



U.S. Department of Energy
Office of Inspector General
Office of Audits and Inspections

ASSESSMENT REPORT

Audit Coverage of Cost Allowability for the
University of California During Fiscal Years
2013 and 2014 Under Department of Energy
Contract No. DE-AC02-05CH11231

OAI-V-16-10

June 2016



Department of Energy
Washington, DC 20585

June 28, 2016

MEMORANDUM FOR THE MANAGER, BERKELEY SITE OFFICE

A handwritten signature in black ink, appearing to read "David Sedillo".

FROM: David Sedillo
Deputy Assistant Inspector General
for Audits and Inspections
Office of Inspector General

SUBJECT: INFORMATION: Assessment Report on "Audit Coverage of Cost Allowability for the University of California During Fiscal Years 2013 and 2014 Under Department of Energy Contract No. DE-AC02-05CH11231"

BACKGROUND

The University of California (University) has managed and operated Lawrence Berkeley National Laboratory (LBNL) under contract with the Department of Energy and its predecessors since 1943. LBNL is a member of the national laboratory system supported by the Department through its Office of Science. LBNL conducts unclassified research across a broad range of scientific disciplines. During fiscal years (FYs) 2013 and 2014, the University incurred and claimed \$1,564,917,499.

As an integrated management and operating contractor, LBNL's financial accounts are integrated with those of the Department, and the results of transactions are reported monthly according to a uniform set of accounts. The University is required by its contract to account for all funds advanced by the Department annually on its Statement of Costs Incurred and Claimed, to safeguard assets in its care, and to claim only allowable costs. Allowable costs are incurred costs that are reasonable, allocable, and allowable in accordance with the terms of the contract, applicable cost principles, laws, and regulations.

The Department's Office of Inspector General, Office of Acquisition Management, and the integrated management and operating contractors and other select contractors have implemented a Cooperative Audit Strategy (Strategy) to make efficient use of available audit resources while ensuring that the Department's contractors claim only allowable costs. This Strategy places reliance on the contractors' internal audit function (Internal Audit) to provide audit coverage of the allowability of incurred costs claimed by contractors. Consistent with the Strategy, the University is required by its contract to maintain an Internal Audit activity with responsibility for conducting audits, including audits of the allowability of incurred costs. In addition, the University is required to conduct or arrange for audits or reviews of its subcontractors when costs incurred are a factor in determining the amount payable to a subcontractor.

To help ensure that audit coverage of cost allowability was adequate for FYs 2013 and 2014, the objectives of our assessment were to determine whether:

- Internal Audit conducted cost allowability audits that complied with professional standards and could be relied upon;
- The University conducted or arranged for audits or reviews of its subcontractors when costs incurred were a factor in determining the amount payable to a subcontractor; and
- Questioned costs and internal control weaknesses affecting allowable costs that were identified in audits and reviews have been adequately resolved.

RESULTS OF ASSESSMENT

Based on our assessment, nothing came to our attention to indicate that the allowable cost–related audit work performed by Internal Audit for FYs 2013 and 2014 could not be relied upon. We did not identify any material internal control weaknesses with the cost allowability audits, which generally met the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors. Internal Audit identified \$12,900 in questioned costs as part of its allowable cost audits and other reviews, all of which have been resolved or reimbursed to the Department.

Further, we found that the University generally arranged for audits of subcontractors when costs incurred were a factor in determining the amount payable to a subcontractor. The subcontract audits did not identify any questioned costs. However, we identified two subcontracts that incurred costs during FYs 2013 and 2014 that had not been audited. The two subcontracts incurred total costs of \$11,590,877. LBNL has arranged to have Internal Audit perform one of the subcontract audits, which accounts for more than 98 percent of the unresolved costs. LBNL is also working with the second subcontractor to ascertain the status of its Single Audit Act audit of FY ending June 30, 2014. However, we consider \$11,590,877 as unresolved pending audit.

RECOMMENDATION

We recommend that the Manager, Berkeley Site Office, direct the Contracting Officer to:

1. Ensure that subcontract audits are completed as required.

MANAGEMENT RESPONSE AND AUDITOR COMMENTS

Management agreed with the report, concurred with the recommendation, and proposed a planned action that is responsive to our recommendation. Management’s comments are included in Attachment 1.

