

United States Government

Department of Energy

# memorandum

DATE: June 30, 2009

Audit Report Number: OAS-L-09-08

REPLY TO

ATTN TO: IG-32 (A09CH003)

SUBJECT: Report on "Effectiveness in Implementing the Cooperative Audit Strategy"

TO: Chief Financial Officer, CF-1  
Director, Office of Management, MA-1  
Director, Office of Procurement Assistance and Management, MA-60

## INTRODUCTION AND OBJECTIVE

The Cooperative Audit Strategy (Strategy) was developed by the Office of Inspector General (OIG) in consultation with the Office of the Chief Financial Officer, the Office of Procurement and Assistance Management, and the Contractor Internal Audit Council. The Strategy was developed after a 1992 OIG report identified that the quality of the Management and Operating (M&O) contractors' internal audit functions work was inconsistent and unsatisfactory and could not be relied upon for internal control purposes. Since its implementation in 1992, the Strategy's objective has been to maximize the overall audit coverage of contractors, including coverage of the costs incurred by the contractors in managing and operating Department of Energy (Department) facilities.

The Strategy identifies expectations for M&O contractors' internal audit organizations to plan, perform, and report on their audit activities in accordance with recognized professional standards. The Strategy requires contractors to develop an Internal Audit Implementation Design (Design), to annually provide Audit Plans and perform specified audits. These requirements were added to Department of Energy Acquisition Regulation 970.5203-1, Management Controls, and 970.5232-3, Accounts, Records, and Inspections. After November 2004, the Strategy, through Acquisition Letter 2005-04, became a contractual requirement upon modification of the M&O contracts during fee negotiations or new solicitations. The Department revised the Acquisition Guide, Chapter 70.4, Cooperative Audit Strategy, to provide guidance for implementing the Strategy.

According to the Acquisition Guide, the Department's contracting officers, in conjunction with the OIG and the Chief Financial Officer, are responsible for monitoring the M&O contractor's performance under the Strategy. Further, the OIG periodically assesses, during its review of controls over costs reported on the Statement of Costs Incurred and Claimed, the reliability of the work performed by each M&O contractor's internal audit function. The assessments evaluate the quality of internal audit work and provide the basis for a conclusion about whether such work can be relied upon by the Inspector General.

The objective of this audit was to provide an assessment of the effectiveness in implementing the requirements of the Strategy by 17 major M&O contractors. Contractors managed by the National Nuclear Security Administration (NNSA) were not included in this review and are the subject of a separate, on-going review, the results of which will be reported to the NNSA Procurement Executive.

### CONCLUSIONS AND OBSERVATIONS

The M&O contractors we reviewed had, for the most part, effectively implemented the requirements of the Strategy. We concluded that as a whole, the Strategy was meeting its overall goal of improving accountability in the Department. At a limited number of sites, however, we found that contractors had not fully satisfied all requirements set forth in the Strategy implementation guidance. These issues, while worthy of discussion and resolution, are, by themselves, not sufficient to affect our overall conclusion on the effectiveness of the Strategy. Our testing identified the following issues for certain contractors, some of which had a number of issues. Specifically, we noted that certain contractor internal audit departments had not:

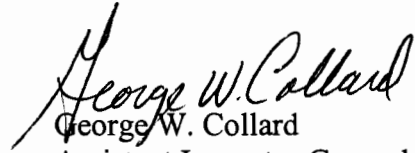
- Prepared Implementation Design Plans or appropriately addressed all required attributes, such as detailing the extent of use of external audit resources;
- Completed all needed audits of subcontracts;
- Disclosed risk assessment results in annual plans; and,
- Provided details on sampling methods used during audits in annual reports.

We also identified a number of other issues that were restricted to individual contractors, including one organization whose reporting structure was not aligned with independence requirements outlined in the Acquisition Guide. We discussed the issues identified during our review with the internal audit directors for each of the contractors involved and were informed that corrective actions were planned or had been initiated. We also communicated each of the issues observed to cognizant Federal contracting officials. These Federal officials noted that they believed improvements were possible, but that the Strategy was effective in providing a comprehensive framework governing the practice of internal audit within the Department.

