, 2012. We provided a draft copy of the Statement of Condition and Recommendation to the contractor's representative at the exit conference. In response to our findings, the contractor did not concur. See the Appendix of this audit report for the contractor's formal response.

CONTRACTOR ORGANIZATION AND SYSTEMS

I. Organization

Booz Allen Hamilton, Inc. (BAH) is an international management and technology consulting firm committed to helping senior management solve complex problems. BAH was founded as a private corporation in 1914, and recently went public with its IPO on June 21, 2010. Its website address is www.boozallen.com. Effective August 1, 2008, BAH completed the separation of its commercial and Government business operations. The global commercial business is now a separate company, Booz and Company. Also, on August 1, 2008, BAH completed the sale of the majority stake in the remaining portion (all U.S. Government work) to The Carlyle Group, a private equity firm, which retains the majority stake following the IPO. This company, the previous U.S. Government segment, retains the name Booz Allen Hamilton, Inc.

Sales for the U.S. Consulting business were approximately [REDACTED] for FYE March 31, 2011. Approximately 98% of the sales were to the U.S. Government.

Effective April 1, 2008, Booz Allen Hamilton, Inc. reorganized its U.S. Consulting segment. The commercial work, including two cost centers, was removed from USC and used to create a new segment, North America Consulting (NAC). This segment does no Government work. BAH renamed its U.S. Consulting segment to U.S. Government (USG). BAH expects approximately 98% of the work to be sales to the U.S. Government.

II. Systems

Compensation System

DCAA has not performed a recent audit of the Compensation System.

EVMS

DCAA has not performed a recent audit of the Earned Value Management System (EVMS).

Accounting System

DCAA has not performed a recent audit of the Accounting System.

IT System General Internal Controls

Audit Report No. 6151-2009R11510006, dated January 20, 2012, concluded that BAH's IT system general internal controls are inadequate.

Audit Report No. 6151-2012Q19200001

Budget and Planning System

DCAA has not performed a recent audit of the Budget and Planning System.

Purchasing System

The contractor operates under a self governance program with DCMA for monitoring and review of the purchasing system. In DCMA Memorandum for the Record dated March 14, 2008, the ACO determined that the purchasing system continues to be adequate. The system, however, is currently under review by DCMA.

Labor Accounting System

DCAA has not performed a recent audit of the Labor Accounting System.

Indirect and ODC System

DCAA has not performed a recent audit of BAH's Indirect and ODC System.

Billing System

In Assignment No. 6151-2010Q11010001, dated November 24, 2010, we examined billings for the period of April 1, 2009 through September 30, 2009. This universe period included a total of [REDACTED] billings in the amount of [REDACTED]. We examined 173 billings in the amount of \$11.5M. We found no significant deficiencies in the internal controls. We determined that the billings were acceptable for interim payment.

Estimating System

Audit Report No. 6151-2007Q24010001, dated July 14, 2008, concluded that BAH's estimating system and related internal control policies and procedures are adequate.

However, Audit Report No. 6151-2010Q24010001, dated November 17, 2010, disclosed that as observed during our fieldwork conducted in March and April of 2010 under assignment number 6151-2010Q21000002, BAH did not estimate costs in the same manner as it accumulates costs, did not present its own material handling costs separate from the proposed subsidiary costs, and did not follow its policies and procedures for escalating costs.

Audit Report No. 6151-2012Q19200001

III. Cost Accounting Standards

Audit Report No. 6151-2012Q19100003, dated August 31, 2012, concluded that the contractor's disclosure statement, revision number 13, effective October 1, 2009, adequately described the contractor's revised cost accounting practices. The practices, as described, complied with applicable CAS standards and FAR Part 31 and were consistent with the contractor's actual practices.

Audit Report No. 6151-2009Q19410001, dated June 9, 2010, disclosed that BAH complied, in all material respects, with the requirements of CAS 410, General and Administrative Expenses to Final Objectives during the period of April 1, 2008 through March 31, 2009.

Audit Report No. 6151-2009Q19418001, dated September 21, 2010, disclosed that BAH complied, in all material respects, with the requirements of Cost Accounting Standard 418, Allocation of Direct and Indirect Costs, during CFY 2009, from April 1, 2008 through March 31, 2009.

DCAA considers BAH to be in noncompliance with [REDACTED] [REDACTED]. However, we do not consider the issue to have any material impact on contract costs. The ACO's initial determination agrees with our findings.

IV. Financial Capability



A detailed financial condition risk assessment for Booz Allen Hamilton Inc. was completed by the DCAA, Northern New Jersey Branch Office under assignment no. 02421-2007O176000021 on December 6, 2007. Our risk assessment did not show indications of significant financial conditions that would warrant the performance of a financial capability audit, which would include a review of cash flow projections for the near term and analysis of the contractor's financial flexibility, accounts payable aging, loan balances and covenants.

DCAA PERSONNEL

Primary contacts regarding this audit:

	<u>Telephone No.</u>
	

Other contacts regarding this audit report:

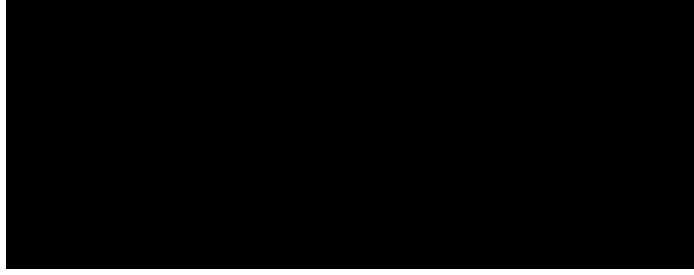
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[REDACTED]

APPENDIX

Contractor's formal response, provided on September 12, 2012

[REDACTED]

[REDACTED]

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[REDACTED]