SCOPE AND METHODOLOGY

This assessment was performed from November 2015 to June 2016 at LBNL, located in Berkeley, California. The assessment was limited to Internal Audit activities, subcontract audits, and resolution of questioned costs and internal control weaknesses that affected costs claimed by the University on its Statement of Costs Incurred and Claimed for FYs 2013 and 2014. The assessment was conducted under Office of Inspector General project number A16LL009. To accomplish our objectives, we:

- Assessed allowable cost audit work conducted by Internal Audit. Our assessment included a review of audit reports; workpapers; auditor qualifications; independence; audit planning, including risk assessments and overall internal audit strategy; and compliance with applicable professional auditing standards.
- Retested a sample of incurred cost transactions reviewed by Internal Audit in its FY 2014 allowable cost audit. We randomly selected 2 of 25 payroll transactions, 2 of 28 travel transactions, and 2 of 27 relocation transactions that Internal Audit tested for FY 2014. Because selection was not statistically driven, the results and overall conclusions are limited to the items retested and cannot be projected to the entire population or universe subject to audit.
- Reviewed policies, procedures, and practices to identify subcontracts requiring audit and arrangements for audits.
- Assessed subcontract audit status.
- Evaluated resolution of questioned costs and control weaknesses affecting cost allowability that were identified in prior audits and reviews conducted by the Office of Inspector General, Internal Audit, and other organizations.

We conducted this assessment in accordance with generally accepted Government auditing standards for attestation engagements. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our objectives. A review is substantially less in scope than an examination or audit where the objective is an expression of an opinion on the subject matter and accordingly, for this review, no such opinion is expressed. Also, because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our review. We relied on computer-processed data to accomplish our audit objectives. Based on a recent review of LBNL's information technology controls performed by KPMG LLP on behalf of the Office of Inspector General, we determined that the data was sufficiently reliable for the purposes of the review.

An exit conference with LBNL and Department officials was waived on June 21, 2016.

This report is intended for the use of the Department contracting officers and site offices in the management of their contracts and is not intended to be and should not be used by anyone other than these specified parties.

Attachment

MANAGEMENT COMMENTS



Department of Energy
Office of Science
Berkeley Site Office
Lawrence Berkeley National Laboratory
1 Cyclotron Road, MS 90-1023
Berkeley, California 94720

JUN 09 2016

MEMORANDUM FOR DAVID SEDILLO
DEPUTY ASSISTANT INSPECTOR GENERAL
FOR AUDITS AND INSPECTIONS
OFFICE OF INSPECTOR GENERAL

FROM: PAUL M. GOLAN
MANAGER
BERKELEY SITE OFFICE

A handwritten signature in blue ink, appearing to read "PMGolan", is written over the printed name and title of Paul M. Golan.

SUBJECT: Response to Inspector General's Draft Assessment Report on "Audit Coverage of Cost Allowability for the University of California During Fiscal Years 2013 and 2014 Under Department of Energy Contract No. DE AC02 05CH11231"

Thank you for the opportunity to review and comment on the subject draft report. Our response to the specific recommendation follow.

Recommendation 1: We recommend that the Manager, Berkeley Site Office, direct the Contracting Officer to:

1. Ensure that subcontract audits are completed as required.

Management Response:

Concur – The Manager, Berkeley Site Office will direct the Contracting Officer to ensure that subcontract audits are completed as required.

Action Plan: *Internal Audit plans to complete the Accenture subcontract audit by September 30, 2016. We expect the second subcontract audit to be completed by September 30, 2017.*

Estimated Completion Date: *September 30, 2017*

General/Technical Comments: *The Berkeley Site Office would like to make the following the edit to the report under paragraph 2 under the Results of the Assessment and Monetary Impact Report statements:*

D. Sedillo

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Further, we found that the University generally arranged for audits of subcontractors when costs incurred were a factor in determining the amount payable to a subcontractor. The subcontract audits did not identify any questioned costs. However, we identified two subcontracts that incurred costs during FYs 2013 and 2014 that had not been audited. The two subcontracts incurred total costs of \$11,590,877. The Berkeley Lab has arranged to have Its Internal Audit Department perform one of the subcontract audits, which accounts for over 98 percent of the unresolved costs. Berkeley Lab is also working with the second subcontractor to ascertain the status of the FYE 6/30/2014 Single Audit Act audit. However, we consider \$11,590,877 as unresolved pending audit.

If you have any questions on these comments, please contact Mercedes Downing of my staff at (510) 486-4346.

cc:

P. Baizas, IG/LLNL

O. Wong, IG/LLNL