### SUGGESTION FOR IMPROVEMENT

To facilitate the Strategy's continued success, we suggest that the Department's Chief Financial Officer, in conjunction with the Offices of Management and Procurement and Assistance Management, in coordination with the Contracting Officers at each site, take action to ensure that contractors comply with all requirements of the Strategy as part of the M&O contractor performance and evaluation process. The OIG will also review compliance with these requirements during future assessments.

We appreciate the cooperation of your staff during our review. Because no formal recommendations are being made in this report, a formal response is not required.

  
George W. Collard  
Assistant Inspector General  
for Performance Audits  
Office of Inspector General

cc: Chief of Staff  
Team Leader, Audit Liaison Team, CF-1.2  
Dianne Williams, Office of Internal Review, CF-1.2  
Audit Liaison MA-1.1  
Audit Liaison EE-3A  
Audit Liaison EM-33  
Audit Liaison FE-3  
Audit Liaison NE-42  
Audit Liaison RW-1  
Audit Liaison SC-41

## SCOPE AND METHODOLOGY

This audit was performed between October 2008 and June 2009. Our audit included the activities of the Department of Energy's (Department) 17 Management and Operating (M&O) contractors not under the National Nuclear Security Administration (NNSA) for Fiscal Years 2006 through 2008. The 17 M&O contractors were: Ames Laboratory in Ames, Iowa; Advanced Mixed Waste Treatment Project in Idaho Falls, Idaho; Argonne National Laboratory in Argonne, Illinois; Brookhaven National Laboratory in Upton, New York; Yucca Mountain in Nye County, Nevada; Fermi National Accelerator Laboratory in Batavia, Illinois; Idaho National Laboratory near Idaho Falls, Idaho; Lawrence Berkeley National Laboratory in Berkeley, California; National Renewable Energy Laboratory in Golden, Colorado; Oak Ridge National Laboratory in Oak Ridge, Tennessee; Pacific Northwest National Laboratory in Richland, Washington; Princeton Plasma Physics Laboratory in Princeton, New Jersey; Savannah River Site in Aiken, South Carolina; SLAC National Accelerator Laboratory in Menlo Park, California; Strategic Petroleum Reserve in New Orleans, Louisiana; Thomas Jefferson National Accelerator Facility in Newport News, Virginia; and, the Waste Isolation Pilot Plant (WIPP) in Carlsbad, New Mexico.

To accomplish the audit objective, we:

- Reviewed applicable laws, regulations and Departmental Guidance pertaining to the Cooperative Audit Strategy (Strategy);
- Reviewed prior audits performed on the internal audit activities;
- Reviewed the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing regarding the operation of an internal audit activity;
- Performed site visits at the Argonne National Laboratory, Fermi National Accelerator Laboratory, Civilian Radioactive Waste Repository, and the Waste Isolation Pilot Plant;
- Obtained and reviewed documentation and information from 17 non-NNSA M&O contractors in response to a questionnaire about their application of the Cooperative Audit Strategy;
- Obtained and reviewed the responses from five Departmental site-office contracting officers about their satisfaction with the Strategy;
- Obtained and reviewed responses from four Departmental site-office contracting officers and the corresponding M&O contractor's chief audit executive regarding internal audit staff size; and,

- Reviewed compliance with the Government Performance and Results Act of 1993 to determine whether performance measures had been established.

This performance audit was conducted in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The audit included tests of controls and compliance with laws and regulations necessary to satisfy audit objectives. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. Also, we considered the establishment of performance measures in accordance with the Government Performance and Results Act of 1993 as they related to the audit objective. We did not rely on computer-processed data in order to accomplish our audit objective.

Department officials waived an exit conference.