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Closure Memorandum

Case Number: 12-0017-I	Date of Entry: 11 Sep 2015
Primary Investigator: <input type="text"/>	

(b)(3)

Allegation Information

Narrative:

(U//~~FOUO~~) On 29 NOV 2011, NRO OIG initiated a spin-off investigation related to 2011-031. Boeing Company appears to have failed to meet their obligation to conduct an annual reconciliation as required thus potentially committing a Cost Accounting Standard (CAS) violation.

Last Investigative Step:

Reviewed DCAA audits

Resolution:

Unsubstantiated

Case Closure Justification

Summary

(U//~~FOUO~~) On 22 December 2010, the NRO OIG received an allegation that a Boeing employee mischarged labor hours on NRO contracts. Case 11-0031-I was initiated to review the allegation. During the course of that investigation, Boeing failed to respond to the OIG's request for records. In 2011 the NRO OIG issued an IG subpoena to obtain the necessary documents. Analysis of the data received raised questions regarding Boeing's billing practices. As a result, case 12-0017-I was initiated to address the concern that Boeing allegedly failed to conduct an annual reconciliation as required by their disclosed practices potentially committing a Cost Accounting Standard (CAS) violation.

(U//~~FOUO~~) The following language from the Boeing BDS Huntington Beach 2011 Disclosure Statement (Doc# 8), first added in 2005, and approved by DCMA in 2007, was at the core of the allegation. *"Labor is recorded to final costs (i.e. contracts) weekly utilizing the forecasted annual average rates. Weekly variances between the forecasted annual average rates and the actual weekly average rates are recorded to the applicable overhead pools of each average labor rate. If the cumulative year-to-date variance is material, a retroactive labor rate adjustment will be recorded."* Several issues were identified relating to the disclosure statement. First, did Boeing bill and account for costs in accordance with their disclosed practice? Second, did the variance that occurred as a result of Boeing's Forward Pricing Rate Agreement (FPRA) result in a forward funding issue? Finally, were the pools used to charge for labor homogenous?

(U//~~FOUO~~) In audit report 9841-2015C, DCAA reviewed Boeing's FPRA as of 31 December 2014 and

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found that their "direct labor rates, locally controlled indirect expenses and direct labor base forecasts comply" with the applicable FAR regulations (Doc #9). In the same report, DCAA also determined that Boeing's average labor rate categories are homogeneous.

(U//~~FOUO~~) As part of a 2015 review of Boeing's Average Labor Rate process (Doc #13), there were no discrepancies between the disclosure statement and the samples DCAA reviewed (Doc #10). With regard to the variance issue, DCAA determined as part of a Boeing accounting system review that "as the variance occurs, it is placed in an Overhead account. Each Quarter, the labor variance is analyzed to determine if it is significant or not, If significant, a retroactive adjustment is made to the labor rates back to the first of the year (January) with the impact of the adjustment applied to the next invoice on a contract by contract basis. At the end of the year, the Overhead account is zeroed out and the final year adjustment is made to the contracts for any remaining variance (Doc #11)." As a result, DCAA had no concerns with Boeing's treatment of the variance or their Average Labor Rate process (Doc # 12).

(U//~~FOUO~~) Included in the case file are documents discovered during the four-year investigative effort. Although not pertinent to the final outcome, they are included for reference.

(U//~~FOUO~~) The DCAA's 2014 Audit and 2015 Risk Assessment (Doc #11) determined Boeing is in compliance with their disclosed practices and conform to applicable accounting standards. Based on DCAA's determination, allegation is unsubstantiated. All investigative steps are completed.

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